

**NEW ISSUE**

*In the opinion of Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the 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. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. See “Tax Exemption” herein.*

**CITY OF BOSTON, MASSACHUSETTS****\$100,870,000****GENERAL OBLIGATION BONDS****2004 SERIES A****Dated: February 1, 2004****Due: January 1, as shown on the inside cover hereof****\$42,330,000****GENERAL OBLIGATION BONDS****2004 SERIES B****Dated: April 1, 2004****Due: July 1, as shown on the inside cover hereof**

The City of Boston, Massachusetts \$100,870,000 General Obligation Bonds, 2004 Series A (the “Series A Bonds”) and the \$42,330,000 General Obligation Bonds, 2004 Series B (the “Series B Bonds,” and, together with the Series A Bonds, 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 and the Official Notice of Sale for the Series A Bonds dated February 3, 2004 and the Official Notice of Sale for the Series B Bonds also dated February 3, 2004 (collectively, the “Official Notices of Sale”). Interest on the Bonds will be payable on July 1, 2004 and semiannually on each January 1 and July 1 thereafter until maturity or redemption prior to maturity. The Bonds will be subject to redemption as more fully described herein under “The Bonds—Redemption Prior to Maturity.”

**The Series A Bonds will be issued for the purposes of (i) advance refunding certain outstanding general obligation bonds of the City of Boston, Massachusetts (the “City”) as more fully described herein under “Plan of Refunding,” and (ii) for various capital projects, as more fully described in Appendix C hereto. The Series B Bonds will be issued for the purposes of currently refunding certain outstanding general obligation bonds of the City as more fully described herein under “Plan of Refunding.” 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 “Payment of and 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 Series A Bonds and the Series B Bonds were sold by the City after competitive bidding pursuant to the Official Notices of Sale, and are offered, subject to the final approving opinion of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City, and to certain other conditions described herein. Public Financial Management, Inc., Boston, Massachusetts, serves as Financial Advisor to the City. Wachovia Bank, National Association will act as paying agent for the Bonds and as escrow agent for the Series A Bonds. It is expected that the Series A Bonds will be available for delivery at The Depository Trust Company in New York, New York, or its custodial agent, on or about February 25, 2004. It is expected that the Series B Bonds will be available for delivery at the Depository Trust Company in New York, New York, or its custodial agent, on or about April 6, 2004.

February 11, 2004

† See “Credit Ratings,” herein.

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# CITY OF BOSTON, MASSACHUSETTS

## \$100,870,000 GENERAL OBLIGATION BONDS 2004 SERIES A

Dated: February 1, 2004

Due: January 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$3,800,000	3.00%	1.05%	2015	\$5,440,000	5.00%	3.56%*
2006	5,090,000	4.00	1.32	2016	3,000,000	4.00	3.73*†
2007	9,345,000	5.00	1.63	2017	3,000,000	4.00	3.85*†
2008	9,715,000	5.00	2.00	2018	3,000,000	4.00	3.96*†
2009	9,755,000	5.00	2.30	2019	3,000,000	4.00	4.06†
2010	9,595,000	5.00	2.56	2020	2,570,000	4.00	4.14†
2011	6,780,000	5.00	2.81	2021	2,570,000	4.125	4.22†
2012	6,795,000	5.00	3.06	2022	2,570,000	4.125	4.30†
2013	3,635,000	5.00	3.27	2023	2,570,000	4.125	4.37†
2014	6,070,000	5.00	3.44	2024	2,570,000	4.25	4.43†

(Accrued interest from February 1, 2004 to be added.)

(\* Priced to the January 1, 2014 Optional Redemption Date. See "The Bonds—Redemption Prior to Maturity—Optional Redemption.")

† The scheduled payment of the principal of and interest on the Series A Bonds maturing in the years 2016 through 2024, when due, will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of such Series A Bonds as more fully described herein under "Bond Insurance."

## \$42,330,000 GENERAL OBLIGATION BONDS 2004 SERIES B

Dated: April 1, 2004

Due: July 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2004	\$5,325,000	2.00%	1.00%
2005	6,530,000	2.00	1.18
2006	5,725,000	4.00	1.39
2007	6,110,000	5.00	1.64
2008	5,995,000	5.00	2.00
2009	5,875,000	5.00	2.35
2010	3,425,000	5.00	2.59
2011	3,345,000	5.00	2.83

(Accrued interest from April 1, 2004 to be added.)

No dealer, broker, salesperson or other person has been authorized by the City of Boston or the underwriters 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. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. 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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### **New Hampshire Residents:**

In making an investment decision investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

**OFFICIAL STATEMENT**  
*of the*  
**CITY OF BOSTON, MASSACHUSETTS**  
*relating to*  
**\$100,870,000**  
**GENERAL OBLIGATION BONDS, 2004 SERIES A**  
*and*  
**\$42,330,000**  
**GENERAL OBLIGATION BONDS, 2004 SERIES B**

**INTRODUCTION**

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the "City"), and the \$100,870,000 of General Obligation Bonds, 2004 Series A (the "Series A Bonds") and the \$42,330,000 General Obligation Bonds, 2004 Series B (the "Series B Bonds," and, together with the Series A 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 Bonds will be 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. The Bonds are payable from ad valorem taxes which may be levied on all taxable property in the City without limit as to rate or amount as more fully described under "Payment of and Security for the Bonds" below. The proceeds of the Series A Bonds will be used for the purpose of advance refunding certain general obligation bonds of the City as more fully described herein under "Plan of Refunding" and to fund capital projects, including projects to be financed in accordance with the City's five-year Capital Plan. See "Financial Administration—Capital Budgeting." The projects to be financed include the acquisition or construction of, or major renovation to, public buildings, school buildings, roadways, bridges and parks, the acquisition of certain departmental equipment, and certain neighborhood improvements. The proceeds of the Series B Bonds will be used for the purpose of currently refunding certain general obligation bonds of the City as more fully described under "Plan of Refunding."

**THE BONDS**

**Description**

The Series A Bonds will be dated February 1, 2004 and will mature on January 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 cover page of this Official Statement. The Series B Bonds will be dated April 1, 2004 and will mature on July 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 cover page of this Official Statement. Interest on the Bonds will be payable on July 1, 2004 and semiannually thereafter on each January 1 and July 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 and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal 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 and interest payments will be the business day next preceding a debt service payment date. Accordingly, debt service will be payable to participants of DTC, as shown on the records of DTC and its participants, at the close of business on the day preceding such debt service payment date. 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.

Wachovia Bank, National Association will act as paying agent for the Bonds (the "Paying Agent") and escrow agent for the Advance Refunded Bonds, as defined below.

### **Redemption Prior To Maturity**

#### *Optional Redemption*

The Series A Bonds maturing on or before January 1, 2014 will not be subject to redemption prior to maturity. Series A Bonds maturing on and after January 1, 2015 will be subject to redemption prior to maturity at the option of the City, on or after January 1, 2014, 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 the par amount of the Series A Bonds to be redeemed, plus accrued interest to the redemption date.

The Series B Bonds will not be subject to redemption prior to maturity.

#### *Notice of Redemption*

Notice of redemption of the Bonds, specifying the numbers and maturities of the Bonds or portions thereof to be redeemed and the redemption date, will be given not less than 30 days prior to the redemption date by notice mailed to DTC or its nominee, as registered owner of the Bonds. 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 at par plus accrued interest. If on the redemption date monies are available for the redemption of the Bonds or portions thereof to be redeemed, then interest on such Bonds or portions thereof shall thereafter cease to accrue.

### **Book-Entry-Only 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 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. 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](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the securities 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 nominee do not effect 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 the 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 are being redeemed, 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 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 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 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, 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 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 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.

The City may decide to discontinue use of the system of book-entry 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.

### **Replacement Bonds Upon Termination or Failure of the Book-Entry-Only System**

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Collector-Treasurer of the City determines that continuation of the book-entry system of evidence and transfer of ownership of the Bonds would adversely affect the interests of the Beneficial Owners of the Bonds, the City will discontinue the book-entry system with DTC. If the City fails to identify another qualified securities depository to replace DTC, the City will cause the Paying Agent to authenticate and deliver replacement Bonds in the form of fully-registered certificates.

## **BOND INSURANCE**

### **MBIA Insurance Corporation**

The scheduled payment of principal of and interest on the Series A Bonds maturing in the years 2016 through 2024 (the "Insured Bonds"), when due, will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the Bonds by MBIA Insurance Corporation ("MBIA"). Information concerning MBIA and its policy has been furnished by MBIA and is included in Appendix G. The City has not made any independent

investigation of MBIA or its policy, and reference should be made to Appendix G for a description thereof and to Appendix H for the specimen form of the policy. The original purchasers of the Insured Bonds will pay the premium for the policy.

### **AUTHORIZATIONS AND PURPOSES**

Pursuant to the statutory authorizations and under loan orders of the City Council effective on the dates stated in Appendix C, a portion of the proceeds of the Series A Bonds will be used for various capital projects in amounts aggregating \$65,000,000. In addition, \$35,870,000 of the principal amount of the Series A Bonds will be used to advance refund certain of the City's outstanding general obligation bonds, and the proceeds of the Series B Bonds will be used to currently refund certain of the City's outstanding general obligation bonds, all as more fully described under "Plan of Refunding," below.

### **PLAN OF REFUNDING**

The Series A Bonds are also being issued to advance refund: (i) \$4,860,000 aggregate principal amount of the City's General Obligation Bonds 1994 Series B, dated September 1, 1994; (ii) \$6,400,000 aggregate principal amount of the City's General Obligation Bonds 1995 Series A, dated October 15, 1995; (iii) \$13,700,000 aggregate principal amount of the City's General Obligation Bonds 1996 Series A, dated November 15, 1996, and (iv) \$12,700,000 aggregate principal amount of the City's General Obligation Bonds 1998 Series A, dated January 15, 1998 (collectively, the "Advance Refunded Bonds"). The Series B Bonds are being issued to currently refund \$43,835,000 aggregate principal amount of the City's General Obligation Bonds 1994 Series A, dated February 1, 1994 (the "Currently Refunded Bonds," and, together with the Advance Refunded Bonds, the "Refunded Bonds"). All of the Refunded Bonds are subject to redemption prior to maturity.

Upon delivery of the Bonds, the City will enter into a Refunding Escrow Agreement with Wachovia Bank, National Association (the "Escrow Agent"), to provide for the refunding of the Advance Refunded Bonds. Upon receipt of the proceeds of the Series A Bonds, the Escrow Agent will deposit in the Refunding Escrow Fund established under the Refunding Escrow Agreement, an amount which will be invested in direct obligations of the United States of America or obligations unconditionally guaranteed by the United States of America ("Government Obligations") maturing in amounts, and bearing interest at rates sufficient without reinvestment to pay when due interest on, and upon redemption, the outstanding principal of and redemption premium on the Advance Refunded Bonds. The Refunding Escrow Fund, including the interest earnings on the Government Obligations, is pledged for the benefit of the holders of the Advance Refunded Bonds.

### **Verification of Mathematical Accuracy**

Berens-Tate Consulting Group ("Berens-Tate"), will verify from information provided to them the mathematical accuracy as of the date of the closing on the 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, interest and call premium requirements, if any, of the Advance Refunded Bonds, and (ii) the computation of yield on the Government Obligations contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excluded from gross income for federal income tax purposes. Berens-Tate will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

### **PAYMENT OF AND 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." 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 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.

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, and Chapter 152 of the Acts of 1997, as amended (the “Convention Center Act”), authorizes the City to pledge certain excise receipts and other revenues of the City to the payment of bonds of the City issued under the authority of the Convention Center Act. The only special obligation indebtedness of the City outstanding as of July 1, 2003 was \$114,800,000 of the City’s Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the “Convention Center Bonds”) and \$127,800,000 of the City’s Special Obligation Refunding Bonds, Boston City Hospital Issue (the “2002 BCH Refunding Bonds”). See “City Indebtedness—Special Obligation Debt.” To the extent required for the payment of any such secured indebtedness, the revenues pledged to their payment would not be available to pay the Bonds.

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 bonds have been issued), 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, the Massachusetts Water Resources Authority, or for obligations of the City issued to the Massachusetts Water Pollution Abatement Trust. See “City Indebtedness—Classification of City Debt.”

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. If it accepts certain statutory provisions, the City may establish an enterprise fund 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 currently has two such enterprise funds, the Convention Center fund and the Hospital Revenue Bond fund, each of which were established to account for pledged revenues and debt service due on the Convention Center Bonds and the 2002 BCH Refunding Bonds, respectively, as described above.

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; interest earned on a revolving fund is treated as general fund revenue.

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 state’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.

## SCHEDULE OF DEBT SERVICE PAYMENTS

The following table sets forth the gross debt service requirements on the City's outstanding general obligation bonds, as of February 1, 2004, on the Refunded Bonds and on the Bonds.

### Schedule of Principal and Interest Payments (\$ in thousands)\*

Fiscal Year Ending June 30	Bonds Outstanding as of February 1, 2004 <sup>(1)</sup>		The Refunded Bonds		The Series A Bonds		The Series B Bonds		Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2004	\$ 4,610	\$ 4,534	\$ —	\$ (511)	\$ —	\$ —	\$ —	\$ —	\$ 8,633
2005	81,980	36,311	(5,680)	(3,861)	3,800	4,294	5,325	1,224	123,394
2006	69,532	32,754	(9,130)	(3,506)	5,090	4,570	6,530	1,532	107,371
2007	68,776	29,676	(12,330)	(2,969)	9,345	4,367	5,725	1,352	103,941
2008	63,082	26,690	(12,215)	(2,350)	9,715	3,899	6,110	1,085	96,016
2009	60,903	23,704	(12,070)	(1,821)	9,755	3,414	5,995	782	90,661
2010	57,844	20,984	(11,950)	(1,237)	9,595	2,926	5,875	485	84,522
2011	53,530	18,477	(6,600)	(789)	6,780	2,446	3,425	253	77,522
2012	51,850	15,934	(6,520)	(477)	6,795	2,107	3,345	84	73,118
2013	47,575	13,527	—	(250)	6,635	1,767	—	—	66,254
2014	41,010	11,298	(2,500)	(188)	6,070	1,586	—	—	57,276
2015	37,150	9,371	(2,500)	(63)	5,440	1,282	—	—	50,681
2016	33,950	7,681	—	—	3,000	1,010	—	—	45,641
2017	30,360	6,136	—	—	3,000	890	—	—	40,386
2018	27,280	4,798	—	—	3,000	770	—	—	35,849
2019	23,365	3,499	—	—	3,000	650	—	—	30,514
2020	18,905	2,478	—	—	2,570	530	—	—	24,483
2021	14,420	1,603	—	—	2,570	427	—	—	19,020
2022	10,570	882	—	—	2,570	321	—	—	14,343
2023	7,070	354	—	—	2,570	215	—	—	10,209
2024	—	—	—	—	2,570	109	—	—	2,679
<b>Totals</b>	<b>\$803,761</b>	<b>\$270,692</b>	<b>\$(81,495)</b>	<b>\$(18,020)</b>	<b>\$100,870</b>	<b>\$37,581</b>	<b>\$42,330</b>	<b>\$6,797</b>	<b>\$1,162,516</b>

(1) Includes principal and interest payments due with respect to the Refunded Bonds.

\* Rows and columns may not add due to rounding.

Source: City of Boston Auditing Department

### Rate of Principal Retirement

The City will retire the following amounts of principal of its outstanding direct general obligation long-term debt over the following respective periods. This table is stated in two ways, with scheduled principal retirement prior to this issue and then subsequent to the sale of the new bond issue:

Term of Retirement	Debt Outstanding as of February 1, 2004 to be retired (in thousands)	Percentage of Debt Outstanding as of February 1, 2004 to be retired	Debt Outstanding After Issuance of the Bonds to be retired (in thousands)	Percentage of Debt Outstanding After Issuance of the Bonds to be retired
Fiscal 2004-2009 *	\$348,882	43.4%	\$364,847	42.1%
Fiscal 2010-2014	251,809	31.3	269,759	31.2
Fiscal 2015-2019	152,105	19.0	167,045	19.3
Fiscal 2020-2024	50,965	6.3	63,815	7.4
<b>Total</b>	<b>\$803,761</b>	<b>100.0%</b>	<b>\$865,466</b>	<b>100.0%</b>

\* Reflects payments for fiscal 2004, subsequent to February 1, 2004.

Source: City of Boston Auditing Department

## 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 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 third four-year term from January 2002 through January 2006. 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, the Boston Public Health Commission, and the Office of the Sheriff of Suffolk County, is prepared under the direction of the Mayor. Prior to his first elected term, Mayor Menino had served for approximately four months as acting Mayor. Prior to his service as acting 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, 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 "The City—Budget Process" herein.

The members of the City Council, all of whose current terms will end in January 2006, are set forth below.

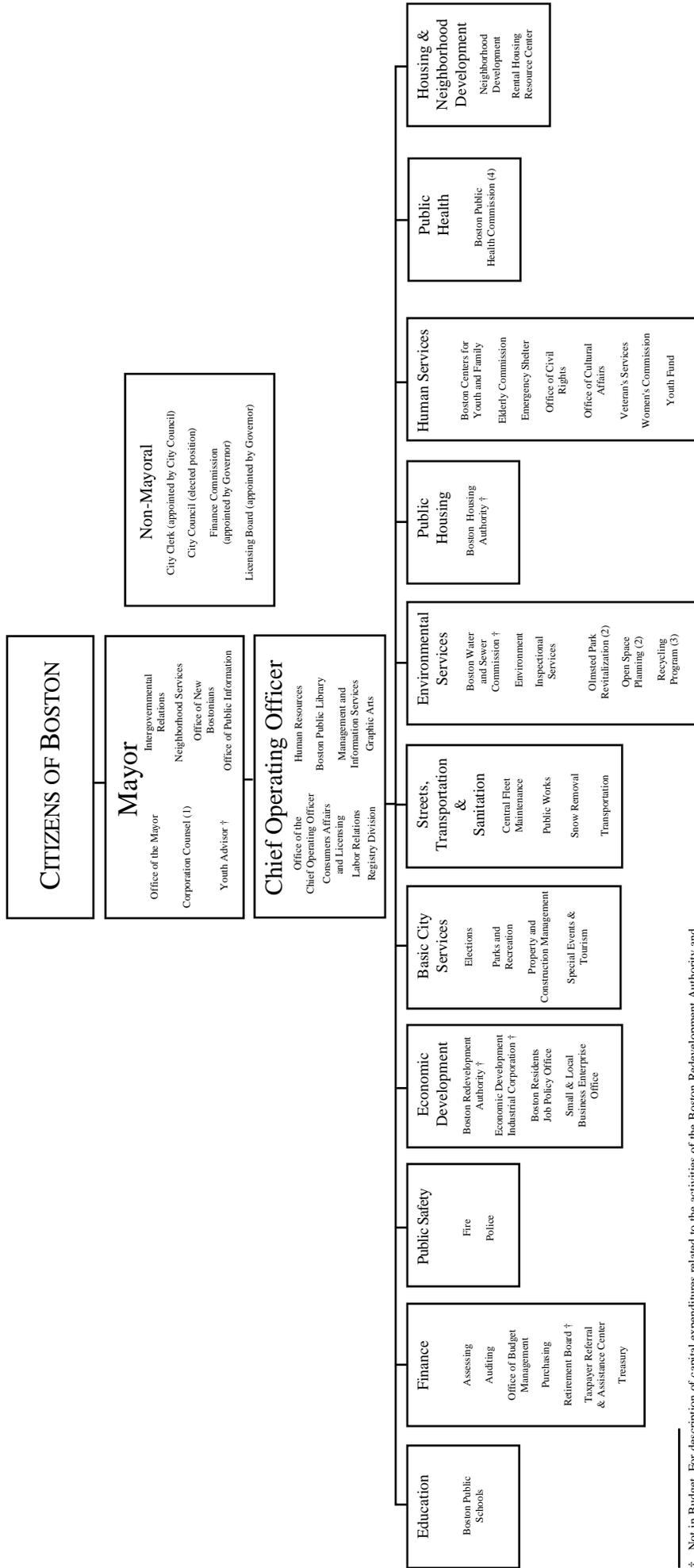
Michael F. Flaherty, Jr. (President).....	At Large
Maura A. Hennigan.....	At Large
Stephen J. Murphy.....	At Large
Felix D. Arroyo.....	At Large
Paul J. Scapicchio.....	District 1
James M. Kelly.....	District 2
Maureen E. Feeney.....	District 3
Charles C. Yancey.....	District 4
Robert J. Consalvo.....	District 5
John M. Tobin.....	District 6
Charles H. Turner.....	District 7
Michael P. Ross.....	District 8
Jerome P. McDermott.....	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



† Not in Budget. For description of capital expenditures related to the activities of the Boston Redevelopment Authority and the Boston Housing Authority, see "City Indebtedness—Debt of Agencies. Related to the City—Boston Redevelopment Authority" and "City Indebtedness—Debt of Agencies. Related to the City—Other Agencies and Corporations." See also "The City—Retirement Systems."

(1) Has cabinet rank.

(2) Programmatically within this cabinet. Financially in Parks and Recreation.

(3) Programmatically within this cabinet. Financially in Public Works.

(4) The Boston Public Health Commission is a body politic and corporate and a political subdivision of the Commonwealth created in June 1996 as successor to the City's former Department of Health and Hospitals. See "City Government—Principal Government Services—Public Health."

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

#### *Chief Operating Officer*

Dennis A. DiMarzio was appointed Chief Operating Officer (“COO”) by Mayor Menino in April 1996. Prior to his appointment Mr. DiMarzio was Vice President at Arkwright Mutual Insurance in Waltham, Massachusetts where he served in a number of senior management positions in Real Estate Investments, Insurance Operations, Human Resources and Organizational Productivity and Efficiency. Mr. DiMarzio was appointed Chairman of the Board of Commissioners at the Boston Water and Sewer Commission in July 1994 and continues to serve in this capacity.

The COO is the key individual responsible for the daily administration of the entire City government. The COO reports directly to the Mayor and oversees the performance of City managers at all levels of City government. In addition, the COO oversees the Human Resources Department, the Office of Labor Relations, the Management Information Services Department, the Registry Division, the Office of Consumer Affairs and Licensing, the Boston Public Library, and the Graphic Arts Department. The COO oversees the purchase of health insurance for employees of all City departments and related Commissions. Finally, the COO coordinates the activities of all the other members of the Mayor’s cabinet.

#### *Chief Financial Officer and Collector-Treasurer*

Lisa C. Signori was appointed Chief Financial Officer and Collector-Treasurer (the “CFO”) by Mayor Menino in October 2003. Prior to her appointment Ms. Signori served as the Director of the Office of Budget Management.

The CFO oversees all of the City’s financial matters, including the functions of the Treasury, Assessing, Auditing, and Purchasing Departments, as well as the Office of Budget Management (“OBM”) and the State-Boston Retirement Board. In addition, the CFO is custodian of approximately 300 City trust funds and serves as trustee of nearly half of these funds. The CFO is also an *ex officio* member of the Massachusetts Convention Center Authority (the “MCCA”). In her capacity as the City’s Collector-Treasurer, Ms. Signori is responsible for the supervision of the City’s Treasury Department, the collection of revenues due to the City, management of the City borrowings, and payment of all amount due from the City, including amounts due on account of borrowings by the City in the form of either temporary or permanent debt.

The City officials with principal responsibility for its finances, subject to the approval of the CFO, are as follows:

#### *Budget Director*

Karen A. Connor was appointed Acting Budget Director by Mayor Menino in October 2003. Prior to her appointment, Ms. Connor served 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 by Mayor Flynn in March 1990 as Acting City Auditor, and in December 1990 as City Auditor. 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 by Mayor Flynn 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 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.

### *Chief Economic Development Officer*

Mark Maloney was appointed Chief Economic Development Officer and Director of the Boston Redevelopment Authority (the “BRA”) in January 2000. Prior to his appointment, Mr. Maloney served as President of Maloney Properties, Inc., a real estate management firm managing housing, especially affordable housing, throughout the greater Boston area. 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, and the Office of Small and Local Business Enterprises.

### *Chief of Education*

Thomas W. Payzant was named Superintendent of the Boston Public Schools by the Boston School Committee in July 1995 and his term extends to December 2005. Prior to his appointment by the Boston School Committee, Dr. Payzant served as the Assistant Secretary of Education for Elementary and Secondary Education, United States Department of Education and he had served as Superintendent of the San Diego Public Schools for ten years. 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*

Kathleen M. O’Toole, the City’s Police Commissioner, and Paul A. Christian, the City’s Fire Commissioner, are the Chiefs of the Public Safety Cabinet. Commissioner O’Toole, a veteran with more than 20 years of law enforcement experience, was appointed Police Commissioner by Mayor Menino in February 2004. Commissioner Christian, a 36-year veteran, was appointed Fire Commissioner by Mayor Menino in November 2001. 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. Commissioner Christian is responsible for implementing the recommendations of the O’Toole Commission, a commission chaired by Kathleen M. O’Toole, which released a study of the Fire Department in January 2000, as well as emergency management and preparedness program initiatives prompted by the tragic events of September 11, 2001. For a description of Police and Fire Department resources and personnel see “The City—Principal Governmental Services—Public Safety” below.

### *Chief of Human Services*

Juanita Brooks Wade was appointed Chief of Human Services by Mayor Menino in October 1995. Ms. Wade also serves as Executive Director of Boston Centers for Youth & Families (“BCYF”). This new City department represents the consolidation of four previously separate departments: Boston Community Centers; the Mayor’s 2:00–6:00 After-School Initiative; the Recreation Unit of the Parks and Recreation department; and the Office of Community Partnerships. The Human Services Cabinet is responsible for providing human and other support services for all of Boston’s residents through its eight departments: the Office of Cultural Affairs, BCYF, the 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 Health*

John M. Auerbach became Executive Director of the Boston Public Health Commission effective February 1, 1998. In that capacity Mr. Auerbach joined the Mayor’s cabinet as the Chief of Public Health. Prior to his appointment Mr. Auerbach served as the Assistant Commissioner of the Commonwealth’s Department of Public Health, and as Director of the Commonwealth’s HIV/AIDS Bureau. 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. These are: 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 Basic City Services*

Michael Galvin was appointed Chief of Basic City Services by Mayor Menino 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 Basic City Services Cabinet consists of the Parks and Recreation Department, the Office of Special Events and Tourism, the Election Department, 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, Building Maintenance and Systems, and Municipal Police. The Cabinet's charge includes investigating opportunities to apply technological innovations to reduce costs or improve the delivery of basic services.

#### *Chief of Environmental Services*

Andrea d'Amato was appointed Chief of Environmental Services by Mayor Menino in November 1997. Prior to her appointment, Ms. d'Amato was the Executive Director of Move Massachusetts 2000, a coalition representing a broad base of environmental, business, community and trade organizations. In addition to serving as Chief of Environmental Services, Ms. d'Amato is also Commissioner of the City's Transportation Department, and oversees the City's relationship with the Central Artery/Third Harbor Tunnel Project. The Environmental Services Cabinet is made up of the Environment Department, and the Inspectional Services Department, the Boston Water & Sewer Commission, the Recycling Program of the Public Works Department, Open Space Planning and Olmsted System Revitalization of the Parks and Recreation Department, and the Sustainable Boston Program. The Chief of Environmental Services works in conjunction with the Massachusetts Bay Transportation Authority (the "MBTA") and coordinates the City's relationship with the Federal Environmental Protection Agency, the state Executive Office of Environmental Affairs, and the Metropolitan Area Planning Commission.

#### *Chief of Housing and Neighborhood Development*

Charlotte Golar Richie was appointed Chief of Housing in January 1999. Prior to her appointment, Ms. Richie was State Representative of the Fifth Suffolk District, which includes the City's Dorchester and Roxbury neighborhoods. In her capacity as Chief of Housing, Ms. Richie 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 Public Housing*

Sandra B. Henriquez was appointed Chief of Public Housing in December 1996, when Mayor Menino elevated the position of Administrator of the Boston Housing Authority (the "BHA") to the level of a cabinet post. Prior to her appointment as Administrator of the BHA in April 1996, Ms. Henriquez was a principal of Maloney Properties, Inc., a private management firm specializing in the delivery of property management services to resident-controlled and non-profit sponsored housing. The Boston Housing Authority 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.

#### *Chief of Streets, Transportation & Sanitation*

The newly formed Streets, Transportation & Sanitation Cabinet includes the Public Works Department, the Transportation Department, Central Fleet Maintenance and Snow Removal. The new cabinet will facilitate the consolidation of the functional overlap between the Public Works and Transportation Departments. A Chief of Streets, Transportation & Sanitation has not yet been named. For additional information concerning the Public Works Department, see "The City—Principal Government Services—Public Works," below.

#### *Corporation Counsel*

Merita A. Hopkins was appointed Corporation Counsel in June 1995. Prior to her appointment, Ms. Hopkins engaged in a diversified private legal practice 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 real property.

**Principal Government Services**

The following tables show, respectively, the distribution of the City’s fiscal 2004 appropriations and full-time equivalent City employees by primary government functions and departments.

**Purposes of City Appropriations—Fiscal 2004<sup>(1)</sup>  
(Budgetary Accounting Basis)<sup>(2)</sup>  
(\$ in thousands)**

	<u>Amount</u>	<u>Percent of Total Appropriations</u>
General Government.....	\$ 72,421	3.9%
Public Safety.....	387,895	20.9
Public Works.....	83,134	4.5
Property and Development.....	24,018	1.3
Parks and Recreation.....	13,072	0.7
Library.....	23,981	1.3
Human Services.....	24,654	1.3
Schools.....	646,100	34.9
Boston Public Health Commission.....	58,582	3.2
Judgments and Claims.....	3,500	0.2
Employee Benefits.....	132,373	7.1
Current Period Retirement Contributions.....	141,867	7.7
Debt Requirements.....	126,074	6.8
State and District Assessments.....	<u>114,207</u>	<u>6.2</u>
Total.....	<u>\$1,851,878</u>	<u>100.0%</u>

- (1) Represents the fiscal 2004 Pro Forma Tax Rate Budget as of December 24, 2003.  
 (2) See “Financial Operations – Operating Budgets” for a definition of budgetary accounting basis.  
 Source: City of Boston Auditing Department and Office of Budget Management.

**Full-Time Equivalent  
City Employees By Department<sup>(1)</sup>**

	<u>2001</u>	<u>2002</u>	<u>2003</u>
<i>City Funded:</i>			
Public Safety <sup>(2)</sup> .....	4,690	4,662	4,608
Public Works.....	437	451	426
Other City Departments.....	3,204	3,221	2,913
Boston Public Health Commission <sup>(3)</sup> .....	<u>756</u>	<u>768</u>	<u>745</u>
Subtotal.....	<u>9,087</u>	<u>9,102</u>	<u>8,692</u>
Schools.....	<u>8,438</u>	<u>8,510</u>	<u>8,440</u>
Total City Funded.....	<u>17,525</u>	<u>17,612</u>	<u>17,132</u>
<i>Grant Funded:</i>			
Schools.....	820	925	934
All Others <sup>(4)</sup> .....	<u>1,529</u>	<u>1,640</u>	<u>1,480</u>
Total.....	<u>19,874</u>	<u>20,177</u>	<u>19,546</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) Boston Public Health Commission employees are funded by the City, but are not employees of the City.  
 (4) Does not include grants managed by the Boston Public Health Commission.  
 Source: City of Boston 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 62,102 students for the 2002-2003 school year, a decrease of approximately 637 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 City's Police and Fire Departments provide and promote public safety and protection services, firefighting and fire prevention services.

The Police Department maintains eleven neighborhood police stations and one headquarters building. It also maintains ten support programs, consisting of the Police Academy, Horse Stables, 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. Since 1985, seven neighborhood-based police stations have been constructed or restored and reopened. The City's newest police station in the South End was completed in Spring 2001.

The overall crime figures for 2003 show a 2% decrease compared to the same period in 2002.

The Fire Department maintains 40 facilities consisting of 34 neighborhood fire stations, one marine unit, a fire investigation unit/maintenance division, a high-pressure pumping station, a training academy, a fire alarm operation division and headquarters. In calendar year 2003 the Fire Department responded to 74,666 incidents, a reduction of 1.0% compared to calendar year 2002. Of the calendar year 2003 total, 30,221 responses were calls of an emergency medical nature. In calendar year 2002, the Fire Department responded to 75,542 incidents, of which 36,421 were of an emergency medical nature.

#### *Public Health*

Effective July 1, 1996 the City's Department of Health and Hospitals, and the separately chartered Trustees of Health and Hospitals of the City of Boston, were abolished and all assets, liabilities, rights and powers of both were transferred to and assumed by the Boston Public Health Commission (the "Commission"). Also effective July 1, 1996, the operations of the City's acute-care hospital, Boston City Hospital ("BCH"), were consolidated with the operations of Boston University Medical Center Hospital, a private teaching hospital affiliated with Boston University School of Medicine which was located adjacent to the BCH campus. Boston Medical Center Corporation ("BMCC"), a private, Massachusetts non-profit corporation, now operates the consolidated hospitals under the name "Boston Medical Center." See "City Indebtedness—Debt of Agencies Related to the City—Boston Public Health Commission."

The Commission, as a separate entity from the City, 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.

#### *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 City advertised, awarded, and executed five contracts for the provision of sanitation, solid waste collection and disposal services, including recycling, for a

three-year term beginning July 1, 2002 and ending June 30, 2005, with a two-year option to renew. The cost of these services equaled approximately \$40.0 million in fiscal 2003. The estimated cost of these contracts in fiscal 2004 equals approximately \$41.5 million. The Department continues to work with the U.S. Coast Guard on the design of a new Chelsea Street Bridge in East Boston. As of July 1, 2002 NSTAR transferred ownership of approximately 23,000 streetlights to the Public Works Department, resulting in savings of approximately \$2.0 million. The Boston Water and Sewer Commission (“BWSC”), an independent agency, is responsible for the operation and maintenance of the City’s water, and 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, a downtown business library, 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; sixteen historic and three active cemeteries; one greenhouse facility; and approximately 250,000 street trees.

#### *Office of the Suffolk County Sheriff*

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 and registry of deeds, have been assumed by the Commonwealth, other than the operations of the Office of the Suffolk County Sheriff. The Suffolk County Sheriff is an elected position under state law who administers the county jail and houses of correction independent of the City. Legislation is currently pending in the state legislature to transfer the Office of the Suffolk County Sheriff to the supervision of the Secretary of Public Safety and to abolish Suffolk County.

Under legislation enacted in 1985 and 1991, the Commonwealth has assumed responsibility for all of the capital costs of the county jail and houses of correction. Currently, the operating budget for the Office of the Suffolk County Sheriff is prepared under the supervision of the Sheriff, without submission to or approval by the Mayor or the City Council, but subject to approval by the Commonwealth’s County Government Finance Review Board, consisting of the Secretary of Administration and Finance, the Commissioner of Revenue and the Secretary of Public Safety. Since 1992, the Commonwealth has also assumed responsibility for varying percentages (approximately 95% in fiscal 2004) of the state-approved operating budget for the Sheriff’s Office. The City’s fiscal 2004 budget includes an appropriation for the remaining 5% of the state-approved budget.

### **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 eleven bargaining units and regularly interfaces with the Boston Public Health Commission on labor and employment matters. The Office of Labor Relations provides no such assistance to the Office of the Suffolk County Sheriff, which itself manages relations with its employees.

Nearly 90% of the City’s non-school department employees are organized into approximately 25 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 (approximately 1,700 laborer employees), the Service Employees International Union (“SEIU”) Local 285 (approximately 1,300 clerical employees), and the Salaried Employees of North America (“SENA”) Local 9158 (approximately 700 middle manager employees) represent the majority of 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.

The majority of Collective Bargaining Agreements between the City and the unions expired on June 30, 2002. Contracts with the SENA Unions and IAFF expired on June 30, 2003. The contract with the Teachers’ Unions expired on August 31, 2003. Although the existing contracts have expired all unionized employees of the City continue to work under the preexisting contracts. As such, the City does not anticipate any disruption in municipal services. Presently, the City is actively engaged in successor negotiations with union representatives from SENA, AFSCME, SEIU, and the Graphic Arts unions. The City is also involved in successor negotiations with the Police, IAFF and Teacher’s unions.

In the past negotiated contracts with AFSCME, SEIU and SENA have substantially mirrored one another. In the 1999-2002 negotiations, the City achieved significant limits to an employee’s contractual right to have an arbitrator determine a particular compensation grade. The City agreed to wage increases of 3% in July 1999; 3% in July 2000, 3% in October 2001 for AFSCME, SEIU and SENA, and 3% in July 2002 for SENA. The City also agreed to provide a comprehensive dental and vision insurance plan with several unions.

Patrol Officers represented by the BPPA are working under the terms of a Memorandum of Agreement covering the July 1, 1996 through June 30, 2002 time period. Under that Agreement the City accepted the provisions of M.G.L. c. 41, § 108L (the “Quinn Bill”), which provides for an educational incentive awards program. Payments made under the program are calculated as a percentage of wages for officers with certain law enforcement degrees certified by the Commonwealth Board of Higher Education. The state statute provides for reimbursement to the City of up to 50% of the cost of the program to be provided by the Commonwealth in the year following the award, subject to appropriation. The agreement with the BPPA caps the City’s liability at 50% of the calculated payment in the event the Commonwealth does not provide the appropriation to cover its 50% obligation. The City’s acceptance of this statute became effective July 5, 2000 for members of the BPPA. Additionally, the Massachusetts State Legislature enacted stricter mandates on the certification of educational programs in July 2002. This new certification process took effect in January 2004 and has drastically reduced the number of educational institutions offering approved courses from sixty (60) to thirty-six (36). The stricter certification standards are expected to further reduce City costs and liabilities by eliminating weaker educational programs and thus raising the educational standard. During the last round of negotiations arbitration awards from the Joint Labor Management Committee (“JLMC”) settled the Detectives, the Detective Superiors and the Superior Officers Federation contracts, which also expired on June 30, 2002. These awards were substantially similar to the BPPA Memorandum of Agreement. All the police unions will continue to work under the terms and conditions of the previous contracts until the City and the unions reach agreement on successor contracts. In the event that a successor Agreement cannot be reached the parties may attempt mediation or they may file for resolution at the JLMC.

Firefighters also continue to work under the terms and conditions of their preexisting Agreement. That agreement had base wage increases of 4% in fiscal year 2001, 4.5% in fiscal year 2002, and 4% in fiscal year 2003. Further, the contract increased longevity payments and created a new sick leave program. The agreement also contained significant management changes in an effort to improve the efficiency of the Fire Department. Some of those changes include an injury leave/limited duty provision and the creation of two positions, Chief of Field Services and Chief of Support Services, which have now been exempted from union status. The City and IAFF continue to discuss terms and conditions for a successor Agreement.

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 City reached a successor contract covering the period of September 1, 2000 through August 31, 2003 with the approximately 5,400 teachers and school nurses as well as the 1,400 substitutes and teacher aides. The contract increased base wages by 4% for each fiscal year of the three-year deal. These increases were agreed to in exchange for significant language initiatives furthering the School Department’s commitment to school-based management and teacher development. The City is working with the BTU to establish successor Agreements.

### **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 thirty days of a vacancy. All retirement allowances are paid from a fund supported by employee, City and state contributions. 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.

The City is committed to funding based upon a schedule approved by the SBRS and the state actuary, which includes paying the current year's estimated present value of benefits earned during the year ("normal cost") and an annual contribution toward reducing the unfunded liability to zero by the year 2023. This schedule is calculated in accordance with the entry age actuarial cost method. The schedule is subject to update and approval at least every three years by the state Public Employee Retirement Administration Commission ("PERAC"), a state agency established to oversee all 106 local Massachusetts public retirement systems. The SBRS most recently received approval for a funding schedule for fiscal 2004, 2005, and 2006. The latest approved schedule targets full funding of the system five years prior to the legally required 2028 but three years later than the prior schedule. The switch from 2020 to 2023 as the full funding target was made at the request of the City in order to manage the impact of higher than anticipated pension liability, and as it continues to address anticipated future state aid cuts. The annual appropriation, based on the funding schedule, is a legal obligation of the City that must be included as part of the tax rate certification by the Commonwealth.

Beginning January 1, 2000, accumulated assets have been reported using the "asset smoothing" valuation method. Asset smoothing gradually incorporates over time annual investment gains and losses to determine the actuarial value of assets used in determining a funding schedule, thereby avoiding the direct and immediate impact of dramatic upswings and downswings inherent in the equity markets. On January 1, 1999, and on previous actuarial reporting dates, assets were reported at market value. During those years, the actuarial value and the market value were considered to be the same.

The state legislature approved and the Governor signed on May 15, 2002, a local option early retirement incentive (ERI) for municipal employees, Chapter 116 of the Acts of 2002. A total of 476 employees elected to participate in the ERI and retired on October 31, 2002. The additional pension cost to the City due to the ERI will be first recognized in fiscal 2005, with a \$3.0 million amortization payment. The City also offered a voluntary retirement incentive for employees already eligible to retire. Participants received a bonus consisting of 20% of their salary and had to retire as of June 30, 2003. A total of 490 employees participated in the incentive program.

A cost of living adjustment is set each year at the CPI or an amount up to, but not greater than, 3% on the first \$12,000 of a retiree's annual payment. Cost of living adjustments are considered by the Board on an annual basis. As part of the annual review process, the Board considers the fiscal conditions of the City and whether the granting of a COLA would substantially impair the City's funding schedule. COLA's were approved for fiscal 1999, 2000, 2001, 2002, 2003, and 2004. The Commonwealth, meanwhile, has incorporated in its pension funding schedule sufficient funds to fulfill its obligation for local cost of living adjustments it had awarded prior to fiscal 1998. The funding schedule incorporated a 3% cost of living adjustment into its annual appropriation calculation.

**Schedule of Funding Progress**  
(\$ 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, 2003	\$3,204,893	\$5,121,319	\$1,916,426	62.6%	\$1,099,779	174.3%
January 1, 2002	3,376,000	4,861,000	1,485,000	69.5	1,057,000	140.5
January 1, 2001	3,212,000	4,257,000	1,045,000	75.5	990,000	105.6

Source: City of Boston Retirement Board

For long-term investment performance, the SBRS recorded a five-year (ending in 2002) average annualized return of 2.72% and an average annualized return from January 1, 1985 through December 31, 2002 of 9.53%. In 2002 the rate of return for the SBRS was -9.73% and the median rate of return for all Massachusetts public pension funds was -8.76%. Investment performance during calendar 2003 showed a significant improvement over the previous year's results.

In addition to SBRS, the Boston Retirement System, the predecessor system, 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 SBRS and its predecessor system, the City also provides noncontributory retirement

benefits to certain employees whose employment predates SBRS and its predecessor system or who are veterans who meet certain state law requirements. The City is currently providing such benefits to approximately 300 pensioners

Amounts expended or estimated to be expended by the City for pension and annuities 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>	<u>Net Pension Cost</u>
2004 Budgeted.....	\$137.0	\$4.9	\$(53.7)	\$88.2
2003 .....	134.4	4.9	(53.7)	85.6
2002 .....	129.7	6.0	(45.3)	90.4
2001 .....	127.5	6.3	(41.4)	92.4
2000 .....	128.6	5.9	(38.8)	95.7

Source: City of Boston Office of Budget Management

**Budget Process**

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. 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. 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.

The City, Boston Public Health Commission and School Department operating budgets for fiscal 2004 were approved by the City Council on June 26, 2003. See “Financial Operations—Fiscal 2004 Budget”. The Mayor also initiates loan orders for City Council consideration, based on an annual update of the Five-Year Capital Plan. There is no statutory time frame for requesting or approving such orders. New authorizations related to the fiscal 2004

Five-Year Capital Plan were submitted to the City Council on April 9, 2003, and were approved by the City Council in June 2003.

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.

### **Accounting and Reporting Practices**

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 2003 financial statements, see Note 2 of the audited financial statements, and “Financial Operations—Financial Statements” below. The City’s fiscal 2003 financial statements comply with GASB Statement No. 34, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*. The City’s 2003 audited financial statements are presented in Appendix A.

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 audited financial statements.

### **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 procedures. Major components of the City’s system of financial management controls include:

#### *Revenue Collections*

The City has maximized the effectiveness of its revenue collection efforts by implementing a comprehensive accounts receivable management program that coordinates the collection of departmental revenues. The City has also implemented new payment options, including the payment of parking tickets and excise taxes online, and the payment of property taxes and departmental receivables, such as licenses, permits, fees, and fines, with credit and debit cards. 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 the collection of delinquent real estate taxes, see “City Revenue—Delinquent Taxes and Tax Title.”

#### *Capital Budgeting*

The Capital Budgeting Program (“CBP”), a program of OBM, is responsible for managing the capital budget of the City. CBP’s mission is to evaluate the condition of the City’s capital assets, forecast the timing and financial requirements of new construction and rehabilitation, and recommend allocation of current and future resources to meet the City’s infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses are taken.

CBP evaluates and refines the relationship between the City’s capital needs and resources as the City moves through each fiscal year. This process is documented by an annually updated five-year capital plan. In April 2003, Mayor Menino released the eighteenth capital plan, incorporated with the operating budget. In addition to its

planning functions, CBP also plays an ongoing project oversight role during the implementation phase of its capital projects. CBP reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

#### *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.

#### *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 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 support 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.

#### *Program Evaluation*

The City’s Improving Management Program focuses on evaluating City programs and services. This program encourages organizational changes or operational improvements that increase the effectiveness or productivity of City departments. The program provides reliable, objective and independent information to City managers about department performance and operations, assists in reviewing the effectiveness of service delivery, and identifies the extent to which programs overlap or duplicate one another.

#### *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 and funds for 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 \$50 million all risk protection after a \$20 million deductible; boiler and machinery losses are insured up to \$2.5 million, and 60% of the City's healthcare costs are insured through HMOs.

For unexpected large losses, the City has been continually building a catastrophic risk reserve, the available balance of which equaled \$6.5 million at the end of fiscal 2003, and has a projected balance of \$7.1 million at the end of fiscal 2004.

## FINANCIAL OPERATIONS

### Financial Statements

The following information is derived from financial statements 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 Operating Results

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 1999 through 2003.

#### Summary of Statements of Revenues, Expenditures, Other Financing Sources and Changes in Fund Equity Fiscal Years 1999-2003 (GAAP Basis) (\$ in millions)\*

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total revenues .....	\$1,526.8	\$1,621.5	\$1,692.7	\$1,801.3	\$1,794.5
Total expenditures .....	<u>1,459.6</u>	<u>1,536.3</u>	<u>1,603.9</u>	<u>1,735.1</u>	<u>1,739.9</u>
Excess of revenues over expenditures .....	67.2	85.2	88.8	66.2	54.6
Total other financing (uses) sources .....	<u>(33.4)</u>	<u>(41.2)</u>	<u>(43.0)</u>	<u>1.8</u>	<u>34.6</u>
Excess of revenues and other financing sources over expenditures and other financing uses .....	<u>33.8</u>	<u>44.0</u>	<u>45.8</u>	<u>67.9</u>	<u>89.2</u>
Fund balance, beginning of year as previously reported..... <sup>(1)</sup>	<u>142.8</u>	<u>176.7</u>	<u>220.7</u>	<u>266.5</u>	<u>402.1</u>
Cumulative change in accounting principles <sup>(1)</sup>	-	-	-	67.7	-
Fund Balance, beginning of year as restated ..	<u>-</u>	<u>-</u>	<u>-</u>	<u>334.2</u>	<u>-</u>
Fund balance, end of year <sup>(2)</sup> .....	<u>\$ 176.7</u>	<u>\$ 220.7</u>	<u>\$ 266.5</u>	<u>\$ 402.1</u>	<u>\$ 491.4</u>

\* Columns may not add due to rounding.

(1) The cumulative change in accounting principles is the result of implementing GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

(2) The undesignated fund balances for the General Fund for fiscal 1999, 2000, 2001, 2002 and 2003 were \$126.5 million, \$163.3 million, \$182.0 million, \$345.8 million and \$331.5 million, respectively.

Source: City of Boston Auditing Department.

### Comparative Operating Results

The following is a summary analysis of the City's financial operations on a GAAP basis over the period fiscal 2001 through fiscal 2003. The figures appearing in this section for the period are derived from the 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 Appendix A, Note No. 4, "Budgetary Data."

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

### *Fiscal 2001*

Revenue growth continued in fiscal 2001 as compared to fiscal 2000. The Payments in Lieu of Taxes increase in fiscal 2001 is mainly attributable to the income portion of taxpayer's liabilities on Chapter 121A section 10 (Urban Redevelopment Excise) agreements and Section 6A agreements along with receipt of back payment from tax-exempt organizations. Investment Income increased during the course of fiscal 2001, due to a solid investment policy and combined with increased revenue collections. Fiscal 2001 Licenses and Permits revenues increased over fiscal 2000 as a result of revenue generated by building permits for commercial (i.e. office towers, hotels, etc.) and residential construction projects undertaken throughout the City. Department and other revenue also increased in fiscal 2001 as compared to 2000. This is attributable to reimbursements from retroactive billing of prior year's costs for Municipal Medicaid and increased revenue from parking facilities leased to private operators. Property tax revenues have increased 0.6% from 2000, while State aid has increased 3.7%.

Spending for Public Safety increased in fiscal 2001 by \$14.5 million (4.0%) over fiscal 2000 due to collective bargaining wage increases. Public Works increased \$7.6 million (10.8%) as compared to fiscal 2000 due to collective bargaining wage increases, increased costs of trash removal and increased snow removal costs, due to heavier snowfall. Property & Development increased \$6.1 million (17.2%) as compared to fiscal 2000 due to Boston's continuing effort to add additional affordable housing. Spending for Schools in fiscal 2001 increased \$32.8 million (5.7%) over fiscal 2000 due to collective bargaining wage increases and the development of a transition services program, the Math Support Plan, additional Alternative Education programs and Textbook and Instructional Materials adoption. Other Employee Benefits expenditures rose by \$4.3 million (5.0%) in fiscal 2001, due to the increased cost of health insurance. Retirement Costs decreased by \$11.0 million (11.5%) as the unfunded liability portion of retirement costs fell due to several years of higher market return on investments, along with an increase in Teachers' Retirement reimbursements.

The General Fund's equity balance as of June 30, 2001 was \$266.5 million, as compared to \$220.7 million in 2000. The increase is primarily due to an increase in Departmental and other revenue, licenses and permits and prior year receivables collected for Payment in Lieu of Taxes.

### *Fiscal 2002*

Modest revenue growth continued in fiscal 2002 as compared to fiscal 2001. Property Taxes increased by \$116.0 million, as a result of changes in accounting principles combined with an increase in the property tax base. Excise Taxes and Payments In Lieu of Taxes experienced a net increase of \$2.1 million in fiscal 2001. The increase between these two revenue sources was the result of increased revenues in Room Occupancy Taxes, Aircraft Fuel Excise Taxes, Other Excise Taxes, along with a decrease of \$4.3 million in revenue received from Massport. The decrease in fiscal 2002 Investment Income as compared to fiscal 2001 was the result of weaker market performance and lower interest rates yielding poorer returns on otherwise favorable cash. The Licenses and Permits decrease was due to a slowdown in building permits for commercial (i.e., office towers, hotels, etc.) and residential construction projects undertaken throughout the City. Commonwealth Distributions in fiscal 2002 fell slightly by \$.9 million or 0.2% from fiscal 2001. Departmental and Other Revenue increased by \$3.9 million or 6.7%, due to one-time receipts for prior years' reimbursements. Fines revenue increased by \$2.7 million, or 4.8%, due to increased collection efforts by the Transportation Department on parking fines and an increase in the number of violations issued by Code Enforcement.

Overall, fiscal year 2002 expenditures increased from the previous year. Spending for Public Safety increased \$32.4 million (8.7%) as compared to fiscal 2001 due to the execution of collective bargaining agreements for the current year. The increase in Public Works for collective bargaining was offset by a decrease of \$6.2 million in snow removal costs as the result of a milder winter; the overall effect being a decrease of \$2.6 million (3.4%) for Public Works. Property & Development increased \$7.4 million (18.1%) as compared to fiscal 2001 due to collective bargaining and Boston's continuing effort to support additional affordable housing programs. Schools increased \$16.3 million (2.7%) as compared to fiscal 2001 due to the Transition Program, Math Support Plan, "Focus on Children" policy, school resource allocations and collective bargaining. Other Employee Benefits' expenditures rose by \$17.2 million (19.0%) due to higher participation in Medicare and the increased cost of health insurance. Retirement costs decreased by \$2.9 million (3.5%) as compared to fiscal 2001 as a result of reimbursements from the Commonwealth Retired Teachers Pension Fund. Human Services (\$1.0 million), Parks and Recreation (\$0.7 million) and Capital Outlays (\$1.0 million) increased slightly, while the City's share of the costs of the Office of the Suffolk County Sheriff (\$1.5 million) and expenditures for Judgments and Claims (\$2.3 million) and Library (\$1.7 million) experienced decreases for fiscal 2002.

As a result of implementing GASB Statement No. 34 and other related Statements, certain fund liabilities that existed at June 30, 2001 were reduced to reflect only the portion of the liability that was “due.” The impact of this change on the general fund equity was to reduce liabilities and increase fund equity at July 1, 2001 by \$67.7 million. For specific additional information, please see “Accounting and Reporting Practices” on page 18.

#### *Fiscal 2003*

Revenue declined in fiscal year 2003 from fiscal year 2002. Every source of revenue declined except Real and Personal Property Taxes, Payments in Lieu of Taxes, and a slight increase in Departmental and Other Revenues. The largest dollar decline of nearly \$47.5 million occurred in Intergovernmental Distributions as the State continued to reduce aid to municipalities. The decrease in Investment Income is the result of continued weak market performance and low interest rates, yielding poor returns on otherwise favorable cash balances. Fines decreased slightly (2.3%), due partially to increased compliance after parking fine amounts increased in early fiscal year 2003. Property Taxes increased \$63.1 million, or 6.4%, reflecting the allowable 2½% increase in the levy and taxable new growth. Payments in Lieu of Taxes increased partially due to the Massachusetts Port Authority’s return to a normal payment amount after reducing its payment in the fiscal year 2002 and better than expected payments from Chapter 121A agreements with urban redevelopment corporations.

Overall fiscal year 2003 expenditures increased slightly from the previous year. Spending for Public Safety decreased \$11.2 million (2.7%) due to a cancellation of the new recruit class for the Police department and the reduction in the summer jobs program. The increase in Public Works of \$12.2 million or 16.3% was the direct result of increases to trash removal and disposal fees and inclement weather during the winter months. Property & Development decreased \$19.5 million (40.0%). This was primarily due to the reclassification of resources to Human Services. Schools increased \$27.3 million (4.4%) due to the Transition Program, and collective bargaining. Other Employee Benefits expenditures rose by \$6.8 million (6.3%). This resulted from increased costs of health insurance. Retirement Costs decreased by \$7.3 million (8.9%) as a result of receiving higher than projected revenue as reimbursements for Teachers’ Retirements.

“Other” expenditures increased by \$13.7 million (21.4%). This category includes a reallocation of resources to Human Services of \$18.3 million. This was due to the consolidation and transfer of services for youth and families from Community Centers, 2:00 to 6:00 After School Initiative, The Office of Community Partnerships and the Recreation Division of the Parks and Recreation Department, all now under the central control of a new department named Boston Centers for Youth and Families. Changes in this category also include slight decreases in Parks and Recreation of \$1.6 million and Library at \$1.0 million, as well as a very slight increase in Judgments and Claims (\$0.1 million) and the Suffolk County Sheriff (\$0.1 million).

The General Fund’s equity balance as of June 30, 2003 was \$491.4 million, as compared to \$402.1 million in 2000. The increase is primarily due to an increase in property tax revenue.

## SUMMARY AND COMPARISON OF OPERATING BUDGETS

In accordance with state law and regulations, the City's legally adopted 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"). For purposes of comparison the table below includes budgetary actual results for fiscal 2000 through fiscal 2003, alongside fiscal 2004 budget numbers. 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 for 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 2004 Budget Compared to Fiscal 2000, Fiscal 2001, Fiscal 2002 and Fiscal 2003 Actual Results General Fund—Budgetary Basis (\$ in millions)\*

	Fiscal 2000 Actual Results	Fiscal 2001 Actual Results	Fiscal 2002 Actual Results	Fiscal 2003 Actual Results	Fiscal 2004 Budget <sup>(1)</sup>
<b>Revenues:</b>					
<b>Recurring Revenue</b>					
Property Taxes .....	\$ 866.2	\$ 917.9	\$ 972.7	\$ 1,035.9	\$1,091.2
Overlay Reserve <sup>(2)</sup> .....	(41.2)	(43.9)	(46.3)	(39.8)	(42.0)
Excises.....	68.9	72.7	80.6	83.1	65.3
Fines .....	55.9	59.8	60.7	59.0	60.1
Interest on Investments .....	21.9	26.1	14.8	8.6	4.2
Payments In Lieu of Taxes.....	18.9	25.9	19.6	22.1	22.2
Urban Redevelopment Chapter 121A <sup>(3)</sup>	37.6	46.9	48.4	54.1	46.4
Misc. Department Revenue.....	36.0	45.1	54.1	45.6	29.2
Licenses and Permits.....	28.7	37.8	29.6	30.1	21.0
Penalties & Interest .....	10.6	8.0	8.1	9.2	7.9
Available Funds <sup>(4)</sup> .....	6.7	8.4	4.6	11.8	11.9
State Aid <sup>(5)</sup> .....	492.2	505.7	522.7	476.6	450.9
Teachers' Pension Reimbursement.....	38.8	41.4	45.3	53.7	53.7
<b>Total Recurring Revenue.....</b>	<b>\$ 1,641.2</b>	<b>\$ 1,751.6</b>	<b>\$ 1,814.8</b>	<b>\$ 1,849.9</b>	<b>\$1,822.0</b>
<b>Non-Recurring Revenue <sup>(6)</sup> .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13.0</b>	<b>29.9</b>
<b>Total Revenues.....</b>	<b>\$ 1,641.2</b>	<b>\$ 1,751.6</b>	<b>\$ 1,814.8</b>	<b>\$ 1,862.9</b>	<b>\$1,851.9</b>
<b>Expenditures:</b>					
<b>Departmental Expenditures</b>					
City Departments .....	\$ 671.6	\$ 727.8	\$ 755.3	\$ 776.5	\$ 752.4
Boston Public Health Commission .....	58.2	62.1	64.0	63.9	58.6
School Department.....	579.2	611.9	639.7	650.6	646.1
Collective Bargaining Reserve.....	8.5	12.5	6.2	8.4	17.0
<b>Total Departmental Expenditures.</b>	<b>\$ 1,317.5</b>	<b>\$ 1,414.4</b>	<b>\$ 1,465.2</b>	<b>\$ 1,499.4</b>	<b>\$1,474.1</b>
<b>Fixed Costs</b>					
Pensions <sup>(7)</sup> .....	\$ 128.6	\$ 127.5	\$ 129.7	\$ 134.4	\$ 137.0
Debt Service <sup>(8)</sup> .....	96.5	106.0	115.6	121.2	126.6
State Assessments <sup>(5)</sup> .....	84.3	88.7	94.3	101.1	109.7
Suffolk County Sheriff.....	6.1	6.5	4.8	5.0	4.6
<b>Total Fixed Costs .....</b>	<b>\$ 315.5</b>	<b>\$ 328.7</b>	<b>\$ 344.5</b>	<b>\$ 361.8</b>	<b>\$ 377.7</b>
<b>Total Recurring Expenditures.....</b>	<b>\$ 1,633.0</b>	<b>\$ 1,743.0</b>	<b>\$ 1,809.7</b>	<b>\$ 1,861.1</b>	<b>\$ 1,851.9</b>
<b>Excess of Revenues Over Expenditures .....</b>	<b>\$ 8.2</b>	<b>\$ 8.6</b>	<b>\$ 5.2</b>	<b>\$ 1.8</b>	<b>\$ 0.0</b>

\* Columns may not add due to rounding.

- (1) Represents the budget at the time of the approval of the pro forma tax rate budget on December 24, 2003.
- (2) The City requirement to reserve an amount equivalent to between 5% and 6% of each year's net property tax levy in a reserve for property tax abatements was repealed in 2003. 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. The last fiscal year that the City had to raise a significant additional reserve for this reason was in fiscal 1988 to cover a major shortfall in fiscal year 1987.
- (3) Fiscal 2003 and fiscal 2004 include Chapter 121B, Section 16 payments reclassified from Payments In Lieu of Taxes.
- (4) Represents Parking Meter Receipts and Cemetery Trust monies that are used for maintenance of their specific purpose pursuant to state legislation.
- (5) Please see "Accounting Changes for Comparative Purposes" in the Fiscal 2004 Budget Summary on the following page.
- (6) Non-recurring revenue in fiscal 2003 and 2004 represents a portion of the proceeds from the Surplus Property Fund (\$13 million and \$4.9 million respectively) and Budgetary Fund Balance (\$25 million) in fiscal 2004.
- (7) Excludes noncontributory pensions and annuities that are included in departmental expenditures. The amount of such non-contributory pensions and annuities equaled \$5.9 million, \$6.3 million, \$6.0 million and \$4.9 million, respectively in fiscal 2000, 2001, 2002 and 2003.
- (8) The debt service amount is derived from principal and interest, less certain offsetting revenues. The revenues utilized to offset debt for budgetary and tax rate setting purposes vary from those used in the table "Debt Service Requirements-Fiscal 1999-2003." See "City Indebtedness-Debt Service Requirements and Related Revenues."

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

## **Fiscal 2004**

The following is a summary of the City's fiscal 2004 budget on a budgetary accounting basis. The figures cited are from the fiscal 2004 pro forma tax rate budget at the time of approval by the Massachusetts Department of Revenue on December 24, 2003. Accordingly, the aggregate amount of and the tax rates for the City's fiscal 2004 tax levy has not yet been certified as final by the Department of Revenue because in January, 2004 the legislature adopted legislation providing for an increase in the portion of the tax levy which may be shifted from residential to commercial properties under local property tax statutes. See "City Revenues—Property Taxation—Taxation by Use; Tax Rates." Taking into account the new legislation, the City will certify values by class in time for the fourth quarter and final billing of the fiscal year. Later updates to the budget may occur if the certified tax rate provides additional property tax revenue, or supplemental appropriations are deemed necessary and sufficient funds are available.

### *Accounting Changes for Comparative Purposes*

In fiscal 2004, the state Department of Revenue included Charter School Tuition, which totals \$39.9 million, for the first time as part of the City's state assessments, thus increasing the City's total expenditures. Prior to this change, the City accounted for Charter School Tuition as an offset to State Aid, thus reducing total revenues. While this change in accounting method has no impact on the budget balance ("Excess of Revenues over Expenditures"), it does skew the comparison of total expenditures between fiscal 2004 and fiscal 2003, as well as the comparison of total revenues between fiscal 2004 and fiscal 2003. Thus, in order to state the comparisons fairly, the following description assumes the \$32.1 million charged to the City for Charter School Tuition in fiscal 2003 is also accounted for as a charge and not as revenue offset. The following comparisons are impacted by this assumption: total expenditures, total revenues, state assessments and state aid. For purposes of the report on actual results for fiscal 2000, 2001, and 2002, the revenues and expenditures have been restated to reflect these changes also.

### *Expenditures*

In fiscal 2004, the City's budgeted expenditures total \$1.85 billion including direct expenditures for departmental services and fixed expenses, representing a decrease of \$9.2 million or 0.5% from fiscal 2003 actual expenditures. Budgeted fiscal 2004 departmental expenditures compare with actual fiscal 2003 expenditures as follows: City departments decreased \$24.1 million or 3.1%; the Boston Public Health Commission decreased \$5.3 million or 8.3%; the School Department decreased \$4.5 million or 0.7%; the Collective Bargaining Reserve increased \$8.6 million or 102.8%. Budgeted fixed expenses for fiscal 2004 compare with the fiscal 2003 actual expenses as follows: Pensions increased \$2.5 million or 1.9%; debt service increased \$5.4 million or 4.4%; State Assessments increased \$8.5 million or 8.4%; budgeted expenditures for the Office of the Suffolk County Sheriff decreased \$0.5 million; or 9.6%. The appropriation for the Suffolk County Sheriff is treated as a mandatory expenditure included in Fixed Costs because it is required by, and calculated in accordance with, state law. See "The City—Principal Government Services—Office of the Suffolk County Sheriff."

### *Revenues*

Budgeted revenues for fiscal 2004 equaled \$1.85 billion, a decrease of \$11.0 million or 0.6% from fiscal 2003 actual revenues. Selected fiscal 2004 budgeted revenues compare with fiscal 2003 actual revenues as follows: the Gross Property Tax Levy (with estimated new growth) increased \$55.3 million or 5.3%; Excises decreased \$17.9 million or 21.5%; Fines increased \$1.1 million or 1.9%; Interest on Investments decreased \$4.4 million or 50.9%; Payments in Lieu of Taxes ("PILOTs") increased \$0.1 million or 0.4%; Chapter 121A distributions decreased \$7.7 million or 14.2%; Miscellaneous Department Revenue decreased \$16.4 million or 36%; Licenses and Permits decreased \$9.1 million or 30.2%; Available Funds from parking meter and cemetery fees increased slightly; State Aid decreased \$25.7 million or 5.4%; Non-Recurring Revenue increased by \$16.9 million or 129.8%.

Property Tax, the City's largest source of revenue, has become increasingly important to the City's revenue growth given the recent reductions in State Aid. Property tax revenues are expected to rise \$55.3 million in fiscal 2004 after having increased by over \$50 million in each of fiscal years 2002 and 2003. The near-term outlook for the City's property tax levy is one of stable and sustained growth.

The decrease in Excises is due to an expected decline in fiscal 2004 in motor vehicle excise and jet fuel excise. Motor vehicle excise collections are expected to decline as a result of slowing motor vehicle sales after several record years and the expiration of special manufacturers incentives. The remaining stock of vehicles subject to excise tax will move through the rapidly declining statutory depreciation schedule of vehicle values which will reduce the taxes owed. Jet fuel collections will likely decline in fiscal 2004 as airlines continue to consolidate flights

in order to achieve cost savings. Room occupancy excise is expected to remain level with fiscal 2003 as business and leisure travel stagnate with terrorism alerts and continued conflict in Iraq. The decrease in Interest on Investment is due to lower prevailing interest rates. The decrease in Miscellaneous Department Revenue is due to the absence of one-time revenues from prior year reimbursements present in fiscal 2003 and reduced reimbursement of claims to the Municipal Medicaid program. The decrease in State Aid is due to reductions in major local aid accounts in order to reduce the state's multi-billion dollar budget gap necessitating reductions to important aid accounts during the state budget process. The increase in Non-Recurring Revenue is due to the use of \$25 million in Budgetary Fund Balance, the first use of this reserve since 1992. Budgetary Fund Balance is available for appropriation after certification of its value by the Department of Revenue.

*Pensions*

Fiscal 2004 marks the first year of an approved three-year pension-funding schedule. Pension funding costs will increase in fiscal 2004 by \$2.5 million or 1.9%. The rate of return on the investment of pension assets for three calendar years prior to the approval of the new funding schedule under performed the assumed rate of return in the pension-funding schedule by a significant margin. These actuarial losses, and the actuarial gains which preceded them, are gradually incorporated into the funding schedule over time. This "asset smoothing" technique avoids the impact of market volatility which would result if each year's investment results were fully incorporated into the funding schedule.

**Cash Flows**

The following table represents the end-of-month unaudited cash balances for the City's General Fund commencing with fiscal 2001 and ending with the most recent month for which data is available. Prudent cash management policies have enabled the City to avoid the need for short-term borrowings for operating purposes since fiscal 1987.

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. In order to achieve revenue and expenditure data for a particular fiscal year, the cash flow receipts and disbursement results are subject to normal year-end closing adjustments.

**General Fund End-of-Month Cash Balances for Fiscal 2001-2004**  
(\$ in thousands)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
July .....	\$463,943	\$614,109	\$682,030	\$581,902
August .....	503,510	648,352	713,968	652,157
September .....	506,041	659,778	705,532	657,697
October .....	499,014	578,666	694,431	682,418
November .....	499,524	578,712	680,607	653,917
December .....	481,893	527,393	658,939	596,227
January .....	520,855	543,724	412,265	567,665
February .....	541,341	544,255	533,376	—
March .....	521,430	588,263	498,945	—
April .....	528,692	602,094	554,653	—
May .....	532,683	604,182	563,193	—
<u>June .....</u>	<u>592,786</u>	<u>640,038</u>	<u>571,334</u>	<u>—</u>

Source: City of Boston Treasury Department.

## CITY REVENUES

The principal sources of City revenue available to meet operating expenditures are Property Taxes, State Aid and Federal and State Grants, Excise Revenues, Departmental Revenues, all of which are described below. Except as specifically noted, all amounts are stated on a budgetary accounting basis. References to fiscal 2004 are unaudited.

### Property Taxes

Real and personal property taxes are the largest single source of the City's revenue. The City's projected preliminary gross property tax levy for fiscal 2004 equals \$1.09 billion, or 58.9% of City General Fund revenues for such period. Approximately 53.0% of the land area in the City is tax-exempt. 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 2004, the City will again levy taxes below the 2.5% ceiling on the overall effective tax rate. The continued growth in the real estate market suggests that the City will not reach the levy ceiling in the foreseeable future.

#### *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, a secondary limitation imposed by Proposition 2½ (the "growth limit") prohibits any levy in a fiscal year from exceeding the preceding year's maximum allowable tax levy by more than 2.5%, 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 limit may be exceeded by an override in any year by a majority vote of the voters. An increase in the growth 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 projected preliminary gross levy in fiscal 2004 equals \$1.09 billion. In fiscal 2004, the allowable 2.5% increase is estimated to be \$25.9 million, and "new growth" is estimated to be \$30 million. These amounts are expected to be certified by the Commonwealth of Massachusetts Department of Revenue after the tax rate has been set, and prior to the issuance of the fourth quarter tax bill. The City anticipates that the values will be certified by mid-February 2004. See "City Revenues—Property Taxes—Revaluation."

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 Massachusetts Bay Transportation Authority ("MBTA"), to 2.5% of the prior year's assessment. The MBTA assessments on the City equaled \$63.0 million, \$63.9 million, and \$64.6 million, respectively, in fiscal 2002, 2003 and 2004.

Proposition 2½ also limits the motor vehicle excise tax rate to 2.5%. The City's net receipts from the motor vehicle excise tax equaled \$41.8 million, \$42.8 million and \$45.6 million, respectively, in fiscal 2001, 2002 and 2003.

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 1999-2003<sup>(1)(2)</sup>**  
**(\$ in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total Assessed Valuation	\$36,050,449	\$39,930,918	\$50,494,513	\$54,189,508	\$57,533,345
Growth Levy Limit	819,313	865,866	917,750	972,449	1,035,297
Levy Ceiling	901,261	998,273	1,262,363	1,354,738	1,438,334
Tax Levy <sup>(3)</sup>	819,300	865,752	917,750	972,234	1,035,271
Under Levy Ceiling	81,961	132,521	344,613	382,504	403,063

- (1) Represents amounts assessed on January 1, and subsequently certified by the Commonwealth’s Department of Revenue in December of each fiscal year and does not include Omitted Assessments.
- (2) 2004 values have not been certified by the Department of Revenue. See “City Revenues—Property Taxation—Taxation by Use; Tax Rates.”
- (3) For each fiscal year, the amount of the actual tax levy is the largest amount possible. The levy limit would be exceeded if either the commercial or residential 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 the 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.

The City is expected to conclude work on its eighth three-year revaluation by mid-February 2004. The eighth revaluation is expected to show an unusual trend in the real estate market: while residential real estate values have increased considerably, values for business properties have decreased. Vacancy rates in the downtown office market have increased, commercial lease rates have declined, and the demand for hotel rooms remains below historical levels. Although this change in value does not affect the aggregate amount of the City’s property tax levy, the increase in residential values and the decline in business real estate values will result in more of the total tax levy being paid by residential taxpayers. The extent of the increase in the share of the total tax levy borne by residential property owners will be mitigated under recently adopted legislation to increase the limit on the portion of the tax levy that may be shifted from residential properties to business properties is enacted. See “City Revenues—Property Taxation—Taxation by Use; Tax Rates.”

**Certified Triennial Valuations**

<u>Assessment Date</u>	<u>Real and Personal Property Value</u>	<u>Applicable Years</u>
January 1, 2000	\$50.49 billion	fiscal 2001 through 2003
January 1, 1997	33.76 billion	fiscal 1998 through 2000
January 1, 1994	28.12 billion	fiscal 1995 through 1997

Source: City of Boston Assessing Department

*Major Abatement Cases*

One Federal Street, an office tower in the City’s financial district, had its assessed value contested for fiscal years 1997-2001. The Commonwealth’s Appellate Tax Board (“ATB”) heard the case in December 2001, and issued a decision in May of 2002. The ATB overwhelmingly rejected the appeal. The ATB awarded an abatement of only 1% of the aggregate tax assessed for the five years. No abatement was awarded in three of the fiscal years including fiscal year 2001, which should aid the City in defending similar abatement appeals in the future. Each side has appealed the decision of the ATB.

*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, 2002. The fiscal 2003 tax rates were applied to the January 1, 2002 valuation to determine levy and tax liability for fiscal 2003.

**Assessed Valuation of Taxable Real Property by  
Real Estate Classes, Assessment Dated January 1, 2002<sup>(2)</sup>**

<u>Real Estate Classes</u>	<u>Land Area (Square feet)</u>	<u>Land Valuation</u>	<u>Building Valuation</u>	<u>Total Valuation</u>
Apartments .....	27,363,421	\$847,321,281	\$2,414,262,667	\$3,261,583,948
Agricultural.....	546,757	48,800	143,200	192,000
Commercial .....	76,995,896	3,663,298,458	12,289,148,703	15,952,447,161
Commercial Condominium .....	—	315,600	837,547,800	837,863,400
Residential Condominium .....	—	11,644,900	10,965,996,200	10,977,641,100
Commercial Land .....	28,239,079	420,156,079	183,825,320	603,981,399
Condominium Main <sup>(1)</sup> .....	35,257,163	—	—	—
Condominium Parking.....	—	833,100	32,376,000	33,209,100
Industrial.....	49,095,282	488,843,866	564,016,445	1,052,860,311
Residential & Commercial .....	16,785,305	639,395,921	1,759,110,645	2,398,506,566
Residential Land.....	37,294,149	144,850,300	51,589,269	196,439,569
1-Family .....	154,099,886	2,308,584,176	5,522,127,846	7,830,712,022
2-Family. ....	89,181,081	1,321,195,398	4,072,275,159	5,393,470,557
3-Family .....	58,127,429	984,187,188	3,607,662,641	4,591,849,829
4-Family (4-6 units).....	<u>10,744,789</u>	<u>371,175,540</u>	<u>888,833,673</u>	<u>1,260,009,213</u>
Total .....	<u>583,730,237</u>	<u>\$11,201,850,607</u>	<u>\$43,188,915,568</u>	<u>\$54,390,766,175</u>

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

(2) Assessed values for fiscal year 2004 have not been certified by the Commonwealth of Massachusetts Department of Revenue. See discussion below.

Source: City of Boston Assessing Department.

**Tax Rates, Fiscal 1999-2003 <sup>(1)</sup>  
(per \$1,000 of assessed value)**

<u>Fiscal Year</u>	<u>Commercial, Industrial and Personal Property</u>	<u>Residential Property</u>
2003.....	\$31.49	\$11.29
2002.....	30.33	11.01
2001.....	30.17	10.58
2000.....	34.21	13.15
1999.....	37.04	13.44

(1) 2004 tax rates have not been certified by the Commonwealth Department of Revenue See discussion below.

Source: City of Boston Assessing Department.

The City has three classes of property for taxation purposes: (i) residential real property, (ii) open space land, and (iii) commercial, industrial and personal property. The City has utilized this classification in adopting its fiscal 1983 through fiscal 2003 tax rates. Within limits under state law, the City may determine the share of the annual levy to be borne by each of the three categories. Under previous law, the share to be borne by residential real property must be at least 50% of its share of the total taxable valuation, the effective rate for open space must be at least 75% of the effective rate for residential real property, and the share of commercial, industrial and personal property must not exceed 175% of their share of the total valuation. Legislation recently approved by the legislature increases the taxable valuation limit for commercial, industrial and personal property to 200% of their share of the total valuation. As a result of the new legislation, the increase in the amount of the tax levy that may be shifted to business properties would allow the City to limit the increase in residential property taxes resulting from the relative increase in residential property values as compared with business property values.

The fiscal 2003 tax rate was \$11.29 per \$1,000 for residential property and \$31.49 per \$1,000 for commercial, industrial and personal property. See “City Revenue—Property Taxes—Real Estate Tax Levies and Collections” below, for information concerning the level of such levies, and their collection.

Taxable property values increased for fiscal 2003. See “City Revenues—Property Taxes—Tax Base” below. The overall effective tax rate is the product of the total tax levy divided by the total taxable property value. The overall effective tax rate for fiscal 2003 equaled \$17.99 per \$1,000 of assessed value, below the \$25 per thousand ceiling on the overall tax rate imposed by Proposition 2½.

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 2003, qualifying residents who received the residential exemption each had their taxable assessed values reduced by \$87,524. 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 recent assessed valuations with respect to all property in the City subject to taxation.

#### **Assessed Valuations—January 1, 1998-2002 <sup>(1)</sup>** **(\$ in thousands)\***

<b>Assessment Date</b>	<b>Value of Taxable Land</b>	<b>Value of Taxable Buildings</b>	<b>Total Value Taxable Land and Buildings</b>	<b>Value of Taxable Personal Property</b>	<b>Total Assessed Taxable Value</b>
<b>January 1</b>					
2002.....	\$11,201,851	\$43,188,916	\$54,390,766	\$3,142,579	\$57,533,345
2001.....	11,080,453	40,219,239	51,299,693	2,889,815	54,189,508
2000.....	10,912,499	36,885,787	47,798,286	2,696,228	50,494,513
1999.....	8,616,986	28,666,488	37,283,474	2,647,444	39,930,918
1998.....	8,561,853	25,189,818	33,751,671	2,298,778	36,050,449

\* Rows may not add due to rounding.

(1) Represents amounts assessed for the fiscal year commencing the following July 1.

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 2003. Assessed valuations and fiscal 2003 taxes reflect the valuation of property as of January 1, 2002 and the tax liability using applicable tax rates.

#### **Largest Taxpayers: City of Boston, Fiscal 2003<sup>(1)</sup>**

<b>Name</b>	<b>Personal Property <sup>(2)</sup></b>	<b>Real Property</b>	<b>Total Assessed Value</b>	<b>Fiscal 2003 Tax Liability</b>
Equity Office Properties	\$ —	\$2,016,224,000	\$2,016,224,000	\$63,490,894
Boston Edison Company	1,208,411,250	70,814,534	1,279,225,784	40,282,820
BP Prudential	—	815,565,200	815,565,200	25,682,148
John Hancock Mutual Life Insurance Company	—	719,749,600	719,749,600	22,664,915
Fort Hill Associates	—	611,018,000	611,018,000	19,240,957
World Financial Partners	—	587,902,000	587,902,000	18,513,034
TST One Twenty Five High Street	—	483,259,500	483,259,500	15,217,842
Verizon	313,087,100	124,381,647	437,468,747	13,775,891
UIDC of Massachusetts, Inc.	—	398,065,500	398,065,500	12,535,083
Mass Joint Venture	—	380,302,488	380,302,488	11,534,574
One Hundred Federal Street, LPS	—	366,043,000	366,043,000	11,526,694
Dewey Square Tower Associates	—	337,717,996	337,717,996	10,634,740

(1) The methodology used in creating the table involves the search of the titleholder, 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 show the percentage share of 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. There are three general types of personal property that are taxable: business and professional furnishings; household furnishings in property other than the principal residence (for example, a summer house), and personal property of public utilities.

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, 2003 and the total amount (net of

refunds) of taxes (current and all prior levies) collected during fiscal 1999 through 2003. 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 1999-2003**  
**(Statutory Accounting Basis)**  
**(\$ in millions)**

Fiscal Year	Tax Levy			Tax Levy Collected			Tax Levy Net of Refunds Collected As Of June 30, 2003			All Taxes Collected In Fiscal Year <sup>(1)</sup>
	Gross <sup>(2)</sup>	Net	Net %	Gross Amount	Gross %	Net %	Net Amount	Gross %	Net %	Net Amount
2003.....	\$1,035.9	\$993.0	95.9%	\$1,019.7	98.4%	102.7%	\$1,016.2	98.1%	102.3%	\$1,020.7
2002.....	972.7	932.4	95.9	963.7	99.1	103.4	958.9	98.6	102.8	961.7
2001.....	915.8	874.0	95.4	909.0	99.3	104.0	902.9	98.6	103.3	904.2
2000.....	866.2	823.9	95.1	854.8	98.7	103.8	847.4	97.8	102.9	849.4
1999.....	822.4	779.7	94.8	801.4	97.4	102.8	798.2	97.1	102.4	800.9

(1) Represents the total amount of current fiscal year levy collected during year of assessment.

(2) Includes Omitted Assessments billed in June of each fiscal year, and subsequently reduced 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 sent out 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 and the new fiscal year tax liability are generally reflected in the third and fourth quarter bills, which are mailed in December and April. Because the legislation to adjust the tax classification formula was pending when third quarter tax bills were mailed this past December, those bills were still preliminary. 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, beginning in fiscal 1992, 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 approximately \$14.4 million, \$13.5 million, and \$13.7 million respectively, in fiscal 2001, 2002, and 2003.

*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)**

<b>Fiscal Year Ended June 30</b>	<b>Excise Payments In Lieu Of Taxes (Section 10)</b>	<b>Contracts Payments (Section 6A)</b>	<b>Total</b>
2003 <sup>(1)</sup> .....	\$35,280.4	\$18,826.8	\$54,107.2
2002 .....	31,658.7	16,714.9	48,373.6
2001 .....	32,827.2	14,048.2	46,875.4

(1) Fiscal 2003 Contract Payments (Section 6A) include Chapter 121B, Section 16 payments reclassified from Payments In Lieu of Taxes.

Source: Office of Budget Management and Auditing Department.

**State Aid**

State aid is the second largest revenue source to the City’s General Fund, and had increased every year between fiscal 1993 and fiscal 2002. In fiscal 2003, however, state aid decreased \$46.1 million, or 8.8%, from the amount received in fiscal 2002. It is expected that state aid received by the City for fiscal 2004 will further decrease by \$25.7 million to \$450.9 million, a 5.4% decrease from the amount received in fiscal 2003. The recent reductions in state aid are a result of the national recession’s effect on state revenues already reduced by tax cuts in prior years, and the need for cuts in aid to municipalities in order to close a multi-billion dollar state budget gap.

The level of state aid distribution to the City in any given year is dependent on a number of factors, including the current outlook on the balancing of revenues and expenditures in the state budget, the output of various formulas which determine the level of some but not all state aid, and the policy priorities of the state legislature and the Governor. Particularly, the Commonwealth made a significant shift in state aid policy beginning with the fiscal 1993 budget, directing major increases in state aid to education and focusing on the goal of equalizing local education funding. Fiscal 2000 was the final year of the Commonwealth’s long-term effort to equalize and reform local public education statewide. The City’s education aid increases equaled \$7.9 million, \$11.4 million, and \$8.1 million, respectively, in fiscal 2000, 2001, and 2002. The City received no increase in education aid in fiscal 2003 and expects to receive a decrease of \$5.2 million in fiscal 2004.

A key component of the Commonwealth’s education reform efforts are the charter schools, public schools administered independently from local school committee and teacher union rules and regulations, and Horace Mann Charter schools, which have their charters, and budgets approved by local school committees. Cities and towns are reimbursed 100%, 60%, 40% and 0% of the increases in costs of charter school tuition over a four-year period, however, the line-item funding of this reimbursement in the fiscal 2003 state budget was vetoed by the governor and no funds were available that fiscal year. In fiscal 2004 \$4.9 million is available to the City for this item.

The City has 4,026 students enrolled in Commonwealth charter schools with a total tuition cost to the City of \$39.9 million for fiscal 2004. In addition to these Commonwealth charter schools, there are two Horace Mann charter schools operating in the City. Tuition payments for Boston students who attend these schools are funded as part of the City’s budget for the Boston Public Schools.

The State Treasurer is empowered to deduct from state aid amounts appropriated to the City the amount of the City’s MBTA assessment (\$63.0 million, \$63.9 million, and \$64.6 million, in fiscal 2002, 2003 and 2004 respectively), any debt service paid by the Commonwealth on “qualified bonds” of the City, 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. Moreover, 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 Commonwealth distribution of school aid (which constitutes a portion of the state aid distribution) provides that such payments are due only to the extent that sufficient funds are available. Since June 1990, state distributions have been made quarterly and on a timely basis.

In addition to direct state aid, the City also receives a reimbursement for the cost of teachers’ pensions. Teachers’ pensions are paid directly by the State Teachers Retirement System for all teacher retirees in the state other than those who retire from the Boston school system. In their case, pensions are paid by the State-Boston Retirement System, funded by the City, and the City is reimbursed by the Commonwealth on an actual pension payout basis. The City received \$41.4 million, \$45.3 million, and \$53.7 million, respectively, in fiscal 2001, 2002, and 2003. The City also receives, subject to annual appropriation by the state legislature, cost of living adjustments approved prior to fiscal 1998 by the legislature for municipal employees. The City expects to receive approximately \$53.7 million in fiscal 2004. See “The City—Retirement Systems.”

## **State School Building Assistance**

Chapter 645 of the Acts of 1948 as amended (“Chapter 645”) created a statewide school building assistance program. Pursuant to this program, cities and towns issued bonds for eligible school building projects and were reimbursed by the Commonwealth for a portion of the principal and interest payable on such bonds according to a statutory percentage of such costs designated for each city and town. Projects to eliminate racial imbalance and projects involving urban-suburban collaborative schools were reimbursed at the maximum rate of 90%.

Legislation enacted as part of the Commonwealth’s fiscal year 2001 budget repealed Chapter 645 and created a new school building assistance program codified as Chapter 70B of the General Laws. Among other changes, the new program includes grants for alternatives to construction and calculates grants for each project based on a number of factors. The new legislation does not affect the reimbursement percentages for bonds previously issued under Chapter 645, and the grants for certain “grandfathered” projects are based on the statutory percentages provided for in Chapter 645.

The City currently has approximately \$67.7 million of bonds outstanding for school projects approved for grants under Chapter 645. Over the remaining life of the bonds, the City expects to receive reimbursement for a portion of the principal and interest payable on such bonds under this legislation. See “City Indebtedness –General Obligation Debt”.

In addition, the City has other school projects for which it is currently seeking approval for school building assistance grants. After applying for a grant pursuant to the school building assistance program, an eligible project is placed on a list with other eligible school projects for which grant applications have been submitted and ranked in order of priority. Projects on the priority list are approved for grants by the State Board of Education in order of priority based on the aggregate amount of state funds appropriated and available therefor. Projects may be on the priority list for several years before being approved for funding. Projects on the priority list have no legal right to or guarantee of approval by the State Board of Education for a grant.

The City currently has four projects on the priority list aggregating approximately \$148.0 million in project costs. Each of the projects is a grandfathered, desegregation project under Chapter 645 for which the City expects to be reimbursed for 90% of the debt service costs when the grants are approved. The City has issued \$25 million of bonds and \$96 million of bond anticipation notes to finance three of these projects. See “City Indebtedness—General Obligation Debt—Short-Term Borrowings.” The \$96 million notes mature in February 2006, at which time the City expects to issue bonds to permanently finance that portion of the costs of those three projects.

The state legislature recently imposed a moratorium on new applications for grants under the school building assistance program until after July 1, 2007. In addition, various proposals for changing or restructuring the school building assistance program have been and continue to be made for the purpose of containing the cost of the program to the Commonwealth. The enactment of any such proposal could affect a project’s eligibility for approval of a grant or the amount or manner of payment of any such grant.

## **Excise Revenues**

### *Room Occupancy Excise*

The City currently has in effect a 4% local room occupancy excise upon the transfer of occupancy of any room in a hotel, lodging house or motel. The Commonwealth collects this tax and distributes it to the City quarterly. The City’s room occupancy excise receipts totaled, \$29.8 million, \$25.0 million, \$23.3 million, respectively, in fiscal, 2001, 2002, and 2003.

Pursuant to Chapter 152 of the Acts of 1997, as amended (the “Convention Center Act”), the City has 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.”

Of the \$23.3 million in room occupancy excise taxes collected in fiscal 2003, \$5.3 million was retained in the Excise Fund, and \$18.0 million was transferred into the General Fund as authorized by the Convention Center Act. In fiscal 2002 \$4.0 million of the \$25.0 million in room occupancy excise taxes collected was retained in the Excise Fund and \$21.0 million was transferred into the General Fund. In fiscal 2001, \$14.8 million of the \$29.8 million in room occupancy excise taxes collected was retained in the Excise Fund and \$15.0 million was transferred into the General Fund.

#### *Aircraft Fuel Excise*

The City also assesses an aircraft fuel excise upon the sale or use of jet fuel. The Commonwealth collects this tax and distributes it to the City quarterly; a change from semi-annually made to begin in fiscal 2004. The City's aircraft fuel excise receipts totaled \$15.3 million, \$16.2 million, and \$18.8 million, respectively, in fiscal 2001, 2002, and 2003. It should be noted that in fiscal 2003 the City received three semi-annual payments of aircraft fuel excise. See "Summary and Comparison of Operating Budgets—Fiscal 2004—Revenues."

#### *Motor Vehicle Excise*

The Commonwealth assesses an excise on the registration of motor vehicles, the proceeds of which are received by the municipality of residence of the registered owner. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. The City's annual motor vehicle receipts totaled \$41.8 million, \$42.8 million, and \$45.6 million, respectively, in fiscal 2001, 2002, and 2003. See "Summary and Comparison of Operating Budgets—Fiscal 2004—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 for application to 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 cumulative share of the surcharge as of June 30, 2003 was approximately \$6.0 million. 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 \$55.5 million, \$56.5 million, and \$55.3 million respectively, in fiscal 2001, 2002, and 2003.

#### *Public Works Rents and Permit Fees*

The Permit Branch of the Public Works Department rents the City's right-of-way to fiber optic cable companies and charges permit fees for street occupation permits. The City's annual Public Works rents and fees totaled \$4.9 million, \$2.8 million, and \$3.2 million, respectively, in fiscal 2001, 2002, and 2003.

#### *Building Permit Fees*

The Inspectional Services Department performs a variety of functions, such as the granting of building permits, for which fees are imposed. The City's annual building permit fees totaled \$27.2 million, \$19.1 million, and \$20.1 million, respectively, in fiscal 2001, 2002 and 2003.

#### *Investment Income*

The City's annual investment income averaged \$16.5 million during the three-year period from fiscal 2001 through fiscal 2003. These earnings are the combined results of cash balances and short-term interest rates. The City's investment income equaled \$26.1 million, \$14.8 million, and \$8.6 million, respectively, in fiscal 2001, 2002, and 2003.

#### *Taxi Medallion Proceeds*

The Convention Center Act provides that all taxi medallions (licenses) issued by the City's Police Commissioner shall be issued by public auction, sale or other competitive process. Proceeds from the issuance of the first 235 medallions sold after the effective date of the Convention Center Act, at an aggregate price of approximately \$36.2 million, were deposited in the City's Excise Fund and were applied on May 1, 2002 to pay a portion of the principal due on certain bond anticipation notes which were issued by the City to temporarily finance the City's share of costs of the BCEC Project. The Commissioner sold 25 medallions in July 2003 at an aggregate price of \$3.3 million, which was deposited into the Excise Fund to be applied to pay further costs of the BCEC Project or to pay or provide for the principal of other indebtedness issued by the City for such purpose. See "City Indebtedness—Special Obligation Debt."

## **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 monies are recorded in special revenue funds.

### *Federal Grants*

Some major sources of federal grant funds in fiscal 2003 included: the Community Development Block Grant (CDBG) entitlement program, which awarded \$24.9 million to the City; the Home Investment Partnership Program (HOME), which awarded \$7.5 million to the City; the Housing Opportunities for Persons with Aids (HOPWA) Program furnished \$2.4 million in federal funds. In addition to receiving formula funds like CDBG and HOME, the City received over \$5.2 million from federal grant sources for law enforcement programs during fiscal 2003. The Boston Public Schools also received approximately \$58.5 million from federal grant sources during the 2003 fiscal year. Of these, the major programs were: Title I Elementary & Secondary Education Act of 1965 grants, which totaled \$38.7 million, Special Education Entitlement grant which totaled \$14.1, and the School Lunch Program, which provided \$23.2 million. The City is actively pursuing federal funding to cover security costs related to the Democratic National Convention. The City will also receive a substantial amount of federal funding to address homeland security and bioterrorism threats.

Under the Section 108 Loan Program established by the Federal Department of Housing and Urban Development ("HUD"), which is the agency that provides CDBG grants, HUD loans additional funds to the City for the purpose of providing financing to developers for eligible development projects. The City's CDBG grants are pledged as collateral for the repayment of the funds loaned by HUD in the Section 108 Program. The repayments to HUD are also secured by and expected to be paid, from loan repayments made by the developers benefiting from the funding. In some instances, the developers' repayment obligations are secured by a mortgage on the development project. No City funds (other than the CDBG grants) secure the repayment of the amounts loaned by HUD. Under this program, the City has made approximately \$73 million in loans for eligible development projects, of which, approximately \$33 million is outstanding as of June 30, 2003.

### *State Grants*

In addition to State Aid, the City receives state grants. The Commonwealth assumes 100% of the capital costs and funds approximately 95% of the operating costs associated with the Office of the Sheriff of Suffolk County, which totaled \$87.0 million in fiscal 2003. The City also received approximately \$26.3 million in education grants for the Boston Public Schools. Community Partnership Grants totaling \$11.3 million and the Class Size Reduction grant totaling \$3.7 million are two of the major programs supported by the state education grants.

## **Other**

### *Leased Parking Facility Revenues; Sale of Surplus Properties Revenues*

Pursuant to lease agreements between the City and various private parking operators, the City receives rentals from leased parking facilities. Twenty percent of these receipts are designated by statute for maintenance and renovation of the parking facilities. The remaining amount goes into the City's General Fund. During fiscal 2001, 2002, and 2003, \$2.2 million, \$2.0 million, and \$1.8 million, respectively, were deposited into the City's General Fund from this source.

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, 2003 there was \$42.9 million remaining in the Surplus Property Disposition Fund. The former Berkeley Street police headquarters was declared surplus property by the City Council. A Request for Proposals was created and a developer has been selected. The current plan calls for the building to be converted into a hotel.

## 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, 2003, the City had outstanding approximately \$885.6 million of general obligation long-term bonds, all of which bear fixed rates of interest. On February 1, 2004, the City had approximately \$803.8 million of such bonds outstanding. In addition, on February 1, 2004, the City had \$96.0 million of general obligation bond anticipation notes to support school construction projects.

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. The equalized valuation of taxable property in the City, approved on March 18, 2003 for use until June 2005 equals \$65.75 billion. Based on the current equalized valuation, the City's debt limit equals approximately \$3.29 billion, and its double debt limit equals \$6.58 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 a state board composed of the State Treasurer and Receiver General, the State Auditor, the Attorney General and the Director of Accounts. As of June 30, 2003, the City had outstanding debt of \$586.1 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$388.3 million. In addition, as of February 1, 2004, the City had outstanding debt of \$527.4 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$460.9 million. Based on the City's current debt limit of \$3.29 billion, the City had the capacity to authorize an additional \$2.30 billion of debt as of February 1, 2004.

### Debt Incurring Capacity As of February 1, 2004 (\$ in thousands)

	<u>Debt Limit</u>
Debt Limit <sup>(1)</sup> .....	\$3,287,567
Debt Outstanding as of June 30, 2003 .....	(586,137)
Debt Authorized but Unissued as of June 30, 2003 .....	<u>(388,305)</u>
Available Capacity under debt limit as of June 30, 2003 .....	<u>2,313,125</u>
Debt Authorized in fiscal year 2004 .....	(72,570)
Principal Debt Payments through February 1, 2004 .....	<u>58,694</u>
Debt incurring capacity as of February 1, 2004 .....	<u>\$2,299,249</u>

(1) The laws of the Commonwealth of Massachusetts provide for general debt limits for the City, consisting of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit is 5% of the assessed valuation of taxable property in the City as last equalized by the State Department of Revenue, and may authorize debt up to this limit without State approval. The City can also authorize debt up to twice this amount (the Double Debt Limit) with state approval.

Source: City of Boston Auditing Department.

There are many categories of general obligation debt, which are not subject to the debt limit. Some such debt is, however, subject to other debt limits, dollar limitations or state approval. As of February 1, 2004, the City had outstanding long-term debt exempt from the debt limit of \$276.3 million (excluding the Bonds), and authorized but unissued long-term debt exempt from the debt limit of \$169.1 million. Final unaudited numbers as of February 1, 2004 include, as part of the debt figures above which are exempt from the debt limit, the following: the Gardner St. Landfill – \$11.8 million, the EDIC – \$5.1 million, the Boston Redevelopment Authority (“BRA”) – \$27.3 million, the Capital Improvements Act of 1966 – \$0.2 million, the Capital Improvements Act of 1973 - \$11.3 million, the Capital Improvements Act of 1991 – \$88.5 million, the Capital Improvements Act of 1996 – \$64.5 million, and the School Project Loan Act M.G.L. Ch. 70B – \$67.7 million.

*Authorized But Unissued Debt*

The size of the City's future bond issues will be consistent with the City's financial management policies regarding its level of debt and debt service. The following table sets forth the amounts and purposes of authorized but unissued general obligation debt of the City as of February 1, 2004.

**Authorized But Unissued Debt  
As of June 30, 2003 and February 1, 2004**

	<u>Statute</u>	<u>Restated Authorizations 6/30/03</u>	<u>New Authorizations 7/03 to 2/04</u>	<u>Authorized/ Unissued 2/1/04<sup>(1)</sup></u>
<b>GENERAL PURPOSE:</b>				
Acquisition of Land; Outdoor Facilities	C44 s7 (25)	\$ 43,803,927	\$ 710,000	\$ 44,513,927
Acquisition of Land; Cemetery Improvements	C44 s7 (20)	979,897	—	979,897
Acquisition of Land; Landfill Area	C44 s8 (24)	3,815,893	—	3,815,893
Departmental Equipment	C44 s7 (9)	15,540,851	280,000	15,820,851
Rem, Recon, Rehab – Firefighting App	C44 s7 (9A)	10,529	—	10,529
Equipment – Fire Boat Acquisition	C44 s7 (13)	4,141,893	—	4,141,893
Computer Hardware	C44 s7 (28)	1,130,334	505,000	1,635,334
Computer Software	C44 s7 (29)	704,854	—	704,854
Remodeling & Extraordinary Repairs	C44 s7 (3A)	181,103,715	43,445,000	224,548,715
Engineering & Architectural Services	C44 s7 (22)	927,177	—	927,177
Urban Redevelopment & Renewal	C121B s20	14,881,514	—	14,881,514
Economic Development & Industrial Corporation	C1097 s11 Acts'71	6,746,334	—	6,746,334
<b>SCHOOLHOUSES and SITES:</b>				
Construction of Buildings; Acquisition of Land	C44 s7 (3)	29,810,538	24,040,000	53,850,538
Capital Improvements; Act of 1973	C642 s7 Act'66 as am.	75,771	—	75,771
Capital Improvements; Act of 1991	C642 s7 Act'66 as am.	2,277,571	—	2,277,571
Capital Improvements; Act of 1996	C642 s7 Act'66 as am.	8,682,990	—	8,682,990
School Project Loan; Act of 1948	C70B	85,203,815	—	85,203,815
<b>PUBLIC BUILDINGS; Excluding Schools:</b>				
Capital Improvements; Act of 1973	C642 s7 Act'66 as am.	2,686,485	—	2,686,485
Capital Improvements; Act of 1991	C642 s7 Act'66 as am.	19,001,498	—	19,001,498
Capital Improvements; Act of 1996	C642 s7 Act'66 as am.	25,106,199	—	25,106,199
Construction of Buildings; Acquisition of Land	C44 s7 (3)	17,786,375	—	17,786,375
Boston City Hospital	C659 Acts of 1986	660,000	—	660,000
<b>PUBLIC WORKS:</b>				
Sidewalk Construction	C44 s7 (6)	12,120,800	—	12,120,800
Traffic Sig., Pub. Ltg. Fire Alarm Comm. Install.	C44 s7 (14)	13,151,080	—	13,151,080
Bridge Construction	C44 s7 (4)	21,320,131	305,000	21,625,131
Public Ways Construction	C44 s7 (5)	<u>45,772,647</u>	<u>3,285,000</u>	<u>49,057,647</u>
<b>TOTAL:</b>		<u><b>\$557,442,818</b></u>	<u><b>\$72,570,000</b></u>	<u><b>\$630,012,818</b></u>
"Within" Debt Limit =		388,304,748	72,570,000	460,874,748
"Outside" Debt Limit =		<u>169,138,070</u>	—	<u>169,138,070</u>
<b>TOTAL:</b>		<u><b>\$557,442,818</b></u>	<u><b>\$72,570,000</b></u>	<u><b>\$630,012,818</b></u>

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

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

**Debt Statement as of February 1, 2004**  
**General Obligation Debt <sup>(1)</sup>**

Purpose for Which Issued	Principal Outstanding June 30, 2003	Retired in Fiscal 2004 as of February 1, 2004	Principal Outstanding February 1, 2004	Deemed Payable from Related Revenues <sup>(2)</sup>	Net Principal Amount
General Purpose.....	\$368,228,314	\$(41,626,646)	\$326,601,668	\$(25,092,748)	\$301,508,919
MWPAT.....	12,860,002	(560,297)	12,299,705	(2,899,271)	9,400,434
Economic Development.....	5,549,644	(484,551)	5,065,093	-	5,065,093
Relocation.....	30,814,660	(3,504,872)	27,309,788	-	27,309,788
Schools.....	136,556,704	(9,893,829)	126,662,874	(75,997,725)	50,665,150
Public Buildings.....	246,156,635	(15,819,757)	230,336,878	-	230,336,878
Public Works.....	84,657,393	(9,828,354)	74,829,040	-	74,829,040
Cemeteries.....	817,980	(161,991)	655,989	-	655,989
Totals.....	<u>\$885,641,331</u>	<u>(\$81,880,297)</u>	<u>\$803,761,034</u>	<u>\$(103,989,744)</u>	<u>\$699,771,290</u>

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

(2) Includes revenues related to or derived from facilities for which the debt was incurred. Such revenues include: (i) the Boston Public Health Commission on account of general obligation debt attributable to projects undertaken on behalf of the former department of Health and Hospitals; (ii) state grants for school construction assistance pursuant to the Commonwealth's School Building Assistance Program; (iii) Fund for Parks and Recreation receipts which are currently collected in the General Fund; and (iv) debt service subsidies on City debt issued to the Massachusetts Water Pollution Abatement Trust.

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, 1999 through 2003. The debt service table shows the gross principal amount of general obligation debt of the City and the revenues related to or derived from facilities on account of which the debt was incurred. Such revenues include (i) payments from the Boston Water and Sewer Commission on account of debt service on City water and sewer bonds, (ii) from the Boston Public Health Commission on account of certain outstanding general obligation bonds issued for hospital purposes (see "City Indebtedness—Debt of Agencies Related to the City" below), (iii) state grants for school construction as described above, and (iv) rentals received by the City from leased parking facilities as described below.

**Debt Service Requirements—Fiscal 1999-2003**

	Fiscal Year Ended June 30, <u>1999</u>	Fiscal Year Ended June 30, <u>2000</u>	Fiscal Year Ended June 30, <u>2001</u>	Fiscal Year Ended June 30, <u>2002</u>	Fiscal Year Ended June 30, <u>2003</u>
Gross Debt Service Requirements					
—Bonded Debt:					
Principal.....	\$63,500,000	\$67,140,000	\$75,594,255	\$82,012,626	\$86,611,045
Interest.....	<u>35,208,723</u>	<u>34,476,566</u>	<u>37,990,468</u>	<u>38,732,580</u>	<u>38,960,072</u>
Total.....	<u>98,708,723</u>	<u>101,616,566</u>	<u>113,584,723</u>	<u>120,745,206</u>	<u>125,571,117</u>
Less Revenues Deemed Available From Related Sources:					
Parking Rentals.....	838,107	1,677,998	2,222,017	1,988,112	1,848,419
School Construction Assistance.....	13,329,890	17,088,236	20,199,100	17,128,745	17,232,498
Boston Public Health					
Commission Payments.....	5,895,220	5,411,913	5,113,290	4,813,385	4,598,341
Water and Sewer Payments.....	55,175	—	—	—	—
MWPAT Loan Subsidy Amounts.....	—	126,032	625,412	611,139	596,577
Fund for Parks & Recreation.....	—	—	—	—	106,997
Cemetery Funds.....	<u>35,213</u>	<u>35,189</u>	<u>35,147</u>	<u>—</u>	<u>—</u>
Total Net Debt Service Requirements.....	<u>\$78,555,118</u>	<u>\$77,277,197</u>	<u>\$85,389,757</u>	<u>\$96,203,825</u>	<u>\$101,188,285</u>

Source: City of Boston Auditing Department.

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 February 1, 2004 with respect to the approximate ratio of the City's long-term general obligation debt to certain economic factors:

**Debt Ratios  
As of February 1, 2004**

	<u>Amount</u>	<u>Per Capita</u> <sup>(1)</sup>	<u>Ratio to Assessed Property Value</u> <sup>(2)</sup>	<u>Debt Per Capita as a % of Personal Income Per Capita</u> <sup>(3)</sup>
Gross General Obligation Debt	\$803,761,034	\$1,364.29	1.40%	3.19%
Net General Obligation Debt	699,771,290	1,187.78	1.22%	2.78%

(1) U.S. Census Bureau as of April 2001—Boston's Population equals 589,141.

(2) Assessed Property Values as of \$57.53 billion as of January 1, 2002. See "City Revenues—Property Taxes—Revaluation."

(3) U.S. Department of Commerce, Bureau of Economic Analysis, September 2002, Revised Series-Suffolk County's 2001 Per Capita Personal Income = \$42,766.

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 2001 - 2003 (Budgetary Basis) (\$ in thousands)

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Outstanding General Obligation Debt <sup>(1)</sup> .....	\$ 823,795	\$841,782	\$885,641
Authorized But Unissued General Obligation Debt .....	<u>735,150</u>	<u>591,518</u>	<u>557,443</u>
Debt Service .....	\$ 113,585	\$ 120,745	\$ 125,571
Debt Service as a % of Total General Fund Revenues, Transfers and Other Available Funds .....	6.6%	6.8%	6.9%
Debt Service as a % of Total Expenditures and Encumbrances .....	6.6%	6.8%	6.9%
Debt Service as a % of Total Net Tax Levy .....	13.0%	12.9%	12.6%
Bonds Issued:			
General Obligation .....	120,000	100,000	162,015
Refunding .....	<u>52,025</u>	<u>—</u>	<u>91,710</u>
Total Bonds Issued .....	<u>\$172,025</u>	<u>\$100,000</u>	<u>\$253,725</u>

(1) In anticipation of its issuance of bonds, the City issued \$62,000,000 City of Boston School Project Bond Anticipation Notes, Series A, in February 2002 and \$34,000,000 City of Boston School Project Bond Anticipation Notes, Series B, in February 2003, which are not included in these amounts.

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 in anticipation of the issuance of long-term bonds.

In February 2002, the City issued its \$62,000,000 City of Boston Bond Anticipation Notes, 2002 Series A, and in February 2003, the City issued its \$34,000,000 City of Boston Bond Anticipation Notes, 2003 Series B, both to fund a portion of the costs incurred by the City for the construction of two new middle schools and one new elementary school. Both of these Note issues will mature in February 2006. See "City Revenues—State School Building Assistance."

### 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 July 1, 2003 was \$114,800,000 aggregate principal amount of the City's Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the "Convention Center Bonds"), and \$127,800,000 Special Obligation Refunding Bonds, Boston City Hospital Issue (the "2002 BCH Refunding Bonds") which were issued to refund bonds that first refinanced the project in 1993 (the "1993 BCH Bonds").

The 1993 BCH Bonds were issued in 1993 to refund bonds originally issued by the City in 1990 to finance a major construction and renovation program for the City's acute care hospital then known as Boston City Hospital ("BCH"). The 1993 BCH Bonds were secured in part by a mortgage on the BCH campus, which was insured by the United States of America acting by and through the Federal Housing Administration ("FHA"), and were payable from amounts paid on a mortgage note issued by the City to the trustee for the owners of the 1993 BCH Bonds.

At the date of issue of the 1993 BCH Bonds, BCH was owned by the City and under the control of the City's Department of Health and Hospitals. However, on July 1, 1996, the operations of BCH and Boston University Medical Center Hospital ("BUMCH") were consolidated into Boston Medical Center, which is owned and operated by the Boston Medical Center Corporation ("BMCC"), a Massachusetts non-profit corporation. Simultaneously with the consolidation of BCH and BUMCH, all other public health operations of the City's Department of Health and

Hospitals were transferred to the Boston Public Health Commission. In addition, title to the BCH campus was transferred to the Commission and the Commission became the mortgagor on the FHA insured mortgage and assumed the City's mortgage note securing the 1993 BCH Bonds. At the same time, the BCH campus was leased to BMCC for an initial term of 50 years and BMCC agreed to pay rent to the Commission for so long as the FHA insured mortgage note was outstanding in an amount, among other sums, equal to the amounts payable by the Commission on the FHA insured mortgage note securing the 1993 BCH Bonds.

Upon issuance of the 2002 BCH Refunding Bonds, the 1993 BCH Bonds were defeased and the FHA insured mortgage on the BCH campus discharged and the Commission's mortgage note cancelled. In consideration of the discharge of the mortgage and cancellation of the note, upon delivery of the 2002 BCH Refunding Bonds the Commission issued a new promissory note to the City (the "2002 Note") which is payable as to principal and interest in amounts and on dates sufficient, with other moneys held or to be received under the trust agreement securing the 2002 BCH Refunding Bonds (the "2002 Trust Indenture"), to pay the principal of, and interest on, the 2002 BCH Refunding Bonds as the same becomes due. The 2002 Note is not secured by a mortgage on or other interest in the BCH campus. The 2002 Note is 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 all other amounts held under a Note Payment Trust Agreement among the City, the Commission, BMCC and the Trustee for the owners of the 2002 BCH Refunding Bonds, including, 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 for so long as the 2002 Note is outstanding. 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 payments, to the principal and interest payable on the 2002 BCH Refunding Bonds.

The 2002 BCH Refunding Bonds are special obligations of the City payable from, and secured solely by a pledge and assignment of the Note Payment Trust Agreement, the 2002 Note and all payments of principal and interest payable thereon and all moneys and securities and investment income thereon in all funds established under the 2002 Trust Indenture. In the 2002 Trust Indenture, the City has also covenanted and agreed, subject to appropriation, to meet any deficiency in the amounts held thereunder for the payment of the 2002 BCH Refunding Bonds. The 2002 BCH Refunding 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 2002 BCH Refunding Bonds. The 2002 BCH Refunding Bonds are not a debt or other obligation of the Commission or BMCC.

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 1.6 million square foot convention and exhibition facility currently under construction on a 60-acre site in South Boston. The BCEC Project is a joint development of the City, acting through the Boston Redevelopment Authority (the "BRA"), and the Commonwealth, acting through the Massachusetts Convention Center Authority (the "MCCA"). Under the Convention Center Act, the BRA is responsible for the acquisition of the site for the BCEC Project, which will be conveyed to the MCCA, for the demolition of the existing structures on the site and remediation of environmental hazards thereon and for the preparation of the site for construction of the BCEC Project, which is expected to be completed in the spring of 2004. Upon completion, the MCCA shall be responsible for the operation of the facility.

As provided in the Convention Center Act, the City was obligated to reimburse the BRA for the first \$157.8 million of costs incurred by the BRA to acquire and prepare the BCEC Project site for construction. Site acquisition and preparation costs incurred by the BRA in excess of \$157.8 million are to be either assumed by the Commonwealth or, under certain circumstances, shared equally by the City and the Commonwealth. The Commonwealth or the MCCA is solely responsible for all costs of design, construction and operation of the BCEC Project. To date the City has reimbursed the BRA for \$164.5 million of site costs which were temporarily funded through the issuance by the City of its \$130,000,000 Convention Center Loan, Act of 1997, Bond Anticipation Notes, Series A, and \$27,800,000 Convention Center Loan, Act of 1997, Bond Anticipation Notes, Series B (collectively, the "Convention Center Notes"), which matured on May 1, 2002. Proceeds of the Convention Center Bonds were applied to retire approximately \$117 million of the Convention Center Notes at maturity. The remaining principal of the Convention Center Notes, all interest due thereon, and site costs in excess of \$157.8 million, has been funded from special revenues accumulated by the City since enactment of the Convention Center Act.

The Convention Center Bonds were issued under and are secured by a Trust Agreement dated as of April 15, 2002 between the City and a corporate trustee (the "Convention Center Trust Agreement"). The Convention Center Bonds and any additional bonds and refunding bonds which may be hereafter issued and outstanding under the Convention Center Trust Agreement are special obligations of the City payable from, and secured solely by a pledge of, certain "Pledged Receipts" identified in the Convention Center Trust Agreement and all moneys, securities and credit facilities in all funds and accounts established thereunder. The Pledged Receipts pledged by the Convention Center Trust Agreement as security for the Convention Center Bonds include all amounts received by the City from the 4% local option room occupancy excise imposed in Boston, from a portion of the surcharge imposed by the Commonwealth on vehicular rental transaction contracts in Boston and from the sale of certain hackney (taxi) medallions in the City. See "City Revenues – Excise Revenues" and "Departmental Revenues." 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 City does not expect that its revenue base that was historically available to fund annual operating expenditures will be adversely affected over the long-term by the development of the BCEC Project and the issuance of the Convention Center Bonds. The Convention Center Act and the Convention Center Trust Agreement authorize the City to annually transfer to the City's General Fund all room occupancy excise receipts and other Pledged Receipts that are not required for the payment of maturing interest on and principal of the Convention Center Bonds. The City anticipates that the future room occupancy excise receipts that are attributable to rooms in hotels, motels, and other lodging establishments that were first opened for business after July 1, 1997 (a measuring date provided in the Convention Center Act), together with the other Pledged Receipts held under the Convention Center Trust Agreement, will be sufficient to pay the future debt service on the Convention Center Bonds and to fund remaining estimated costs of the BCEC Project that are required by the Convention Center Act to be paid by the City. Accordingly, the City anticipates that excise tax receipts attributable to rooms in hotels, motels, and other lodging establishments that were opened for business before July 1, 1997 will be available for transfer to the General Fund.

#### **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. Water and sewer charges outstanding from certain of the Commission's prior fiscal years have been committed to the City for collection. The City uses its lien and foreclosure powers to collect those overdue water and sewer charges for those years on the Commission's behalf.

##### *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. The City has issued approximately \$19.7 million in general obligation debt for EDIC purposes, of which approximately \$7.2 million was outstanding as of February 1, 2003. In 2000, the state legislature adopted an act relating to the redevelopment of Fenway Park (the "Fenway Park Site Act") which also authorized EDIC to acquire and prepare a site for a replacement facility for Fenway Park, the home ballpark of the Boston Red Sox, and to develop and finance a parking garage adjacent to the new ballpark. While the City is authorized and directed by the act to fund up to \$140 million of costs incurred by EDIC to acquire and prepare the site, subsequent to the passage

of the Fenway Park Site Act, the Boston Red Sox were sold, and neither the new team ownership, the EDIC, nor the City has undertaken any action to finance the construction of either the ballpark site or the parking garage.

#### *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 2002 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 2002 BCH Refunding Bonds, the Commission has agreed to apply rents received from BMCC to the payment of a promissory note (the "2002 Note") issued by the Commission to the City and assigned by the City as security for the 2002 BCH Refunding Bonds. Payments made by the Commission on the 2002 Note are applied by the City to pay the principal of and interest on the City's 2002 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 July 1, 2002 in the aggregate principal amount of \$19.0 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 which is included in the annual tax levy (see "Retirement Systems"); agreements for the provision of sanitation, solid waste collection and disposal services (see "The City—Principal Government Services—Public Works"); 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); and certain long-

term and short-term lease purchase obligations incurred by the City (see “City Indebtedness—Major Contractual Obligations—Equipment Leasing Programs” below).

#### *Equipment Leasing Programs*

The City has executed several equipment lease agreements in order to finance the acquisition of departmental equipment. As of February 1, 2004 the amount outstanding under the lease agreements equaled \$13.3 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 is organized to coincide with the annual budget cycle. It begins when City departments submit capital requests, and concludes when the City publishes an updated version of its five-year capital plan. Capital appropriations are requested of the City Council each year for the cost of projects included in the updated capital plan. This process allows for a continuing reassessment of capital needs and projections. On April 9, 2003 the Mayor submitted his fiscal 2004 budget to the City Council, which included approximately \$48.5 million in new authorizations to support the fiscal 2004 capital plan. In addition to these authorizations, the Mayor submitted an authorization to the City Council on May 21, 2003 for construction and repairs for the School department totaling approximately \$24.0 million; all authorizations were approved by the City Council in June 2003.

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 pays such costs from available funds.

#### *Capital Funding Plan*

The City funds its capital plan primarily through the issuance of general obligation bonds. The size of the City’s future bond issues will be consistent with the City’s financial management policies regarding its level of debt and debt service. The timing and size of the capital plan will be actively managed within these constraints.

#### *Current Capital Investment Plans*

The City’s fiscal 2004 capital plan released in April 2003 proposes new long-term investments over the next 5-7 years as well as several studies to lay the groundwork for future growth. In all, \$1.2 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 and recreation, roads and bridges and in support of the BCEC. In view of the proven economic and social benefits of consistent, long-range capital planning, the City remains committed to moving forward with its capital program.

The fiscal 2004 capital plan includes projects to improve the physical condition of the City’s schools. In addition to ongoing roof replacements and heating system upgrades, the City completed construction and opened three new schools in calendar 2003. Finally, the 2004 capital plan continues technology upgrades throughout the entire school system.

The maintenance of the City’s roadways and sidewalks is a significant part of the capital plan. Each year, the Public Works Department resurfaces 17 to 20 miles and reconstructs 10 miles of roads. In addition, 20 miles of sidewalks are reconstructed and approximately 400,000 square feet are repaired and 700 new streetlights are scheduled to be installed to improve visibility and public safety.

Boston’s public libraries have also benefited from the capital planning process. Construction was completed on the City’s twenty-sixth neighborhood branch library in 2001. Currently, six branch libraries are undergoing renovation work. The historic McKim Building at the central library continues to undergo major restorations.

Since its inception, the capital plan has comprehensively examined the capital needs of the City and has emphasized long-term planning and financial management. This planning process has enabled the City to alter the pattern of decades of previous under investment and to respond to emerging program goals of its departments.

For a description of the City’s expenditures in support of the BCEC see “City Indebtedness – Special Obligation Debt” above.

### **TAX EXEMPTION**

In the opinion of 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 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 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 is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon is included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income there from under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the 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 the 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 Bonds is the first price at which a substantial amount of such maturity of the 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 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. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 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.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has covenanted to comply with certain restrictions designed to ensure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Certain requirements and procedures contained or referred to in the instruments governing the terms of the Bonds may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. 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 Bonds may adversely affect the value of, or the tax status of interest on, the 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 regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective holders of the Bonds 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 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 Bonds may otherwise affect the federal or state tax liability of a holder of the Bonds. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the 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 holder or the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

## **CONTINUING DISCLOSURE**

In order to assist the Underwriters 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 365 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 will be executed by the signers of the Bonds on the delivery dates of the Series A Bonds and Series B Bonds, respectively, and incorporated by reference in the Bonds. 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 such undertaking.

## **COMPETITIVE SALE OF BONDS**

The Bonds were offered for sale by the City on February 11, 2004, in accordance with the Official Notices of Sale dated February 3, 2004. Lehman Brothers Inc. ("Lehman") was the successful bidder for the Series A Bonds. Citigroup Global Markets Inc. ("Citigroup") was the successful bidder for the Series B Bonds. Information provided by Lehman and Citigroup (together, the "Underwriters") regarding the interest rates and reoffering yields of the Series A Bonds and Series B Bonds, respectively, is set forth on the inside cover of this Official Statement. The Series A Bonds are being purchased from the City by Lehman at an aggregate price of \$108,846,300, plus accrued interest, reflecting the principal amount of \$100,870,000, plus net original issue premium of \$8,292,023, less Lehman's underwriter's discount of \$315,723. The Series B Bonds are being purchased from the City by Citigroup at an aggregate price of \$45,726,216 plus accrued interest, reflecting the principal amount of \$42,330,000, plus net original issue premium of \$3,483,416, less Citigroup's underwriter's discount of \$87,200. The Underwriters may offer to sell the Bonds to certain dealers and others at prices other than the initial public offering prices, and the public offering prices may be changed from time to time by the Underwriters.

## **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 Underwriters, (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. In the opinion of the City's Corporation Counsel, no litigation is pending, or to her knowledge 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.

## **CREDIT RATINGS**

FitchRatings ("Fitch"), One State Street Plaza, New York, New York, Moody's Investors Service Inc., ("Moody's"), 99 Church 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 "AA-," "Aa2," and "AA," respectively, to the Bonds reflecting the City's capacity to pay debt service. Fitch, Moody's and Standard & Poor's have also assigned ratings of "AAA," "Aaa," "AAA," respectively to the Insured Bonds, and have done so with the understanding that, upon delivery of such Insured Bonds, MBIA Insurance Corporation will issue its financial guaranty insurance policy guaranteeing the regularly scheduled payments of principal and interest, when due, on the Insured Bonds. See "Bond Insurance," herein and see also, Appendix G hereto. 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.

### **INDEPENDENT AUDITORS**

The financial statements of the City of Boston included in Appendix A to 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. Such financial statements have been included in this Official Statement in reliance upon the report of KPMG LLP and other auditors.

### **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 and the appendices hereto. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing securities or other public securities.

### **LEGAL MATTERS**

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

CITY OF BOSTON, MASSACHUSETTS

By:                   /s/ Lisa C. Signori                    
                  *Collector-Treasurer*

Dated: February 11, 2004



# Annual Financial Statements of the City of Boston, Massachusetts

For the Year Ended June 30, 2003

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With Independent Auditors' Report Thereon



## CITY OF BOSTON, MASSACHUSETTS

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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, Massachusetts, as of and for the year ended June 30, 2003, 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 of Boston'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 4% and 33% of the assets and revenues, respectively, of the aggregate remaining fund information and 24% and 23% of the assets and revenues, respectively, of the discretely presented component units. 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. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 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, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages A - 3 through A - 13 and the schedules of funding progress and employers' contributions on page A - 59 are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in





the United States of America. We have applied certain limited procedures which consisted principally of inquires 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.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 5, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

Boston, Massachusetts  
December 5, 2003

## CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2003

The City of Boston provides this Management's Discussion and Analysis to provide additional information to the readers of the City's Basic Financial Statements. This narrative overview and analysis of the financial activities of the City of Boston is for the fiscal year ended June 30, 2003. 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).

The City of Boston is in its second year of implementing new reporting standards with significant changes in content and structure from years prior to fiscal year end June 30, 2002.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Boston'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. These components are described below:

***Basic Financial Statements***

The 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 flow of 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.

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

## CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2003

*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, judgment and claims, retirement costs, state and district assessments, debt service, and other employee benefits.

*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 operations of the City of Boston Convention Center Bond Fund and the Hospital Bond Fund.

*Discretely Presented Component Units* – These are operations for which the City has financial accountability, but they have certain independent qualities as well. 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:

- Boston Public Health Commission
- Boston Redevelopment Authority
- Economic Development Industrial Corporation
- 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 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:

***1. Governmental Fund Financial Statements*** – 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 near-term financing requirements. This

## CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2003

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 that assists 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 has four governmental funds. Each fund is presented in a separate column 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" columns on these statements. The governmental funds financial statements can be found immediately following the government-wide statements.

Of the City's four governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Budgetary Statement or Statement of Revenues and Expenditures – Budgetary Basis* is presented on page A - 20. 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 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 revenue 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 for 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. Additional information and a reconciliation of "budgetary" to GAAP statements is provided in note 4 of the financial statements.

**2. Proprietary Funds Financial Statements** – 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 proprietary fund financial statements.

**CITY OF BOSTON, MASSACHUSETTS**Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2003

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

**3. Fiduciary Funds Financial Statements** – 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 Funds (the State-Boston Retirement System and the Boston Retirement System), which accounts for the transactions, assets, liabilities, and net assets of the City employees' pension plan, 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.

**Government-Wide Financial Analysis**

This analysis is based on the statement of net assets and statement of activities found on pages A - 14 and A - 15 of the financial statements.

***Government-Wide Highlights:***

**Net Assets** – The total net assets of the City exceeded its liabilities at fiscal year ending June 30, 2003 by \$240.7 million (presented as “net assets”). Of this amount, \$37.4 million was reported as “unrestricted net assets.” Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

**Changes in Net Assets** – The City's total net assets increased by \$43.5 million in fiscal year 2003. Net assets of governmental activities increased by \$66.6 million, while net assets of the business-type activities showed a decrease of \$23.1 million.

## CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2003

**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 (government and business-type activities) totaled \$240.7 million at the end of 2003, compared to \$197.2 million at the end of the previous year.

The components of net assets are comprised of 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 – the amount is a deficit of \$6.8 million indicating that the amount of capital debt outstanding exceeds the net book value of the City's fixed assets. The deficit in "Invested in capital assets, net of related debt" results in part from the capitalization threshold established by the City whereby capital assets of less than \$15,000 in cost are not capitalized for financial statement purposes, from the refunding of capital debt which results in monetary savings to the City, but often extends the life of the debt beyond the depreciable lives of the related capital assets and from other noncapitalized financing costs related to the debt. 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 large portion of the City's net assets (87.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the City is reporting a positive balance for the government as a whole. The negative balance reported for business-type activities is offset by the positive balance reported for government 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.

City of Boston's Net Assets-Primary Government  
(In thousands)

	Governmental activities		Business-type activities		Totals	
	2003	2002	2003	2002	2003	2002
Current assets	\$ 923,629	905,639	58,267	68,079	981,896	973,718
Capital assets	889,665	781,942	—	—	889,665	781,942
Other assets	2,352	2,102	3,360	1,555	5,712	3,657
Due from others	33,679	19,250	104,869	129,103	138,548	148,353
Total assets	1,849,325	1,708,933	166,496	198,737	2,015,821	1,907,670
Noncurrent liabilities	842,966	1,014,892	236,256	251,150	1,079,222	1,266,042
Other liabilities	683,057	437,311	12,822	7,104	695,879	444,415
Total liabilities	1,526,023	1,452,203	249,078	258,254	1,775,101	1,710,457
Invested in capital assets, net of related debt	(6,784)	(92,711)	—	—	(6,784)	(92,711)
Restricted	210,077	266,999	—	—	210,077	266,999
Unrestricted	120,009	82,442	(82,582)	(59,517)	37,427	22,925
Total net assets	\$ 323,302	256,730	(82,582)	(59,517)	240,720	197,213

## CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2003

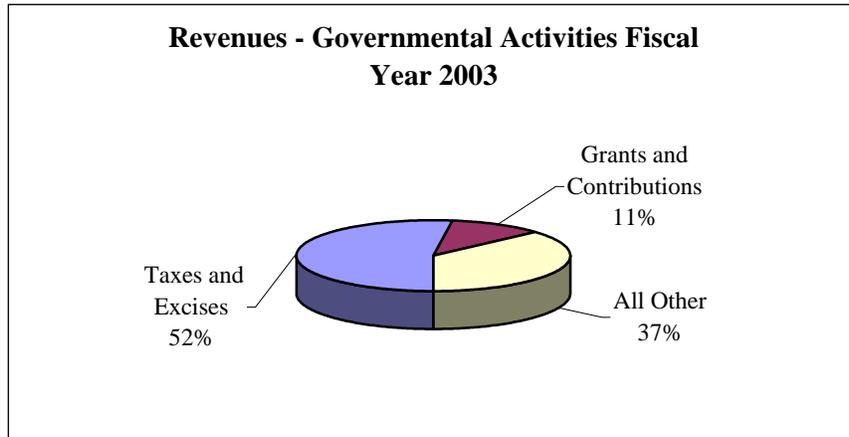
## City of Boston Changes in Net Assets-Primary Government

(In thousands)

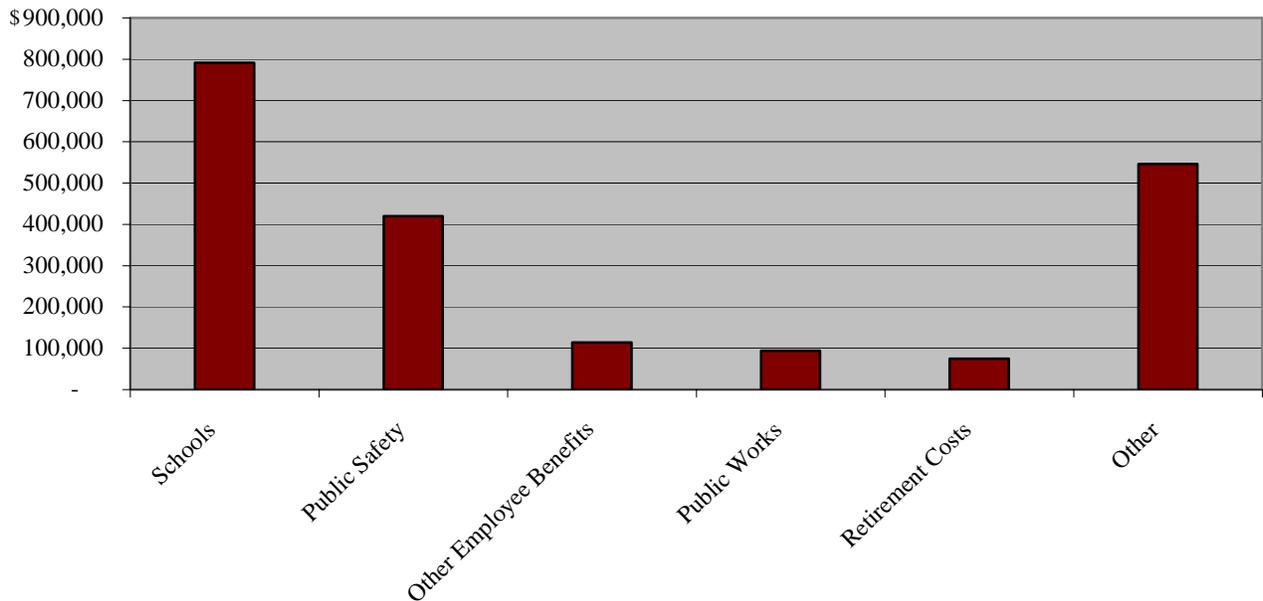
	Governmental activities		Business-type activities		Totals	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 127,367	130,854	12,877	38,695	140,244	169,549
Operating grants and contributions	503,696	541,589	—	—	503,696	541,589
Capital grants and contributions	30,327	30,946	—	—	30,327	30,946
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,005,684	967,762	—	—	1,005,684	967,762
Excises	95,157	109,503	23,348	5,079	118,505	114,582
Payment in lieu of taxes	40,910	36,332	—	—	40,910	36,332
Grants and contributions not restricted	234,719	272,150	—	—	234,719	272,150
Investment income	18,655	23,097	8,377	8,594	27,032	31,691
Miscellaneous	33,245	33,568	—	7,303	33,245	40,871
Total revenues	<u>2,089,760</u>	<u>2,145,801</u>	<u>44,602</u>	<u>59,671</u>	<u>2,134,362</u>	<u>2,205,472</u>
Program expenses:						
General government	60,112	84,350	—	—	60,112	84,350
Human services	32,357	11,730	—	—	32,357	11,730
Public safety	420,108	429,216	—	—	420,108	429,216
Public works	94,316	82,891	—	—	94,316	82,891
Property and development	93,265	112,787	—	—	93,265	112,787
Parks and recreation	19,766	18,504	—	—	19,766	18,504
Library	33,938	38,112	—	—	33,938	38,112
Schools	791,540	768,428	—	—	791,540	768,428
Public health programs	63,897	64,537	—	—	63,897	64,537
County	100,745	109,340	—	—	100,745	109,340
Judgments and claims	2,880	2,724	—	—	2,880	2,724
Retirement costs	74,720	82,034	—	—	74,720	82,034
Other employee benefits	114,209	101,059	—	—	114,209	101,059
State and district assessments	69,009	67,769	—	—	69,009	67,769
Repairs and maintenance	21,929	—	—	—	21,929	—
Interest on long-term debt	48,397	38,514	—	—	48,397	38,514
Convention center	—	—	40,786	19,035	40,786	19,035
Hospital	—	—	8,881	8,232	8,881	8,232
Total program expenses	<u>2,041,188</u>	<u>2,011,995</u>	<u>49,667</u>	<u>27,267</u>	<u>2,090,855</u>	<u>2,039,262</u>
Excess (deficiency) before special items and transfers	48,572	133,806	(5,065)	32,404	43,507	166,210
Transfers	18,000	—	(18,000)	—	—	—
Special Item – gain on sale of capital assets	—	13,300	—	—	—	13,300
Change in net assets	<u>66,572</u>	<u>147,106</u>	<u>(23,065)</u>	<u>32,404</u>	<u>43,507</u>	<u>179,510</u>
Net assets – beginning	<u>256,730</u>	<u>109,624</u>	<u>(59,517)</u>	<u>(91,921)</u>	<u>197,213</u>	<u>17,703</u>
Net assets – ending	<u>\$ 323,302</u>	<u>256,730</u>	<u>(82,582)</u>	<u>(59,517)</u>	<u>240,720</u>	<u>197,213</u>

**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information  
 Management's Discussion and Analysis  
 June 30, 2003



**Expenses – Governmental Activities  
 Fiscal Year 2003  
 (In thousands)**



## CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2003

***Governmental Activities***

The City's governmental activities net assets increased by \$66.6 million from the prior year. The City's two largest sources of revenues were property and excise taxes of \$1.10 billion and \$768.7 million operating and capital grants from the federal and state governments. Approximately 52.2% of the City's total revenue came from property and excise taxes, while 36.5% resulted from grants and contributions (including federal aid). Charges for various goods and services, interest, payments in lieu of taxes and other miscellaneous revenues totaled \$238.2 million. The City's expenses cover a range of services. The largest expenses were for schools (\$791.5 million), public safety (\$420.1 million), other employee benefits (\$114.2 million), county (\$100.7), public works (\$94.3 million), property and development (\$93.3 million), and public health programs (\$63.9 million). In 2003, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.38 billion. This shortfall was covered primarily through taxes (\$1.10 billion) and nonspecific grants of (\$234.7 million).

***Business-Type Activities***

Net assets from business-type activities fell by \$23.1 million during fiscal 2003. This change in net assets resulted primarily from expenses associated with the construction of the Convention Center exceeding grants from the Commonwealth of Massachusetts, offset by the excess of excise taxes generated by the enterprise fund over the amount transferred to the general fund.

**Financial Analysis of the City's Individual Funds**

This analysis is based on the Fund Financial Statements on pages A - 16 through A - 26.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Fund Highlights:**

*Governmental Funds – Fund Balances* – As of the close of fiscal year 2003, the City's governmental funds reported a combined ending fund balance of \$701.4 million, an increase of \$60.2 million from the prior year. Of this total amount, \$365.4 million represents the "unreserved and undesignated fund balances" with \$331.5 million of this amount in the general fund.

***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 2003 was \$331.5 million, which represents approximately 19.1% of GAAP general fund operating expenditures.

## CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information  
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June 30, 2003

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, that is available for appropriation and is generated when actual revenues, on a cash basis, exceeded budgeted amounts and encumbrances are less than appropriations, or both.

The City of Boston has established the General Fund — Capital 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 Expenses.

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

The general fund budgetary highlights include ending fiscal year 2003 with a \$1.8 million dollar surplus. This represents the City's 18th consecutive year with a balanced budget. Changes to the original budget resulted in no change to the overall budget. However, there were two supplemental appropriations in the amount of \$592,055 from reserve for collective bargaining to the School Department. These appropriations were used for salary and wage increases. These supplemental appropriations were funded from available revenue sources. During the year, revenues exceeded budgetary estimates, thus eliminating the need to draw on existing fund balance.

*Special Revenue – Fund Balance* – The special revenue fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The fiscal year 2003 special revenue fund balance is reported at \$111.5 million, a \$9.2 million decrease from fiscal year 2002.

*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 2003 capital projects fund balance is \$56.8 million. The \$17.9 million decrease from fiscal year 2002 is attributable to the timing of borrowing of General Obligation Bond sales.

*Other Governmental Funds – Fund Balance* – Other governmental funds account for assets held by the City in a trustee capacity or as an agent. The fiscal year 2003 other governmental funds fund balance is \$41.8 million, a \$2.0 million decrease from fiscal year 2002.

***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.

## CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2003

The City's proprietary funds net assets for fiscal year 2003 are a negative \$82.6 million. As stated in the discussion on the government-wide financial statements, the negative balance in the proprietary funds is a result of the Convention Center special obligation bonds and Hospital special obligation bonds outstanding at year-end.

**Capital Asset and Debt Administration***Capital Assets*

The City's investment in capital assets for its governmental activities as of June 30, 2003, included \$1.88 billion of cost and accumulated depreciation of \$986.3 million, leaving a net book value of \$889.7 million. 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 about 13.8% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$145.9 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$38.2 million. Additional information on the City's capital assets can be found in note 8 of the notes to the basic financial statements.

*Long-term Debt*

*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 \$873.9 million in General Obligation bonds principal outstanding – an increase of 5.4% over last year.

The key factors in this increase were the issuances of the \$48.6 million 2002 Series B General Obligation Refunding Bonds, \$43.1 million 2002 Series C General Obligation Refunding Bonds and \$162.0 million 2003 Series A General Obligation Bonds.

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.

The long-term debt to be paid by the business-type activities decreased \$15.4 million due to the issuance of \$127.8 million of Boston City Hospital Special Obligation Refunding Bonds, the proceeds of which were used to repay a portion of outstanding revenue with a face amount of \$141.1 million referring to the Boston City Hospital Revenue Refunding Bonds Series B.

*Other Debt* – The City's general long-term notes and other obligations decreased by \$8.0 million, or (2.2%), during the current fiscal year. The key factors were reductions of compensated absences of \$7.6 million, judgments and claims of \$1.8 million, and leases of \$8.5 million offset by a net increase in BAN's outstanding of \$9.0 million.

**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2003

Additional information on the City's long-term debt obligations can be found in note 10 of the notes to the basic financial statements.

**Requests for Information**

This financial report is designed to provide a general overview of the City of Boston's finances for all of the City of Boston's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. 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.

**APPENDIX A**

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Net Assets

June 30, 2003

(In thousands)

	<b>Primary government</b>			<b>Component units</b>
	<b>Governmental activities</b>	<b>Business-type activities</b>	<b>Total</b>	
<b>Assets:</b>				
Cash and investments	\$ 673,744	841	674,585	161,131
Cash and investments held by trustees	45,869	56,286	102,155	4,901
Receivables, net:				
Property taxes	15,163	—	15,163	—
Intergovernmental	163,297	1,140	164,437	—
Other	25,556	—	25,556	109,867
Other assets	2,352	3,360	5,712	164,315
Capital assets:				
Nondepreciable	488,218	—	488,218	18,780
Depreciable, net	401,447	—	401,447	37,834
Internal balances	18,000	(18,000)	—	—
Due from BMC	—	—	—	10,523
Due from components units	15,679	122,869	138,548	—
Total assets	<u>1,849,325</u>	<u>166,496</u>	<u>2,015,821</u>	<u>507,351</u>
<b>Liabilities:</b>				
Warrants and accounts payable	53,145	—	53,145	113,550
Accrued liabilities – current:				
Compensated absences	45,724	—	45,724	—
Judgments and claims	13,973	—	13,973	—
Payroll and related costs	104,670	—	104,670	—
Deposits and other	72,791	3,127	75,918	2,907
Current portion of long-term debt and leases	95,489	9,695	105,184	3,695
Due to BMC	—	—	—	36,178
Due to primary government	—	—	—	138,548
Deferred revenue	47,861	—	47,861	49,027
Noncurrent liabilities:				
Bonds due in more than one year	793,444	236,256	1,029,700	18,383
Other due in more than one year	39,690	—	39,690	—
Leases payable	9,832	—	9,832	—
Bond anticipation notes payable	96,000	—	96,000	—
Other noncurrent liabilities	153,404	—	153,404	23,571
Total liabilities	<u>1,526,023</u>	<u>249,078</u>	<u>1,775,101</u>	<u>385,859</u>
<b>Net assets:</b>				
Investment in capital assets, net of related debt	(6,784)	—	(6,784)	32,959
Restricted for:				
Capital projects	56,770	—	56,770	—
Other purposes	153,307	—	153,307	59,096
Unrestricted	120,009	(82,582)	37,427	29,437
Total net assets	<u>\$ 323,302</u>	<u>(82,582)</u>	<u>240,720</u>	<u>121,492</u>

See accompanying notes to basic financial statements.

# APPENDIX A

## CITY OF BOSTON, MASSACHUSETTS

Statement of Activities  
Year ended June 30, 2003  
(In thousands)

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government		Total	
					Governmental activities	Business-type activities		
Primary government:								
Governmental activities:								
General government	\$ 60,112	12,679	17,930	—	(29,503)	—	(29,503)	—
Human services	32,357	4	7,436	—	(24,917)	—	(24,917)	—
Public safety	420,108	89,480	25,282	—	(305,346)	—	(305,346)	—
Public works	94,316	4,196	480	13,095	(76,545)	—	(76,545)	—
Property and development	93,265	1,348	67,346	—	(24,571)	—	(24,571)	—
Parks and recreation	19,766	—	831	—	(18,935)	—	(18,935)	—
Library	33,938	351	4,273	—	(29,314)	—	(29,314)	—
Schools	791,540	18,223	290,816	17,232	(465,269)	—	(465,269)	—
Public health programs	63,897	—	—	—	(63,897)	—	(63,897)	—
County	100,745	—	89,302	—	(11,443)	—	(11,443)	—
Judgments and claims	2,880	—	—	—	(2,880)	—	(2,880)	—
Retirement costs	74,720	1,086	—	—	(73,634)	—	(73,634)	—
Other employee benefits	114,209	—	—	—	(114,209)	—	(114,209)	—
State and district assessments	69,009	—	—	—	(69,009)	—	(69,009)	—
Repairs and maintenance	21,929	—	—	—	(21,929)	—	(21,929)	—
Interest on long-term debt	48,397	—	—	—	(48,397)	—	(48,397)	—
Total governmental activities	<u>2,041,188</u>	<u>127,367</u>	<u>503,696</u>	<u>30,327</u>	<u>(1,379,798)</u>	<u>—</u>	<u>(1,379,798)</u>	<u>—</u>
Business-type activities:								
Convention Center	40,786	—	12,877	—	—	(27,909)	(27,909)	—
Hospital bonds	8,881	—	—	—	—	(8,881)	(8,881)	—
Total business-type activities	<u>49,667</u>	<u>—</u>	<u>12,877</u>	<u>—</u>	<u>—</u>	<u>(36,790)</u>	<u>(36,790)</u>	<u>—</u>
Total primary government	<u>\$ 2,090,855</u>	<u>127,367</u>	<u>516,573</u>	<u>30,327</u>	<u>(1,379,798)</u>	<u>(36,790)</u>	<u>(1,416,588)</u>	<u>—</u>
Component units:								
Boston Public Health Commission	\$ 116,616	—	120,524	—	—	—	—	3,908
Boston Redevelopment Authority	36,454	—	34,627	—	—	—	—	(1,827)
Trustees of the Public Library of the City of Boston	13,369	716	10,145	—	—	—	—	(2,508)
Economic Development and Industrial Corporation of Boston	33,414	—	34,143	—	—	—	—	729
Total component units	<u>\$ 199,853</u>	<u>716</u>	<u>199,439</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>302</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 1,005,684	—	1,005,684	—
Excises					95,157	23,348	118,505	—
Payments in lieu of taxes					40,910	—	40,910	—
Grants and contributions not restricted					234,719	—	234,719	—
Investment income					18,655	8,377	27,032	1,717
Miscellaneous					33,245	—	33,245	1,071
Transfers					18,000	(18,000)	—	—
Total general revenues and transfers					<u>1,446,370</u>	<u>13,725</u>	<u>1,460,095</u>	<u>2,788</u>
Change in net assets					66,572	(23,065)	43,507	3,090
Net assets – beginning					<u>256,730</u>	<u>(59,517)</u>	<u>197,213</u>	<u>118,402</u>
Net assets – ending					<u>\$ 323,302</u>	<u>(82,582)</u>	<u>240,720</u>	<u>121,492</u>

See accompanying notes to basic financial statements.

**APPENDIX A**

**CITY OF BOSTON, MASSACHUSETTS**

Balance Sheet – Governmental Funds

June 30, 2003

(In thousands)

<b>Assets</b>	<b>General</b>	<b>Special revenue</b>	<b>Capital projects</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
Cash and investments	\$ 529,315	67,535	62,761	—	659,611
Cash and investments held by trustees	—	—	3,788	42,081	45,869
Receivables, net:					
Property taxes	41,175	—	—	—	41,175
Intergovernmental	79,528	83,769	—	—	163,297
Departmental and other	20,386	165	—	164	20,715
Total receivables	141,089	83,934	—	164	225,187
Due from other funds	18,000	1,044	101	—	19,145
Due from component units	15,679	—	—	—	15,679
Total assets	<u>\$ 704,083</u>	<u>152,513</u>	<u>66,650</u>	<u>42,245</u>	<u>965,491</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Warrants and accounts payable	\$ 33,603	9,230	9,845	450	53,128
Accrued liabilities:					
Compensated absences	10,259	—	—	—	10,259
Payroll and related costs	104,670	—	—	—	104,670
Deposits and other	4,174	31,557	—	—	35,731
Deferred revenue	57,952	—	—	—	57,952
Due to other funds	1,765	—	—	—	1,765
Other liabilities	306	214	35	—	555
Total liabilities	<u>212,729</u>	<u>41,001</u>	<u>9,880</u>	<u>450</u>	<u>264,060</u>
Fund balances (deficit):					
Reserved for:					
Encumbrances	20,787	49,019	84,184	176	154,166
Future appropriations	—	—	42,875	—	42,875
Unreserved:					
Designated for subsequent years expenditures	139,028	—	—	—	139,028
Undesignated	331,539	62,493	(70,289)	—	323,743
Undesignated, reported in permanent funds	—	—	—	41,619	41,619
Total fund balance	<u>491,354</u>	<u>111,512</u>	<u>56,770</u>	<u>41,795</u>	<u>701,431</u>
Total liabilities and fund balances	<u>\$ 704,083</u>	<u>152,513</u>	<u>66,650</u>	<u>42,245</u>	<u>965,491</u>

See accompanying notes to basic financial statements.

**APPENDIX A**

**CITY OF BOSTON, MASSACHUSETTS**

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2003

(In thousands)

Total fund balance – Governmental Funds		\$ <u>701,431</u>
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		14,466
Land improvements		16,697
Buildings and improvements		984,820
Furniture and equipment		142,349
Infrastructure		243,891
Construction in progress		473,751
Less accumulated depreciation		<u>(986,309)</u>
		<u>889,665</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis		<u>(11,359)</u>
Internal service funds are included in the government-wide statements		<u>7,930</u>
Bond issuance costs are capitalized in the government-wide statements		<u>2,112</u>
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		(1,011,464)
Capital leases		(17,492)
Bond issue premiums		(12,984)
Deferred bond gains/losses		7,485
Accrued interest on bonds		(16,300)
Compensated absences		(151,286)
Landfill		(14,578)
Judgments and claims		(29,098)
Tax abatements		<u>(20,760)</u>
		<u>(1,266,477)</u>
Net assets of governmental activities		<u>\$ <u>323,302</u></u>

See accompanying notes to basic financial statements.

**APPENDIX A**

**CITY OF BOSTON, MASSACHUSETTS**

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

Year ended June 30, 2003

(In thousands)

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>Revenues:</b>					
Real and personal property taxes	\$ 1,053,945	—	—	—	1,053,945
Excises	94,133	—	—	—	94,133
Payments in lieu of taxes	40,910	—	—	—	40,910
Fines	59,187	19	—	—	59,206
Investment income	8,951	479	—	60	9,490
Licenses and permits	30,217	57	—	—	30,274
Departmental and other	62,373	13,170	—	4,136	79,679
Intergovernmental	444,751	311,347	13,095	—	769,193
	<u>1,794,467</u>	<u>325,072</u>	<u>13,095</u>	<u>4,196</u>	<u>2,136,830</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	53,343	8,385	—	4,325	66,053
Human services	24,738	7,231	—	—	31,969
Public safety	394,692	23,119	—	—	417,811
Public works	86,819	186	—	—	87,005
Property and development	29,260	63,851	—	—	93,111
Parks and recreation	14,622	831	—	—	15,453
Library	27,715	5,186	—	—	32,901
Schools	654,958	131,383	—	—	786,341
Public health programs	63,897	—	—	—	63,897
County	4,539	96,452	—	—	100,991
Judgments and claims	2,880	—	—	—	2,880
Retirement costs	74,720	—	—	—	74,720
Other employee benefits	114,512	—	—	—	114,512
State and district assessments	69,009	—	—	—	69,009
Capital outlays	2,971	—	164,891	—	167,862
Debt service	121,184	13,841	25,000	—	160,025
	<u>1,739,859</u>	<u>350,465</u>	<u>189,891</u>	<u>4,325</u>	<u>2,284,540</u>
Excess (deficiency) of revenues over expenditures	54,608	(25,393)	(176,796)	(129)	(147,710)
<b>Other financing sources (uses):</b>					
Long-term debt and capital leases issued	—	4,094	304,440	—	308,534
Payments to escrow agent to refund debt	—	—	(130,740)	—	(130,740)
Premiums on long-term debt issued	—	12,100	—	—	12,100
Transfers in	34,637	—	—	—	34,637
Transfers out	—	—	(14,788)	(1,849)	(16,637)
	<u>34,637</u>	<u>16,194</u>	<u>158,912</u>	<u>(1,849)</u>	<u>207,894</u>
Net change in fund balances	89,245	(9,199)	(17,884)	(1,978)	60,184
Fund balance – beginning	402,109	120,711	74,654	43,773	641,247
Fund balance – ending	<u>\$ 491,354</u>	<u>111,512</u>	<u>56,770</u>	<u>41,795</u>	<u>701,431</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

Year ended June 30, 2003

Net change in fund balances – total governmental funds	\$ <u>60,184</u>
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 (\$145,934) exceeded depreciation expense (\$38,211).	107,723
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.	(40,589)
Proceeds of long-term debt (\$308,534) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond principal (\$269,843) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	(38,691)
Bond premiums net (\$11,776) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$1,616) are expenditures in the governmental funds, but are deferred assets in the statement of net assets. This is the amount by which premiums exceeded issuance costs.	(10,160)
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 judgments and claims (\$6,648), compensated absences (\$2,109) and interest payable (\$3,901) offset by a decrease in landfill liabilities (\$293).	(12,365)
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds.	<u>470</u>
Change in net assets of governmental activities	\$ <u><u>66,572</u></u>

See accompanying notes to basic financial statements.

**APPENDIX A**

**CITY OF BOSTON, MASSACHUSETTS**  
Statement of Revenues and Expenditures – Budgetary Basis  
General Fund – Budget and Actual

Year ended June 30, 2003  
(with comparative actual amounts for 2002)

(In thousands)

	<b>Original budget</b>	<b>2003 Final budget</b>	<b>Actual</b>	<b>Variance over (under)</b>	<b>2002 Actual</b>
Revenues and other available funds:					
Real and personal property taxes, net	\$ 995,453	995,453	996,030	577	926,336
Excises	103,006	103,006	118,405	15,399	112,304
Commonwealth of Massachusetts	521,737	521,737	498,217	(23,520)	541,456
Departmental and other revenue	46,722	46,722	54,720	7,998	62,193
Fines	61,497	61,497	58,985	(2,512)	60,659
Payments in lieu of taxes	34,123	34,123	40,910	6,787	36,332
Investment income	10,750	10,750	8,552	(2,198)	14,801
Licenses and permits	25,218	25,218	30,146	4,928	29,651
Other available funds	26,725	26,725	24,849	(1,876)	4,568
Total revenues and other available funds	<u>1,825,231</u>	<u>1,825,231</u>	<u>1,830,814</u>	<u>5,583</u>	<u>1,788,300</u>
Expenditures:					
General government	68,522	69,232	65,401	3,831	70,702
Human services	24,972	25,829	24,936	893	6,398
Public safety	404,730	403,916	408,849	(4,933)	405,150
Public works	82,542	82,542	86,599	(4,057)	74,833
Property and development	35,062	35,062	34,744	318	41,630
Parks and recreation	14,785	14,785	14,680	105	16,071
Library	28,008	28,008	27,726	282	28,813
Schools	650,026	650,618	650,600	18	639,710
Boston Public Health Commission	63,897	63,897	63,897	—	64,005
County	4,537	4,737	4,737	—	4,537
Judgments and claims	3,100	2,166	2,166	—	5,000
Other employee benefits	111,092	115,423	115,164	259	107,473
Retirement costs	139,325	139,325	139,325	—	135,710
State and district assessments	68,378	68,498	69,009	(511)	67,769
Debt requirements	126,255	121,193	121,184	9	115,332
Total expenditures	<u>1,825,231</u>	<u>1,825,231</u>	<u>1,829,017</u>	<u>(3,786)</u>	<u>1,783,133</u>
Excess of revenues and other available funds over expenditures	<u>\$ —</u>	<u>—</u>	<u>1,797</u>	<u>1,797</u>	<u>5,167</u>

See accompanying notes to basic financial statements.

**APPENDIX A**

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Net Assets – Proprietary Funds

June 30, 2003

(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
<b>Assets:</b>				
Current assets:				
Cash and investments	\$ 841	—	841	14,133
Cash and investments held by trustees	35,471	20,815	56,286	—
Receivables, net	1,140	—	1,140	279
Due from component units	—	122,869	122,869	—
Due from other funds	—	—	—	620
Other assets	1,493	1,867	3,360	240
Total current assets	<u>38,945</u>	<u>145,551</u>	<u>184,496</u>	<u>15,272</u>
Total assets	<u>38,945</u>	<u>145,551</u>	<u>184,496</u>	<u>15,272</u>
<b>Liabilities:</b>				
Current liabilities:				
Warrants and accounts payable	—	—	—	17
Accrued liabilities	935	2,192	3,127	7,325
Due to other funds	18,000	—	18,000	—
Current portion of long-term debt	2,310	7,385	9,695	—
Total current liabilities	<u>21,245</u>	<u>9,577</u>	<u>30,822</u>	<u>7,342</u>
Noncurrent liabilities:				
Special obligation bonds	112,480	—	112,480	—
Revenue bonds	—	123,776	123,776	—
Total noncurrent liabilities	<u>112,480</u>	<u>123,776</u>	<u>236,256</u>	<u>—</u>
Total liabilities	<u>133,725</u>	<u>133,353</u>	<u>267,078</u>	<u>7,342</u>
<b>Net assets:</b>				
Unrestricted	(94,780)	12,198	(82,582)	7,930
Total net assets	<u>\$ (94,780)</u>	<u>12,198</u>	<u>(82,582)</u>	<u>7,930</u>

See accompanying notes to basic financial statements.

**APPENDIX A**

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds

Year ended June 30, 2003

(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
Operating revenues:				
Contributions	\$ —	—	—	72,626
Excise taxes – pledged for debt service	23,348	—	23,348	—
Departmental and other – pledged for debt service	—	—	—	167
Total operating revenues	<u>23,348</u>	<u>—</u>	<u>23,348</u>	<u>72,793</u>
Operating expenses:				
Payments made on behalf of State Health benefits	33,845	—	33,845	—
	—	—	—	72,323
Total operating expenses	<u>33,845</u>	<u>—</u>	<u>33,845</u>	<u>72,323</u>
Operating (loss) income	<u>(10,497)</u>	<u>—</u>	<u>(10,497)</u>	<u>470</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	12,877	—	12,877	—
Investment earnings – pledged for debt service	—	7,725	7,725	—
Investment earnings – other	652	—	652	—
Interest expense	(6,941)	(8,881)	(15,822)	—
Total nonoperating revenue (expense)	<u>6,588</u>	<u>(1,156)</u>	<u>5,432</u>	<u>—</u>
Income before transfers	<u>(3,909)</u>	<u>(1,156)</u>	<u>(5,065)</u>	<u>470</u>
Transfer to general fund	<u>(18,000)</u>	<u>—</u>	<u>(18,000)</u>	<u>—</u>
Change in net assets	<u>(21,909)</u>	<u>(1,156)</u>	<u>(23,065)</u>	<u>470</u>
Total net assets – beginning	<u>(72,871)</u>	<u>13,354</u>	<u>(59,517)</u>	<u>7,460</u>
Total net assets – ending	<u>\$ (94,780)</u>	<u>12,198</u>	<u>(82,582)</u>	<u>7,930</u>

See accompanying notes to basic financial statements.

**APPENDIX A**

**CITY OF BOSTON, MASSACHUSETTS**  
Statement of Cash Flows – Proprietary Fund Types  
Year ended June 30, 2003  
(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
Cash flows from operating activities:				
Cash received from others	\$ 23,348	—	23,348	72,498
Other cash received	—	—	—	167
Cash paid to vendors	(466)	—	(466)	(70,584)
Cash payments on behalf of State	(33,379)	—	(33,379)	—
Net cash (used) provided in operations	(10,497)	—	(10,497)	2,081
Cash flows from noncapital financing activities:				
Grants received from state	14,337	—	14,337	—
Interest paid on debt	(6,213)	(6,689)	(12,902)	—
Lease receipts	—	6,234	6,234	—
Bond issue costs	—	(1,867)	(1,867)	—
Repayment of long-term debt	(2,100)	(9,934)	(12,034)	—
Net cash provided (used) by noncapital financing activities	6,024	(12,256)	(6,232)	—
Cash flows from investing activities:				
Investment income	652	7,725	8,377	—
Net cash provided by investing activities	652	7,725	8,377	—
(Decrease) increase in cash and cash equivalents	(3,821)	(4,531)	(8,352)	2,081
Cash and cash equivalents, beginning of year	40,133	25,346	65,479	12,052
Cash and cash equivalents, end of year	\$ 36,312	20,815	57,127	14,133

See accompanying notes to basic financial statements.

**APPENDIX A**

**CITY OF BOSTON, MASSACHUSETTS**  
Statement of Cash Flows – Proprietary Fund Types  
Year ended June 30, 2003  
(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
Reconciliation of operating income to cash provided by operating activities:				
Operating income (loss)	\$ (10,497)	—	(10,497)	470
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	—	—	—	(128)
Other assets	—	—	—	1,366
Due (to) from other funds	—	—	—	107
Accounts payable and accrued liabilities	—	—	—	266
Net cash (used) provided by operating activities	\$ (10,497)	—	(10,497)	2,081

See accompanying notes to basic financial statements.

## CITY OF BOSTON, MASSACHUSETTS

## Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2003

(In thousands)

	<b>Employee retirement plans</b>	<b>Private purpose trusts</b>	<b>Agency funds</b>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Assets:			
Cash and cash equivalents	\$ 4,795	75,168	2,802
Receivables:			
Interest and dividends	16,783	—	—
Securities sold	187,033	—	—
Other	78,815	1,063	—
Total receivables	<u>282,631</u>	<u>1,063</u>	<u>—</u>
Due from other funds	<u>14</u>	<u>—</u>	<u>—</u>
Investments, at fair value:			
Money market	768,719	—	—
MMDT	24,575	—	—
Short-term investments	159,038	—	—
Domestic equity securities	712,712	—	—
Domestic debt securities	315,598	—	—
International equity	288,072	—	—
International debt	105,414	—	—
Real estate	221,683	—	—
Venture capital funds	59,789	—	—
Total investments	<u>2,655,600</u>	<u>—</u>	<u>—</u>
Securities lending short-term collateral investment pool	190,801	—	—
Other assets	<u>—</u>	<u>30</u>	<u>—</u>
Total assets	<u>3,133,841</u>	<u>76,261</u>	<u>2,802</u>
Liabilities:			
Accounts payable	10,687	2,055	—
Securities purchased	259,449	—	—
Collateral held on securities lending	190,801	—	—
Refunds payable and other	<u>—</u>	<u>—</u>	<u>2,802</u>
Total liabilities	<u>460,937</u>	<u>2,055</u>	<u>2,802</u>
Net assets:			
Held in trust for pension benefits and other purposes	<u>\$ 2,672,904</u>	<u>74,206</u>	

See accompanying notes to basic financial statements.

## CITY OF BOSTON, MASSACHUSETTS

Statement of Changes in Fiduciary Net Assets –  
Fiduciary Funds

Year ended June 30, 2003

(In thousands)

	<u>Employee retirement plans</u>	<u>Private purpose trusts</u>
Additions:		
Contributions:		
Employers	\$ 156,214	—
Employees	99,713	—
Donations and other	—	817
Total contributions	<u>255,927</u>	<u>817</u>
Investment earnings:		
Net appreciation (depreciation) in the fair value of investments	(369,731)	18,907
Interest and dividends	75,610	472
Less investment expenses	(8,921)	—
Net investment (losses) earnings	<u>(303,042)</u>	<u>19,379</u>
Intergovernmental	24,315	—
Total (loss) additions	<u>(22,800)</u>	<u>20,196</u>
Deductions:		
Benefits	259,169	—
Reimbursement to other systems	7,819	—
Refunds of contributions	12,967	—
Borrower rebates and fees	3,020	—
Administrative expenses	2,268	18,945
Total deductions	<u>285,243</u>	<u>18,945</u>
Change in net assets	<u>(308,043)</u>	<u>1,251</u>
Net assets, beginning of year	<u>2,980,947</u>	<u>72,955</u>
Net assets, end of year	<u>\$ 2,672,904</u>	<u>74,206</u>

See accompanying notes to basic financial statements.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

**(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 thirteen elected members serving two-year terms.

The accompanying basic financial statements present the City of Boston 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) Blended Component Unit Disclosure**

The following component unit has been presented as a blended component unit (included in the primary government) because the component unit provides services almost exclusively to the primary government:

**State-Boston Retirement System (SBRS)** – The SBRS is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of 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 employees.

A complete set of financial statements for SBRS for the fiscal year ended December 31, 2002 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201.

**(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 basic 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.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

**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 on June 30, 2003.

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 of Boston, Massachusetts, conform to accounting principles generally accepted in the United States of America 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 fees and charges for support. Likewise, the *primary government* is reported

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

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 are 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. 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 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.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

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 the Governmental Accounting Standards Board. 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 charges to other funds for health insurance. 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 activities fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City capital facilities.

*Proprietary funds* – The City reports the following major proprietary funds:

The *convention center 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 Public Health Commission. 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.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

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

The *agency fund* is used to report funds held by the City in a purely custodial capacity.

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 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.

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.

(c) ***Cash Equivalents***

For purposes of the combined 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 the State-Boston Retirement System which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

(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, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

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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.

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

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30
Building improvements	20
Public domain infrastructure	30
System infrastructure	30
Machinery	10
Vehicles	3
Office equipment	3
Computer equipment	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, 2003 is related to the voluntary retirement incentive and is recorded in the governmental fund financial statements. The unamortized portion is presented in the government-wide statement of net assets. 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. 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

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Arbitrage Rebate** – Rebatable arbitrage earnings are calculated for the City by third parties and accounted for as a liability and a reduction of investment income in the general fund. At June 30, 2003, an accumulated arbitrage rebate liability of \$1.9 million was recorded in the general fund.

(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 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, 2003, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. The City has completed the covering of this site in accordance with applicable laws and regulations.

The liability for postclosure care is estimated based on current cost, which is the amount that would be paid if all equipment, facilities and services included in the estimate were acquired during the current period. 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 closure and postclosure care in fiscal 2003 were approximately \$293,000.

(m) ***Use of Estimates***

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America 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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

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(3) Short-Term debt

During fiscal year 2003, the City entered into a promissory note for \$25,000,000 for a period of twenty-seven days. The note had an interest rate of 1.5% and was used to pay off the February 1, 2001 Series A Bond anticipation note. The City’s short-term debt is as follows (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>
Promissory note	1.5%	—	25,000	25,000	—	—

(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 were no supplemental appropriations, other than the aforementioned transfers, for the fiscal year ended June 30, 2003.

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 1990. It is available to be applied to extraordinary and unforeseen expenditures. The second is a separate reserve fund of 1% to 2-1/2% of the current year appropriation of the School Department to be applied to overexpenditures 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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

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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 are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations which 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, 2003 (in thousands):

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>	<u>Excess of revenue and other financing sources</u>
As reported on a budgetary basis	\$ 1,830,814	1,829,017	—	1,797
Adjustments:				
Revenues to modified accrual basis	56,323	—	—	56,323
Expenditures, encumbrances and accruals, net	—	(31,125)	—	31,125
Reclassifications:				
Parking meter revenue and expenditures to a special revenue fund	(4,348)	(4,348)	—	—
State-funded teachers' retirement costs	(53,685)	(53,685)	—	—
Capital project fund revenue	(13,000)	—	13,000	—
Convention Center fund revenue	(18,000)	—	18,000	—
Trust fund revenue	(1,849)	—	1,849	—
Transfers	(1,788)	—	1,788	—
As reported on a GAAP basis	<u>\$ 1,794,467</u>	<u>1,739,859</u>	<u>34,637</u>	<u>89,245</u>

(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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

institution, may not exceed certain levels 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 Massachusetts Municipal Depository Trust (MMDT). 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's pension and certain other trust funds have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

(a) *Deposits*

The City categorized deposits according to the level of risk assumed. Category 1 includes deposits which are fully insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes those deposits that are not collateralized. The City's deposits at June 30, 2003 are as follows (in thousands):

	<b>1</b>	<b>Category 2</b>	<b>3</b>	<b>Total bank balance</b>	<b>Carrying amount</b>
Total cash deposits	\$ 1,516	—	113,403	114,919	94,422

Outstanding checks largely account for the difference between the bank balance and the carrying amount of deposits.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

**(b) Investments**

The City and SBRS categorize investments according to the level of risk assumed. Category 1 includes investments that are insured, registered or held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or agent but not in the entity's name. MMDT, other mutual funds, pooled funds, venture capital funds and real estate investments are not categorized. The City's investments are as follows (in thousands):

<b>Primary government June 30, 2003</b>	<b>Category</b>			<b>Fair value</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
Categorized:				
U.S. Government obligations	\$ —	1,237	—	1,237
Debt securities	—	16,869	—	16,869
Equity securities	—	11,784	25,908	37,692
	<u>\$ —</u>	<u>29,890</u>	<u>25,908</u>	<u>55,798</u>
Not categorized:				
Repurchase agreements				528,435
MMDT				139,548
Mutual funds				41,301
				<u>\$ 820,880</u>

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

SBRS – December 31, 2002	Category			Fair value
	1	2	3	
Categorized:				
Investments:				
Short-term investments	\$ 159,038	—	—	159,038
Domestic equity securities	692,311	—	—	692,311
Domestic debt securities	200,608	—	—	200,608
International equity	226,418	—	—	226,418
International debt	105,414	—	—	105,414
Securities on loan with noncash collateral:				
Domestic debt securities	5,238	—	—	5,238
International equity	7,639	—	—	7,639
	<u>\$ 1,396,666</u>	<u>—</u>	<u>—</u>	<u>1,396,666</u>
Not categorized:				
Securities on loan with short-term collateral investment pool (cash):				
Domestic debt securities				109,752
Domestic equity securities				20,401
International equity				54,015
Securities lending short-term collateral investment pool				
				190,801
Investments:				
MMDT				24,575
Pooled funds				768,719
Real estate				221,683
Venture capital funds				59,789
				<u>\$ 2,846,401</u>

The composition of the City's bank deposits and investments fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collection of state and federal aid and capital outlays throughout the year.

**(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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

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 November 14, all properties with unpaid fiscal 2001 property taxes were liened. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

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 City-wide 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):

	<u>General</u>	<u>Special revenue</u>	<u>Other non-major funds</u>	<u>Internal service</u>	<u>Total</u>
Receivables:					
Property taxes	\$ 41,175	—	—	—	41,175
Other taxes	141,188	—	—	—	141,188
Intergovernmental	85,292	83,769	—	—	169,061
Other	37,962	165	164	279	38,570
Gross receivables	305,617	83,934	164	279	389,994
Less allowance for uncollectibles	(164,528)	—	—	—	(164,528)
Net total receivables	<u>\$ 141,089</u>	<u>83,934</u>	<u>164</u>	<u>279</u>	<u>225,466</u>

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>
Delinquent property taxes receivable (general fund)	\$ 36,102	—
Due from component units	—	15,361
Other	—	6,489
Total deferred/unearned revenue for governmental funds	<u>\$ 36,102</u>	<u>21,850</u>

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

## (8) Capital Assets

Capital asset activity for the year ended June 30, 2003 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	\$ 14,466	—	—	14,466
Construction in progress	401,295	141,866	69,409	473,752
Total capital assets not being depreciated	<u>415,761</u>	<u>141,866</u>	<u>69,409</u>	<u>488,218</u>
Capital assets being depreciated:				
Land improvements	15,507	1,190	—	16,697
Buildings and improvements	939,198	45,622	—	984,820
Furniture and equipment	117,192	25,157	—	142,349
Infrastructure	242,383	1,508	—	243,891
Total capital assets being depreciated	<u>1,314,280</u>	<u>73,477</u>	<u>—</u>	<u>1,387,757</u>
Less accumulated depreciation for:				
Land improvements	3,191	3,807	—	6,998
Buildings and improvements	765,280	18,462	—	783,742
Furniture and equipment	99,943	9,191	—	109,134
Infrastructure	79,685	6,751	—	86,436
Total accumulated depreciation	<u>948,099</u>	<u>38,211</u>	<u>—</u>	<u>986,310</u>
Total capital assets being depreciated, net	<u>366,181</u>	<u>35,266</u>	<u>—</u>	<u>401,447</u>
Governmental activities capital assets, net	<u>\$ 781,942</u>	<u>177,132</u>	<u>69,409</u>	<u>889,665</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
General government	\$	8,911
Human services		492
Public safety		6,175
Public works, including depreciation of general infrastructure assets		8,722
Property and development		350
Parks and recreation		4,455
Library		1,037
Schools		7,915
County		154
Total depreciation expense – governmental activities	\$	<u>38,211</u>

(9) **Interfund Receivable and Payable Balances**

Individual fund and discrete component unit receivable and payable balances at June 30, 2003, are as follows (in thousands):

Interfund balances	Receivable	Payable
General	\$ 18,000	1,765
Special revenue	1,044	—
Capital projects	101	—
Convention Center	—	18,000
Internal service	620	—
Balance at June 30, 2003	<u>19,765</u>	<u>19,765</u>
SBRS at December 31, 2002	<u>14</u>	<u>—</u>
Balances in accompanying basic financial statements	\$ <u>19,779</u>	<u>19,765</u>

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

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

<b>Discrete component unit balances</b>	<b>Receivable</b>	<b>Payable</b>
Primary government:		
General	\$ 15,679	—
Hospital revenue bond	122,869	—
	138,548	—
Discretely presented component units:		
TPL	—	97
PHC	—	138,451
	—	138,548
Balances in accompanying basic financial statements	\$ 138,548	138,548

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

## (10) Long-Term Obligations

## (a) Governmental Activity Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2003 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds and notes payable:						
General obligation refunding bonds dated 2/1/03	2.25-5.0%	\$ —	162,015	—	162,015	6,865
General obligation refunding bonds dated 11/15/02	4.00%-5.0%	—	43,070	—	43,070	14,270
General obligation refunding bonds dated 8/15/02	2.875-5.0%	—	48,640	580	48,060	265
General obligation bonds dated 2/1/02	3.00-5.0%	100,000	—	6,090	93,910	6,090
General obligation refunding bonds dated 4/11/01	3.50-5.0%	52,025	—	500	51,525	4,215
General obligation bonds dated 2/1/01	4.25-5.0%	111,640	—	8,360	103,280	8,360
General obligation bonds dated 2/1/00	5.0-5.75%	100,320	—	46,325	53,995	9,840
General obligation bonds dated 10/15/98	3.25-5.0%	96,870	—	7,710	89,160	7,710
General obligation refunding bonds dated 4/15/98	4.5-5.25%	56,810	—	1,385	55,425	4,610
General obligation bonds dated 1/15/98	4.5%	59,615	—	7,595	52,020	4,625
General obligation bonds dated 11/15/96	5.0%	54,000	—	13,700	40,300	5,400
General obligation bonds dated 10/15/95	5.0-5.25%	19,900	—	3,100	16,800	3,100
General obligation bonds dated 9/1/94	5.0-6.0%	19,210	—	4,530	14,680	4,780
General obligation refunding bonds dated 2/1/94	4.0-5.0%	55,555	—	5,920	49,635	5,800
General obligation bonds dated 9/1/93	4.0-4.875%	35,565	—	35,565	—	—
General obligation refunding bonds dated 2/1/93	3.0-5.65%	60,760	—	60,760	—	—
General obligation bonds dated 2/15/92	4.75-6.5%	3,195	—	3,195	—	—
General obligation refunding bonds dated 5/15/91	6.5%-6.6%	4,000	—	4,000	—	—
Total governmental obligation bonds payable		\$ 829,465	253,725	209,315	873,875	85,930
Less:						
					12,984	
					(7,485)	
					(85,930)	
					\$ 793,444	

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

**(b) Notes Payable and Other Long-Term Obligations**

Following is a summary of the notes payable and other long-term obligations of the City as of June 30, 2003 (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>
Notes payable:						
MWPAT note payable	4.25-5.75%	\$ 9,311	—	444	8,867	449
Notes payable – SEC 108	5.44-7.18%	30,968	4,094	2,340	32,722	1,450
Bond Anticipation Notes dated 2/1/02	3.5%	62,000	—	—	62,000	—
Bond Anticipation Notes dated 2/1/01	4.0%	25,000	—	25,000	—	—
Bonds Anticipation Notes dated 2/1/03	2.125%	—	34,000	—	34,000	—
Total notes payable		<u>127,279</u>	<u>38,094</u>	<u>27,784</u>	<u>137,589</u>	<u>1,899</u>
Other long-term obligations:						
Leases		26,036	16,715	25,259	17,492	7,660
Judgments and claims		32,450	19,585	21,419	30,616	6,648
Compensated absences, net		169,177	—	7,632	161,545	45,724
Landfill postclosure care costs		14,871	—	293	14,578	—
Total other long-term obligations		<u>242,534</u>	<u>36,300</u>	<u>54,603</u>	<u>224,231</u>	<u>60,032</u>
Total notes and other long-term obligation		<u>\$ 369,813</u>	<u>74,394</u>	<u>82,387</u>	<u>361,820</u>	<u>61,931</u>

The payment of liabilities for judgments and claims, compensated absences and landfill postclosure costs is primarily the responsibility of the City's general fund.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

(c) *Business Type Activity Obligations*

Following is a summary of the business type long-term obligations of the City as of June 30, 2003 (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>
Convention Center fund:						
Special Obligation Bonds dated 4/1/02	4.0-5.25%	\$ 116,890	—	2,100	114,790	2,310
Hospital Bond fund:						
Revenue Refunding Bonds, Boston City Hospital, Series B, dated 6/1/93	3.60-5.25%	141,095	—	141,095	—	—
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.00-5.00%	—	127,800	—	127,800	7,385
Total business type obligations		<u>\$ 257,985</u>	<u>127,800</u>	<u>143,195</u>	242,590	<u>9,695</u>
Less:						
Unamortized bond premiums					3,871	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(510)	
Current portion of long-term debt					<u>(9,695)</u>	
					<u>\$ 236,256</u>	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

**A. General Obligation Bonds**

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2003, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 85,930	39,923	125,853
2005	81,410	35,729	117,139
2006	68,950	32,197	101,147
2007	68,180	29,148	97,328
2008	62,470	26,193	88,663
2009-2013	240,285	90,633	330,918
2014-2018	186,125	38,257	224,382
2019-2023	80,525	8,721	89,246
	<u>\$ 873,875</u>	<u>300,801</u>	<u>1,174,676</u>

General obligation bonds are backed by the full faith and credit of the City. The Commonwealth has approved school construction assistance, subject to annual appropriation by the state legislature and reports filed with the Commonwealth by the City, to partially provide resources for future principal and interest requirements on general obligation school bonds of the City. As of June 30, 2003, such resources expected to be provided to the City total approximately \$200,405,118 from the Commonwealth.

On February 1, 2003, the City issued \$162,015,000 of general obligation bonds and refunding bonds. The bonds were issued for municipal purposes, to finance the acquisition price of the building located at 1010 Massachusetts Avenue and to permanently finance the City's \$25,000,000 bond anticipation notes, 2003 Series A. In addition, \$29,470,000 of the proceeds of the bonds were issued to advance refund \$33,375,000 worth of certain of the City's general obligation bonds. Interest on the bonds is payable semiannually on each February 1 and August 1, until maturity in fiscal 2023. The economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding was \$1,163,995.

On November 15, 2002, the City issued \$43,070,000 of general obligation refunding bonds for the purpose of current refunding of certain outstanding general obligation bonds of the City. The proceeds were used to refund \$45,095 of the City's General Obligation bonds outstanding. Interest on the bonds is payable semiannually each February 1 and August 1, until maturity in fiscal 2009. The economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding was \$2,546,974.

On August 15, 2002, the City issued \$48,640,000 of general obligation refunding bonds to advance refund certain outstanding general obligation bonds. The proceeds were used to refund \$44,785,000 of certain City General Obligation bonds. Interest on the bond is payable semiannually each February 1 and August 1, until maturity in fiscal 2020. The economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding was \$2,073,958.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

***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 a charge against its general credit. This aggregate amount is immaterial to the financial statements.

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 2-1/2% and 5%, 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 Emergency Finance Board. 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, 2003, the City may issue \$766.7 million of additional general obligation debt under the debt limit. General obligation debt of \$388.3 million, subject to the debt limit, and \$169.1 million, exempt from the debt limit, is authorized but unissued as of June 30, 2003

**B. Notes Payable and Other Long-Term Obligations**

At June 30, 2003 the City had bond anticipation notes (BANs) and various other notes outstanding totaling \$137,589. The City has the intent and ability to refinance the BANs with bond proceeds upon maturity and therefore these amounts are classified as long term in the accompanying statement of net assets.

The annual debt of the City's notes payable as of June 30, 2003, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 1,899	4,529	6,428
2005	2,030	4,896	6,926
2006	98,221	4,277	102,498
2007	2,325	1,655	3,980
2008	3,829	1,533	5,362
2009-2013	14,821	5,565	20,386
2014-2018	11,422	2,377	13,799
2019-2023	3,042	508	3,550
	<u>\$ 137,589</u>	<u>25,340</u>	<u>162,929</u>

On February 1, 2003, the City issued \$34,000,000 in BANs to fund various school projects. The City will pay interest of approximately \$2,167,500 through fiscal 2006. The City is expected to issue general obligation bonds to refund the BANs; accordingly, they have been classified as long-term obligations.

On February 1, 2003, general obligation bond anticipation notes were issued in the amount of \$25,000,000 and matured on February 26, 2003. The interest rate of 1.50% was payable at date of maturity.

As of June 30, 2002, the City has a permanent loan agreement with the Massachusetts Water Pollution Abatement Trust (MWPAT) for \$13.4 million. The loan provides funding for the closure and postclosure

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

care costs relating to the City’s Gardner Street Landfill. Proceeds are received on a reimbursement basis from MWPAT as expenditures are incurred by the City.

**C. Proprietary Fund Obligations**

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, 2003 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 9,695	10,795	20,490
2005	8,905	10,514	19,419
2006	9,220	10,188	19,408
2007	9,565	9,843	19,408
2008	9,920	9,451	19,371
2009-2013	56,295	40,488	96,783
2014-2018	69,510	26,895	96,405
2019-2023	40,155	12,161	52,316
2024-2028	29,325	3,755	33,080
	<u>\$ 242,590</u>	<u>134,090</u>	<u>376,680</u>

On August 1, 2002, the City issued special obligation bonds in the amount of \$127,800,000 for the purpose of refinancing Revenue Refunding Bonds, Boston City Hospital, Series B, dated June 1, 1993. Interest on the note is payable semiannually on each February 1 and August 1, until maturity in fiscal 2019. The economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding was \$11,492,111.

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 the Boston Public Health Commission. The Boston Public Health Commission expects to meet its obligation on the bonds through application of a portion of the rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation (BMC) for its lease of the former Boston City Hospital. 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 Boston Public Health Commission has assumed responsibility for paying to the City an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes which amounted to \$15.3 million at June 30, 2003.

***Defeased Debt – Prior Year***

The following prior year transactions met the requirements of an in-substance defeasance:

- On April 11, 2001, the City issued \$52.0 million in general obligation refunding bonds to advance refund \$49.9 million of 1991, 1994, and 1995 Series Bonds.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

- On May 12, 1998, the City issued \$77.9 million in general obligation bonds, dated April 15, 1998, of which \$62.9 million was used to advance refund \$58.0 million of 1989, 1990, 1992 and 1994 Series Bonds.
- In August 2002, \$127.8 million of bonds were issued to refund the Boston City Hospital, Series B Bonds dated June 1, 1993.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2003 was approximately \$243 million.

**D. Lease Obligations**

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. Activity in capital lease agreements during fiscal year 2003 was as follows (in thousands):

<u>Date of issuance</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>
December 17, 1996	\$ 60	—	60	—
November 10, 1997	166	—	166	—
June 25, 1998	1,441	—	1,441	—
August 25, 1998	2,258	—	2,258	—
March 18, 1999	683	—	683	—
October 1, 1999	3,109	—	3,109	—
January 25, 2000	2,641	—	2,641	—
November 21, 2000	7,649	—	7,649	—
May 21, 2001	390	—	209	181
October 31, 2001	6,014	—	1,980	4,034
June 5, 2002	1,625	—	457	1,168
December 20, 2002	—	16,715	4,606	12,109
	<u>\$ 26,036</u>	<u>16,715</u>	<u>25,259</u>	<u>17,492</u>

Assets acquired under capital leases are included in equipment under capital assets.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

Future minimum payments under capital leases and installment sales as of June 30, 2003 are as follows (in thousands):

2004	\$	8,086
2005		5,373
2006		2,592
2007		1,863
2008		372
2009		52
		<hr/>
Total minimum lease payments		18,338
Less amount representing interest		(846)
		<hr/>
Total minimum principal lease payments		17,492
Less current portion		(7,660)
		<hr/>
Long-term portion	\$	<u>9,832</u>

The City's commitment under operating leases is not significant.

**(11) Retirement Plans**

**(a) Plan Description**

The City contributes to the State-Boston Retirement System (the System), 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 & Sewer Commission
- (5) Public Health Commission
- (6) Sheriff of Suffolk County

Chapter 32 of the Massachusetts General Laws (MGL) 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.

The City also participates in the Boston Retirement System (BRS) and made benefit payments of approximately \$7.2 million for the year ended June 30, 2003. The number of BRS plan participants was frozen in 1946. The financial statements of BRS are combined with the System's; however, disclosures for BRS are not material and, thus, are not presented separately.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

(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. 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:

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

(c) *Membership*

Membership in the System consisted of the following at December 31, 2002, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,400
Terminated plan members entitled to but not receiving benefits	3,560
Active plan members	21,695
Total membership	<u>38,655</u>
Total number of participating employers	<u>6</u>

(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 Commonwealth of Massachusetts (the Commonwealth) reimburses the City for benefits paid to school teachers. The Commonwealth also reimbursed the System for a portion of benefit payments for cost of living increases granted before July 1, 1998. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's required and actual contributions to the System for the years ended June 30, 2003, 2002 and 2001 were \$134 million, \$130 million, and \$127 million, or \$86 million, \$85 million, and \$88 million, net of teachers' retirement, respectively.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

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 in fiscal 2002 and fiscal 2001. 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 balances in the System’s legally required reserves (on the statutory basis of accounting) at December 31, 2002 are as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,030,848	Active members’ contribution balance
Annuity reserve fund	302,904	Retired members’ contribution account
Military service credit	60	Members’ contribution account while on military leave
Pension reserve fund	544,253	Amounts appropriated to fund future retirement benefits
Pension fund	<u>794,812</u>	Remaining net assets
	<u>\$ 2,672,877</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 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 United States and foreign currency), United States 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 years ended December 31, 2002 and 2001. 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, 2002 and 2001,

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian during the years ended December 31, 2002 and 2001 were \$3,020,000 and \$8,445,000, respectively.

At December 31, 2002 and 2001, the fair value of securities loaned by the System amounted to \$197,045,000 and \$173,469,000, respectively, against which was held collateral of \$204,232,000 and \$180,010,000, respectively, as follows (in thousands):

	<b>December 31</b>	
	<b>2002</b>	<b>2001</b>
Short-term collateral investment pool	\$ 190,801	174,424
Noncash collateral	13,431	5,586
Total	\$ 204,232	180,010

**(g) Commitments**

At December 31, 2002, the System had contractual commitments to provide \$141,876,000 of additional funding to venture capital funds.

**(12) Other Postemployment Benefit Disclosures**

In addition to the pension benefits described in note 11, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to eligible retirees. Approximately 12,600 retirees meet the eligibility requirements as put forth in Chapter 32B of Massachusetts General Laws. The City pays 75% of Blue Cross/Blue Shield of Massachusetts (BC/BS) premiums and 90% of HMO premiums for medical and hospitalization incurred by retirees and their dependents. The City also pays 75% of BC/BS Medicare premiums for each Medicare eligible retiree. The City provides for 50% of the premiums for \$5,000 of life insurance for each eligible retiree.

Expenditures of approximately \$52.3 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal 2003.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

**(13) Transfers**

Transfers and their purposes during the year ended June 30, 2003 were as follows (in thousands):

	Governmental funds			Proprietary fund
	General	Capital	Other governmental funds	Convention center
Primary government:				
Support for parks development \$	1,849	—	(1,849)	—
Surplus property	13,000	(13,000)	—	—
Hotel/motel taxes	18,000	—	—	(18,000)
Available funds	1,788	(1,788)	—	—
	<u>\$ 34,637</u>	<u>(14,788)</u>	<u>(1,849)</u>	<u>(18,000)</u>

**(14) Excess of Expenditures over Budgets**

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2003 in the following categories (in thousands):

Public safety:	
Fire Department	\$ 6,832
Public works:	
Snow removal	5,434
Property and development:	
Property management	196
State and district assessments	511
	<u>\$ 12,973</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, a component unit, were abolished. Substantially all their assets and liabilities, including title to the City's two hospitals, Boston City Hospital (BCH) and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by the Boston Public Health Commission (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 Boston Medical Center Corporation (BMC).

The PHC receives the majority of its funding from federal and state grants, lease agreements with BMC and a City appropriation. During fiscal 2003, the City appropriated \$63.9 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$58.9 million for the PHC for fiscal 2004.

*Due from PHC/BMC*

On July 1, 1996, the PHC assumed a liability of \$149.8 million for a mortgage note (the Note) held by a trustee and insured by the Federal Housing Authority (FHA). The balance of the Note due to the City of \$129.1 million at June 30, 2002 was refinanced in August 2002. This refinancing resulted in a new note payable to the City for \$127.8 million. Payments made by the PHC to the trustee on this Note are used to pay the outstanding balance of \$122.9 million of the City's Special Obligation Refunding Bonds dated August 1, 2002. The PHC receives funding for these 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 Note and on all City general obligation bonds allocable to BCH. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$15.3 million at June 30, 2003. 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*

Under the terms of the consolidation agreement, the PHC is obligated to pay BMC \$1.0 million per year for five (5) years, beginning on July 1, 1996, to subsidize the costs of consolidation. If after 5 years, total consolidation costs total less than \$10.0 million, the PHC is entitled to a rebate in an amount that will bring the PHC's share of these costs to 50%. The fiscal year 2001 payment to BMC represented the final payment under the terms of the consolidation agreement, and it is expected BMC will provide documentation of the consolidated costs in fulfillment of the consolidation agreement.

PHC is obligated to make future base assistance grant payments to BMC totaling \$10.8 million each year until the Note has been paid off (scheduled in 2019).

In addition, during fiscal 1997, the City made \$20.0 million in contributions to a capital fund in support of the Boston HealthNet health center members. The BMC is expected to provide \$2.0 million in each of the six (6) years following the consolidation in additional support to the Boston HealthNet health center members.

**(16) Risk Management**

The City is self insured for general liability, property and casualty (except for boiler and machinery losses up to \$2.5 million), worker injury, unemployment and certain employee health claims. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations, with exposure limited by a state tort cap under Chapter 258 of the Massachusetts General Laws. Except for certain health care costs described below, judgments and claims are charged to the general fund.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2003

The City's health insurance program, administered by the Health Insurance and Benefits Division, a program within Human Resources, provides coverage to the City's employees and retirees through a number of Health Maintenance Organizations (HMO) and Blue Cross/Blue Shield of Massachusetts (BC/BS). Costs to the City for the HMOs, of which 10% is paid by employees, are accounted for in the general fund and are capped at a defined premium payment per employee.

BC/BS acts as a third-party agent for the City in the payment of the various claim plans used by the City. Costs incurred for the operation of the BC/BS plans, of which 25% is paid by employees, are accounted for in a separate health insurance internal service fund.

The City has implemented a comprehensive risk financing strategy that includes establishing a catastrophic risk reserve, currently with a \$6.8 million balance available for future losses. The City has also improved systems for maximizing the receipt of federal disaster funds. On July 1, 2002, the City's property insurance policy went into effect – a one-year, all-risk catastrophic policy covering all City property assets up to \$30 million, after a \$20 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$2.5 million.

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, 2003 and 2002 are as follows (in thousands):

	<b>Internal service fund</b>	
	<b>2003</b>	<b>2002</b>
Health and life claims, beginning of year	\$ 7,051	10,000
Incurred claims	72,597	61,818
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(72,323)	(64,767)
Health and life claims, end of year	<u>\$ 7,325</u>	<u>7,051</u>
	<b>Government-wide statements</b>	
	<b>2003</b>	<b>2002</b>
Judgments and claims, beginning of year	\$ 32,450	22,450
Incurred claims	19,585	36,041
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(14,898)	(13,756)
Unemployment compensation	(4,355)	(2,285)
Court judgments	(2,166)	(10,000)
Judgments and claims, end of year	<u>\$ 30,616</u>	<u>32,450</u>

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.

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

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 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 Statement of Net Assets					
June 30, 2003					
(In thousands)					
	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
<b>Assets:</b>					
Cash and investments	\$ 56,201	39,859	51,489	13,582	161,131
Cash and investments held by trustee	—	1,082	—	3,819	4,901
Receivables, net:					
Other	7,697	81,183	1,693	19,294	109,867
Other assets	125,503	34,079	3,501	1,232	164,315
Capital assets:					
Nondepreciable	13,734	3,476	150	1,420	18,780
Depreciable	8,843	1,597	1,193	26,201	37,834
Due from BMC	10,523	—	—	—	10,523
<b>Total assets</b>	<b>\$ 222,501</b>	<b>161,276</b>	<b>58,026</b>	<b>65,548</b>	<b>507,351</b>
<b>Liabilities:</b>					
Warrants and accounts payable	\$ 10,163	94,661	3,545	5,181	113,550
Accrued liabilities:					
Other	387	—	371	2,149	2,907
Due to BMC	36,178	—	—	—	36,178
Due to primary government	138,451	—	97	—	138,548
Deferred revenue	4,573	35,439	—	9,015	49,027
Noncurrent liabilities:					
Due within one year	—	—	—	3,695	3,695
Due in more than one year	—	1,950	—	16,433	18,383
Other	3,108	19,424	—	1,039	23,571
<b>Total liabilities</b>	<b>\$ 192,860</b>	<b>151,474</b>	<b>4,013</b>	<b>37,512</b>	<b>385,859</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	\$ 17,303	3,598	1,344	10,714	32,959
Restricted	—	1,082	47,631	10,383	59,096
Unrestricted	12,338	5,122	5,038	6,939	29,437
<b>Total net assets</b>	<b>\$ 29,641</b>	<b>9,802</b>	<b>54,013</b>	<b>28,036</b>	<b>121,492</b>

## CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

## Condensed Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2003

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Operating revenues	\$ 56,627	34,627	10,861	34,143	136,258
City appropriation	<u>63,897</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>63,897</u>
Total revenues	120,524	34,627	10,861	34,143	200,155
Operating expenses	<u>97,175</u>	<u>35,702</u>	<u>13,369</u>	<u>32,527</u>	<u>178,773</u>
Excess of revenues over (under) expenses	23,349	(1,075)	(2,508)	1,616	21,382
Nonoperating revenue	319	752	—	—	1,071
Nonoperating expenses	(12,000)	(752)	—	—	(12,752)
Interest expense	(7,441)	—	—	(887)	(8,328)
Interest income	<u>494</u>	<u>115</u>	<u>35</u>	<u>1,073</u>	<u>1,717</u>
Net change in net assets	4,721	(960)	(2,473)	1,802	3,090
Net assets, beginning of year	<u>24,920</u>	<u>10,762</u>	<u>56,486</u>	<u>26,234</u>	<u>118,402</u>
Net assets, end of year	<u>\$ 29,641</u>	<u>9,802</u>	<u>54,013</u>	<u>28,036</u>	<u>121,492</u>

**CITY OF BOSTON, MASSACHUSETTS**

State-Boston Retirement System

Required Supplementary Information  
(Unaudited)

(Dollar amounts in thousands)

**Schedule of Funding Progress**

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)
01/01/03	\$ 3,204,893	5,121,319	1,916,426	62.6%	\$ 1,099,779	174.3%
01/01/02	3,376,000	4,861,000	1,485,000	69.5%	1,057,000	140.5%
01/01/01	3,212,000	4,257,000	1,045,000	75.5%	990,000	105.6%

**Schedule of Employers' Contributions**

Year ended December 31:	Annual required contribution	Percentage contributed
2002	\$ 152,882	100%
2001	146,882	100
2000	145,541	100

**Notes to Schedules**

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2003
Actuarial cost method	Individual entry age normal
Amortization method	Payment increase at 4.5% per year
Remaining amortization period	21 years from July 1, 2002
Asset valuation method	Five-year smoothing of investment returns greater (less) than expected
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Inflation rate	5.0%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income

## **APPENDIX B**

### **Schedules of Comparative Financial Statements for Fiscal Years 2003 - 1999**

The following schedules of Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Fund Equity for the fiscal years ended June 30, 2003, 2002, 2001, 2000 and 1999 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**  
**June 30, 2003, 2002, 2001, 2000 and 1999**  
(in thousands)

	<u>2003</u>	<u>2002</u> <sup>(1)</sup>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>ASSETS</b>					
Cash and investments.....	\$ 529,315	\$ 482,419	\$ 415,294	\$ 318,677	\$ 311,064
Cash and investments held by trustee.....	-	16,008	16,280	16,280	16,280
Receivables :					
Property taxes.....	41,175	37,555	78,421	80,366	94,099
Motor vehicle excise.....	58,263	56,456	9,498	8,674	6,844
Intergovernmental.....	79,528	78,215	70,253	50,119	39,000
Departmental and other.....	43,726	34,849	2,621	2,033	8,991
Tax title and possession.....	82,925	86,241	-	-	-
Total receivables.....	<u>305,617</u>	<u>293,316</u>	<u>160,793</u>	<u>141,192</u>	<u>148,934</u>
Allowance:					
Tax title and possession.....	(82,925)	(86,241)	-	-	-
Motor vehicle excise.....	(58,263)	(56,456)	-	-	-
Other.....	(23,340)	(23,233)	-	-	-
Total allowances.....	<u>(164,528)</u>	<u>(165,930)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net receivable.....	141,089	127,386			
Due from other funds.....	18,000	-	60,628	86,536	66,931
Due from component units.....	15,679	19,250	157,200	163,859	171,642
Total assets.....	<u>\$ 704,083</u>	<u>\$ 645,063</u>	<u>\$ 810,195</u>	<u>\$ 726,544</u>	<u>\$ 714,851</u>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 33,603	\$ 41,940	\$ 107,471	\$ 94,984	\$ 84,037
Accrued liabilities:					
Tax abatement refunds.....	-	25,022	90,600	89,555	98,000
Judgements and claims.....	-	10,000	-	-	-
Compensated absences.....	10,259	20,000	17,000	-	-
Payroll and related costs <sup>(2)</sup> .....	104,670	81,454	-	-	-
Other.....	4,174	5,045	69,660	62,845	81,575
Due to other funds.....	1,765	727	4,420	11,508	9,987
Due to component units.....	-	108	-	-	-
Matured interest and bonds payable.....	306	421	438	457	458
Deferred revenue.....	57,952	58,237	254,146	246,495	264,135
Total liabilities.....	<u>\$ 212,729</u>	<u>\$ 242,954</u>	<u>\$ 543,735</u>	<u>\$ 505,844</u>	<u>\$ 538,192</u>
<b>FUND BALANCES AND OTHER CREDITS</b>					
Reserved for:					
Encumbrances.....	20,787	20,262	38,169	41,157	33,880
Debt Service.....	-	-	16,280	16,280	16,280
Unreserved:					
Designated for subsequent year expenditures....	139,028	36,000	30,000	-	-
Undesignated.....	331,539	345,847	182,011	163,263	126,499
Total fund balance.....	<u>491,354</u>	<u>402,109</u>	<u>266,460</u>	<u>220,700</u>	<u>176,659</u>
Total liabilities and fund balance....	<u>\$ 704,083</u>	<u>\$ 645,063</u>	<u>\$ 810,195</u>	<u>\$ 726,544</u>	<u>\$ 714,851</u>

<sup>(1)</sup> Due to the implementation of GASB Statement No.34, and beginning in fiscal year 2002, the City started reporting allowances for estimated uncollectible amounts.

<sup>(2)</sup> Prior to fiscal year 2002, the City included "Payroll and related costs" in the "Accrued liabilities: Other" category.

City of Boston

General Fund

Statement of Revenues, Expenditures, Other Financing  
Sources (Uses) and Changes in Fund Balance  
Fiscal Years Ending June 30, 2003, 2002, 2001, 2000 and 1999  
Partially Restated for Comparative Purposes  
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>REVENUES:</b>					
Local:					
Real and personal property taxes, net.....	\$ 1,053,945	\$ 990,848	\$ 874,868	\$ 869,295	\$ 792,569
Excises.....	94,133	111,114	72,645	68,656	68,238
Payments in lieu of taxes.....	40,910	36,332	72,720	56,423	63,022
Fines.....	59,187	60,601	57,840	57,709	47,693
Investment income.....	8,951	14,596	26,289	19,255	17,884
Licenses and permits.....	30,217	33,325	36,795	28,892	24,010
Departmental and other revenue.....	62,373	62,200	58,306	45,490	56,415
Total local revenues.....	<u>1,349,716</u>	<u>1,309,016</u>	<u>1,199,463</u>	<u>1,145,720</u>	<u>1,069,831</u>
Intergovernmental:					
Intergovernmental.....	444,751	492,299	493,278	475,813	456,958
Total intergovernmental revenues.....	<u>444,751</u>	<u>492,299</u>	<u>493,278</u>	<u>475,813</u>	<u>456,958</u>
Total revenues.....	<u>1,794,467</u>	<u>1,801,315</u>	<u>1,692,741</u>	<u>1,621,533</u>	<u>1,526,789</u>
<b>EXPENDITURES:</b>					
Current:					
General government.....	53,343	77,019	67,913	65,132	54,283
Human services.....	24,738	6,434	5,464	4,916	4,969
Public safety.....	394,692	405,844	373,362	358,855	353,118
Public works.....	86,819	74,651	77,241	69,689	70,019
Property and development.....	29,260	48,774	41,300	35,230	31,805
Parks and recreation.....	14,622	16,230	15,547	13,700	13,216
Library.....	27,715	28,695	30,360	27,792	27,441
Schools.....	654,958	627,653	611,368	578,583	537,585
Public Health Programs <sup>(1)</sup> .....	63,897	64,537	-	-	-
County.....	4,539	4,537	6,030	5,861	7,362
Judgments and claims.....	2,880	2,724	5,011	6,911	7,585
Other employee benefits.....	114,512	107,701	90,501	86,221	84,493
Retirement costs.....	74,720	82,034	84,970	96,019	83,341
State and district assessments.....	69,009	67,769	66,788	66,995	65,569
Debt Service.....	121,184	115,366	123,977	114,486	111,683
Capital outlays.....	2,971	5,177	4,057	5,868	7,081
Total expenditures.....	<u>1,739,859</u>	<u>1,735,145</u>	<u>1,603,889</u>	<u>1,536,258</u>	<u>1,459,550</u>
Excess of revenues over expenditures.....	<u>54,608</u>	<u>66,170</u>	<u>88,852</u>	<u>85,275</u>	<u>67,239</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in.....	34,637	1,778	19,384	19,662	20,916
Transfers out.....	-	-	(62,476)	(60,896)	(54,340)
Total other financing uses, net.....	<u>34,637</u>	<u>1,778</u>	<u>(43,092)</u>	<u>(41,234)</u>	<u>(33,424)</u>
Net change in fund balances.....	<u>89,245</u>	<u>67,948</u>	<u>45,760</u>	<u>44,041</u>	<u>33,815</u>
Fund balance, beginning of year, as previously reported .....	402,109	266,460	220,700	176,659	142,844
Cumulative change in accounting principle.....	-	67,701	-	-	-
Fund balance, beginning of year.....	<u>402,109</u>	<u>334,161</u>	<u>220,700</u>	<u>176,659</u>	<u>142,844</u>
Fund balance, end of year.....	<u>\$ 491,354</u>	<u>\$ 402,109</u>	<u>\$ 266,460</u>	<u>\$ 220,700</u>	<u>\$ 176,659</u>

<sup>(1)</sup>Beginning in fiscal year 2002, Public Health Programs is being shown separately to comply with GASB Statement No. 34 requirements.

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, 2003, 2002, 2001, 2000 and 1999  
Partially Restated for Comparative Purposes  
(in thousands)

	<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>		<u>1999</u>	
	Actual	Variance Fav. (Unfav.)								
<b>Revenues, Transfers and Other Available Funds:</b>										
Real and personal property taxes, net.....	\$ 996,030	\$ 577	\$ 926,336	\$ 399	\$ 874,013	\$ 169	\$ 824,980	\$ 454	\$ 779,656	\$ 3,068
Motor vehicle excise.....	45,611	7,605	42,776	551	41,822	4,802	36,962	5,942	29,428	(4,093)
Other excises.....	72,794	7,794	69,528	4,133	63,651	(9,421)	59,222	(5,887)	66,229	6,392
Departmental and other revenue.....	54,720	7,999	62,193	13,862	53,100	7,210	46,096	5,843	54,137	4,411
Commonwealth of Massachusetts.....	498,217	(23,520)	541,456	(8,996)	525,169	952	513,681	1,078	494,623	8,585
Payments in lieu of taxes.....	40,910	6,786	36,332	7,245	39,994	8,848	29,269	(729)	35,970	1,997
Licenses and permits.....	30,146	4,928	29,651	5,836	37,824	13,459	28,652	7,924	20,897	714
Investment income.....	8,552	(2,198)	14,801	(749)	26,084	6,084	21,886	5,386	17,423	2,123
Fines.....	58,985	(2,512)	60,659	1,649	59,769	1,337	55,942	(1,935)	47,473	(1,602)
Transfers from other available funds.....	24,849	(1,876)	4,568	(9,086)	8,355	(17,323)	6,667	(5,969)	3,089	(8,175)
Sale of property.....	-	-	-	-	-	-	500	-	500	-
Total revenues, transfers and other available funds.....	<u>1,830,814</u>	<u>5,583</u>	<u>1,788,300</u>	<u>14,844</u>	<u>1,729,781</u>	<u>16,117</u>	<u>1,623,857</u>	<u>12,107</u>	<u>1,549,425</u>	<u>13,420</u>
<b>Expenditures and Encumbrances:</b>										
General government.....	65,401	3,833	70,702	(4,649)	73,696	(3,864)	65,495	1,481	64,391	370
Public safety.....	408,849	(4,933)	405,150	(2,388)	381,275	1,123	363,691	(1,922)	351,854	(933)
Public works.....	86,599	(4,058)	74,833	151	78,044	(6,086)	70,715	(1,546)	68,489	(3,003)
Property and development.....	34,744	318	41,630	(994)	53,523	246	34,968	17	32,002	503
Parks and recreation.....	14,680	105	16,071	103	15,262	122	13,944	174	13,366	166
Library.....	27,726	282	28,813	-	29,981	-	28,160	17	27,416	139
Human services.....	24,936	893	6,398	18	5,598	109	5,103	245	5,092	483
Schools.....	650,600	17	639,710	19	611,925	18	579,181	22	543,373	7
Public Health Commission.....	63,897	-	64,005	-	62,141	-	58,213	-	53,502	-
County.....	4,737	-	4,537	-	6,030	-	5,854	-	7,364	17
Judgments and claims.....	2,166	-	5,000	(900)	2,008	-	6,203	(2,103)	8,102	(3,990)
Other employee benefits.....	115,164	259	107,473	(787)	95,132	508	86,600	(548)	82,681	1
Retirement costs.....	139,325	-	135,710	-	133,775	-	134,529	-	126,554	-
Debt requirements.....	121,184	8	115,332	8	105,978	-	96,005	-	91,925	527
State and district assessments.....	69,009	(510)	67,769	(258)	66,788	332	66,995	257	65,569	38
Total expenditures.....	<u>1,829,017</u>	<u>(3,786)</u>	<u>1,783,133</u>	<u>(9,677)</u>	<u>1,721,156</u>	<u>(7,492)</u>	<u>1,615,656</u>	<u>(3,906)</u>	<u>1,541,680</u>	<u>(5,675)</u>
Excess of revenues available for appropriation over expenditures.....	<u>\$ 1,797</u>	<u>\$ 1,797</u>	<u>\$ 5,167</u>	<u>\$ 5,167</u>	<u>\$ 8,625</u>	<u>\$ 8,625</u>	<u>\$ 8,201</u>	<u>\$ 8,201</u>	<u>\$ 7,745</u>	<u>\$ 7,745</u>

**City of Boston**

**Special Revenue Fund**

**BALANCE SHEETS**  
**June 30, 2003, 2002, 2001, 2000 and 1999**  
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>ASSETS</b>					
Cash and investments.....	\$ 67,535	\$ 106,093	\$ 103,877	\$ 71,624	\$ 146,402
Restricted cash and investments.....	-	-	-	-	2,137
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	83,769	56,301	27,147	65,671	53,853
Departmental and other.....	165	195	13,146	1,316	1,665
Total receivables.....	<u>83,934</u>	<u>56,496</u>	<u>40,293</u>	<u>66,987</u>	<u>55,518</u>
Due from other funds.....	1,044	-	4,291	29,527	2,237
Other assets.....	-	-	-	-	300
Total assets.....	<u>\$ 152,513</u>	<u>\$ 162,589</u>	<u>\$ 148,461</u>	<u>\$ 168,138</u>	<u>\$ 206,594</u>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 9,230	\$ 14,597	\$ 10,199	\$ 32,301	\$ 54,476
Accrued liabilities:					
Other.....	31,557	27,281	21,296	33,926	33,946
Due to component units.....	214	-	-	-	-
Due to other funds.....	-	-	3,724	31,714	24,659
Total liabilities.....	<u>41,001</u>	<u>41,878</u>	<u>35,219</u>	<u>97,941</u>	<u>113,081</u>
<b>FUND BALANCES AND OTHER CREDITS</b>					
Reserved for:					
Encumbrances and other.....	49,019	44,111	60,231	62,980	59,355
Unreserved:					
Designated.....	-	-	-	-	14,826
Undesignated.....	62,493	76,600	53,011	7,217	19,332
Total fund balance.....	<u>111,512</u>	<u>120,711</u>	<u>113,242</u>	<u>70,197</u>	<u>93,513</u>
Total liabilities and fund balance.....	<u>\$ 152,513</u>	<u>\$ 162,589</u>	<u>\$ 148,461</u>	<u>\$ 168,138</u>	<u>\$ 206,594</u>

City of Boston

Special Revenue Fund

Statement of Revenues, Expenditures, Other Financing  
Sources (Uses) and Changes in Fund Balance  
Fiscal Years Ending June 30, 2003, 2002, 2001, 2000 and 1999  
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>REVENUES:</b>					
Local:					
Fines.....	\$ 19	\$ 44	\$ -	\$ -	\$ -
Investment income.....	479	159	-	-	-
Licenses and permits.....	57	252	-	-	-
Departmental and other revenue.....	13,170	10,478	80,467	34,135	36,114
Total local revenues.....	<u>13,725</u>	<u>10,933</u>	<u>80,467</u>	<u>34,135</u>	<u>36,114</u>
Intergovernmental:					
Intergovernmental.....	311,347	334,961	280,282	255,430	259,908
Total intergovernmental revenues.....	<u>311,347</u>	<u>334,961</u>	<u>280,282</u>	<u>255,430</u>	<u>259,908</u>
Total revenues.....	<u>325,072</u>	<u>345,894</u>	<u>360,749</u>	<u>289,565</u>	<u>296,022</u>
<b>EXPENDITURES:</b>					
Current operations:					
General government.....	8,385	7,131	9,312	7,185	5,782
Human services.....	7,231	5,290	4,956	3,757	4,542
Public safety.....	23,119	21,888	20,556	23,060	26,453
Public works.....	186	407	589	614	419
Parks and recreation.....	831	396	665	2,147	4,474
Libraries.....	5,186	5,261	1,238	1,089	1,222
Schools.....	131,383	130,162	115,580	91,058	76,522
County.....	96,452	104,754	87,462	83,974	70,068
Community development.....	63,851	63,081	69,026	60,875	70,512
Capital outlays.....	-	-	3,999	3,537	5,166
Debt service.....	13,841	3,894	4,321	22,549	3,424
Total expenditures.....	<u>350,465</u>	<u>342,264</u>	<u>317,704</u>	<u>299,845</u>	<u>268,584</u>
Excess (deficiency) of revenues over expenditures.....	<u>(25,393)</u>	<u>3,630</u>	<u>43,045</u>	<u>(10,280)</u>	<u>27,438</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Long-term debt and capital leases issued.....	4,094	-	-	-	-
Premiums on long-term debt issued.....	12,100	3,839	-	1,790	5,015
Transfers out, net.....	-	-	-	(14,826)	(720)
Total other financing sources (uses), net.....	<u>16,194</u>	<u>3,839</u>	<u>-</u>	<u>(13,036)</u>	<u>4,295</u>
Net change in fund balances.....	(9,199)	7,469	43,045	(23,316)	31,733
Fund balance, beginning of year .....	120,711	113,242	70,197	93,513	61,780
Fund balance, end of year.....	<u>\$ 111,512</u>	<u>\$ 120,711</u>	<u>\$ 113,242</u>	<u>\$ 70,197</u>	<u>\$ 93,513</u>

**City of Boston**

**Capital Projects Fund**

**BALANCE SHEETS**  
**June 30, 2003, 2002, 2001, 2000 and 1999**  
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>ASSETS</b>					
Cash and investments.....	\$ 62,761	\$ 80,537	\$ 90,976	\$ 60,347	\$ 113,634
Cash and investments held by trustees.....	3,788	3,745	-	-	-
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	-	-	-	309	-
Departmental and other.....	-	-	-	315	-
Total receivables.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>624</u>	<u>-</u>
Due from other funds.....	101	-	388	1,741	6,940
Other assets.....	-	-	-	-	1,625
Total assets.....	<u>\$ 66,650</u>	<u>\$ 84,282</u>	<u>\$ 91,364</u>	<u>\$ 62,712</u>	<u>\$ 122,199</u>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 9,845	\$ 9,593	\$ 5,732	\$ 7,266	\$ 5,668
Other liabilities.....	35	35	1,788	1,788	1,788
Due to other funds.....	-	-	58,026	75,385	42,208
Due to other governments.....	-	-	732	482	545
Total liabilities.....	<u>9,880</u>	<u>9,628</u>	<u>66,278</u>	<u>84,921</u>	<u>50,209</u>
<b>FUND BALANCES AND OTHER CREDITS</b>					
Reserved for:					
Encumbrances and other.....	84,184	112,020	176,212	141,480	160,740
Future appropriations.....	42,875	55,874	-	-	-
Unreserved:					
Undesignated (deficit).....	(70,289)	(93,240)	(151,126)	(163,689)	(88,750)
Total fund balance.....	<u>56,770</u>	<u>74,654</u>	<u>25,086</u>	<u>(22,209)</u>	<u>71,990</u>
Total liabilities and fund balance.....	<u>\$ 66,650</u>	<u>\$ 84,282</u>	<u>\$ 91,364</u>	<u>\$ 62,712</u>	<u>\$ 122,199</u>

City of Boston

Capital Projects Fund

Statement of Revenues, Expenditures, Other Financing  
Sources (Uses) and Changes in Fund Balance  
Fiscal Years Ending June 30, 2003, 2002, 2001, 2000 and 1999  
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>REVENUES:</b>					
Local:					
Investment income.....	\$ -	\$ -	\$ -	\$ -	\$ 99
Departmental and other revenue.....	-	8,649	23,444	3,959	2,608
Total local revenues.....	-	8,649	23,444	3,959	2,707
Intergovernmental:					
Intergovernmental.....	13,095	13,609	51,632	9,820	17,650
Total intergovernmental revenues.....	13,095	13,609	51,632	9,820	17,650
Total revenues.....	13,095	22,258	75,076	13,779	20,357
<b>EXPENDITURES:</b>					
Capital outlays.....	164,891	139,593	185,475	255,991	201,237
Debt Service.....	25,000	-	-	-	293
Total expenditures.....	189,891	139,593	185,475	255,991	201,530
Excess (deficiency) of revenues over expenditures.....	(176,796)	(117,335)	(110,399)	(242,212)	(181,173)
<b>OTHER FINANCING SOURCES (USES):</b>					
Long-term debt and capital leases issued.....	304,440	170,915	209,719	145,330	266,025
Payments to escrow agent to refund debt.....	(130,740)	-	(52,025)	-	2,000
Transfers out.....	(14,788)	-	-	2,683	(82)
Total other financing sources, net.....	158,912	170,915	157,694	148,013	267,943
<b>SPECIAL ITEM:</b>					
Proceeds from sale of capital assets.....	-	13,300	-	-	-
Net change in fund balances.....	(17,884)	66,880	47,295	(94,199)	86,770
Fund balance, beginning of year .....	74,654	7,774	(22,209)	71,990	(14,780)
Fund balance, end of year.....	\$ 56,770	\$ 74,654	\$ 25,086	\$ (22,209)	\$ 71,990

**City of Boston**

**Internal Service Fund**

**BALANCE SHEETS**

**June 30, 2003, 2002, 2001, 2000 and 1999**  
(in thousands)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>ASSETS</b>					
Cash and cash equivalents.....	\$ 14,133	\$ 12,052	\$ 7,714	\$ 4,044	\$ 4,354
Receivables:					
Departmental and other receivables....	279	151	49	101	-
Due from other funds and sources.....	620	727	791	761	754
Other assets.....	240	1,606	1,776	1,193	-
Total assets.....	<u>\$ 15,272</u>	<u>\$ 14,536</u>	<u>\$ 10,330</u>	<u>\$ 6,099</u>	<u>\$ 5,108</u>
<b>LIABILITIES</b>					
Accrued Liabilities:					
Judgments and claims <sup>(1)</sup> .....	\$ 7,325	\$ 7,051	\$ 10,000	\$ 11,202	\$ 9,740
Warrants and accounts payable.....	17	25	22	-	698
Total liabilities.....	<u>7,342</u>	<u>7,076</u>	<u>10,022</u>	<u>11,202</u>	<u>10,438</u>
<b>FUND EQUITY</b>					
Unrestricted.....	7,930	7,460	308	(5,103)	(5,330)
Total fund equity.....	<u>7,930</u>	<u>7,460</u>	<u>308</u>	<u>(5,103)</u>	<u>(5,330)</u>
Total liabilities and fund equity...	<u>\$ 15,272</u>	<u>\$ 14,536</u>	<u>\$ 10,330</u>	<u>\$ 6,099</u>	<u>\$ 5,108</u>

<sup>(1)</sup> Beginning in fiscal year 2002, Judgements and claims refers to Accrued liabilities to comply with GASB Statement No. 34 requirements.

**City of Boston**  
**Internal Service Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Equity**  
**Fiscal Years Ending June 30, 2003, 2002, 2001, 2000 and 1999**  
**(in thousands)**

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>REVENUES</b>					
Employer contributions.....	\$ 53,853	\$ 53,042	\$ 47,660	\$ 45,629	\$ 47,447
Employee contributions.....	18,773	18,367	16,744	15,177	16,307
Miscellaneous.....	167	510	1,807	719	1,443
Total operating revenues.....	<u>72,793</u>	<u>71,919</u>	<u>66,211</u>	<u>61,525</u>	<u>65,197</u>
<b>EXPENDITURES</b>					
Administrative and general.....	-	-	546	373	386
Benefits <sup>(1)</sup> .....	<u>72,323</u>	<u>64,767</u>	<u>60,254</u>	<u>60,925</u>	<u>59,245</u>
Total operating expenditures...	<u>72,323</u>	<u>64,767</u>	<u>60,800</u>	<u>61,298</u>	<u>59,631</u>
Changes in net assets .....	470	7,152	5,411	227	5,566
Net assets (deficit), beginning of year.....	7,460	308	(5,103)	(5,330)	(10,896)
Net assets, end of year.....	<u>\$ 7,930</u>	<u>\$ 7,460</u>	<u>\$ 308</u>	<u>\$ (5,103)</u>	<u>\$ (5,330)</u>

(1) Beginning in fiscal year 2002, the Administrative & general and Benefits amounts are being reported as a single amount.

City of Boston

Enterprise Funds

**BALANCE SHEETS**  
Fiscal Years Ending June 30, 2003 and 2002  
(in thousands)

	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>		
Current assets:		
Cash and investments.....	\$ 841	\$ 702
Cash and investments held by trustees.....	56,286	64,777
Receivables, net.....	1,140	-
Due from component units.....	122,869	129,103
Due from other governments.....	-	2,600
Other assets.....	3,360	1,555
Total current assets.....	<u>184,496</u>	<u>198,737</u>
Total assets.....	<u>184,496</u>	<u>198,737</u>
<b>LIABILITIES</b>		
Current liabilities:		
Warrants and accounts payable.....	-	269
Accrued liabilities.....	3,127	-
Due to other funds.....	18,000	-
Current portion of long-term debt.....	9,695	6,835
Total current liabilities.....	<u>30,822</u>	<u>7,104</u>
Noncurrent liabilities:		
Special obligation bonds.....	112,480	114,790
Revenue bonds.....	123,776	136,360
Total noncurrent liabilities..	<u>236,256</u>	<u>251,150</u>
Total liabilities.....	<u>267,078</u>	<u>258,254</u>
<b>NET ASSETS</b>		
Unrestricted.....	<u>(82,582)</u>	<u>(59,517)</u>
Total net assets.....	<u>\$ (82,582)</u>	<u>\$ (59,517)</u>

**City of Boston**

**Enterprise Funds**

**Statement of Revenues, Expenditures, and Changes in Net Assets  
Fiscal Years Ending June 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
Operating revenues:		
Excise taxes - pledged for debt service.....	\$ 23,348	\$ 5,079
Departmental and other - pledged for debt service.....	-	7,303
Total operating revenues.....	<u>23,348</u>	<u>12,382</u>
Operating expenditures:		
Contributions to State.....	33,845	19,035
Total operating expenses.....	<u>33,845</u>	<u>19,035</u>
Operating (loss) income.....	<u>(10,497)</u>	<u>(6,653)</u>
Nonoperating revenue (expenditure):		
Intergovernmental - state grants.....	12,877	38,695
Investment earnings - pledged for debt service.....	7,725	8,579
Investment earnings - other.....	652	15
Interest expense.....	(15,822)	(8,232)
Total nonoperating revenue (expense)...	<u>5,432</u>	<u>39,057</u>
Income before transfers.....	(5,065)	32,404
Transfer to general fund.....	<u>(18,000)</u>	<u>-</u>
Change in net assets.....	<u>(23,065)</u>	<u>32,404</u>
Total net assets - beginning.....	<u>(59,517)</u>	<u>(91,921)</u>
Total net assets - ending.....	<u>\$ (82,582)</u>	<u>\$ (59,517)</u>

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## APPENDIX C

### AUTHORIZATIONS AND PURPOSES

The bonds will be issued in the amounts, for the various municipal purposes, pursuant to the statutory authorizations and under loan orders of the City Council effective on the dates indicated in the following table. The City, upon consultation with Bond Counsel, may change certain of the purposes for which the Bonds are issued. Such changes, however, if any, will not modify the final maturity schedule or terms of the Bonds as set forth on the cover page of this Official Statement.

Amount	Purpose Name	Statute	Effective Date
\$201,464.92	Construction of Buildings Acquisition of Land	C44 s7 (3)	July 6, 1978
\$137,520.12	Remodeling & Extraordinary Repairs; Various Depts	C44 s7 (3A)	November 22, 1983
\$430,065.44	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 21, 1998
\$130,912.54	School Project Loan	C70B	June 30, 1998
\$19,511.64	Capital Improvements - Act '73	C642 s7A Act 1973	December 5, 1986
\$12,194.05	Urban Redevelopment and Renewal	C121B s20	December 5, 1986
\$541,249.04	Construction of Buildings; Acquisition of Land	C44 s7 (3)	December 27, 1986
\$268,820.23	Remodeling & Extraordinary Repairs	C44 s7 (3A)	March 13, 1987
\$4,510.41	Capital Improvements - Act '73	C642 s7A Act 1973	December 31, 1987
\$172,823.83	Remodeling & Extraordinary Repairs;	C44 s7 (3A)	January 21, 1988
\$68,435.13	Construction of Public Ways	C44 s7 (5)	May 30, 1989
\$167,571.00	Construction of Public Ways	C44 s7 (5)	June 27, 1990
\$8,380.39	Construction of Buildings; Acquisition of Land	C44 s7 (3)	June 27, 1990
\$250,578.26	Construction of Buildings; Acquisition of Land	C44 s7 (3)	April 24, 1991 amended on April 23, 1992, June 4, 1993, June 23, 1995, July 1, 1996
\$9,041.91	Remodeling & Extraordinary Repairs	C44 s7 (3A)	April 24, 1991
\$410,898.23	Construction of Sidewalks	C44 s7 (6)	April 23, 1992 amended on May 25, 1994

<b>Amount</b>	<b>Purpose Name</b>	<b>Statute</b>	<b>Effective Date</b>
\$9,271.40	Departmental Equipment	C44 s7 (9)	April 23, 1992
\$4,029.30	Remodeling & Extraordinary Repairs	C44 s7 (3A)	April 23, 1992
\$1,466,416.95	Traffic Signal, Public Lighting, Police Comm., and/or Fire Alarm Installations	C44 s7 (14)	April 23, 1992 amended on May 25, 1994, June 23, 1995, June 25, 1996, October 21, 1997
\$139,635.29	Capital Improvements - Act '91	C642 s7B Act 1991	May 14, 1993
\$154,113.42	Urban Renewal - Charlestown Navy Yard	C121B s20	May 14, 1993 amended on June 20, 1994, June 2, 1995
\$1,711,330.24	Construction of Bridges	C44 s7 (4)	June 4, 1993 amended on May 25, 1994, June 23, 1995, June 25, 1996
\$100,231.30	Capital Improvements - Act '91; School Dept.	C642 s7B Act 1991	May 4, 1994
\$4,333.59	Capital Improvements - Act '91	C642 s7B Act 1991	May 4, 1994
\$10,796.68	Capital Improvements - Act '91	C642 s7B Act 1991	May 4, 1994
\$603,604.19	Construction of Public Ways	C44 s7 (5)	May 25, 1994 amended on June 25, 1996
\$34,248.84	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	May 25, 1994
\$504,343.75	Urban Renewal - All Areas	C121B s20	June 2, 1995 amended on June 4, 1996, September 30, 1997
\$131,052.00	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995 amended on October 21, 1997
\$297,494.39	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995
\$188,446.34	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	June 23, 1995

<b>Amount</b>	<b>Purpose Name</b>	<b>Statute</b>	<b>Effective Date</b>
\$192,904.21	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
\$784,630.22	Capital Improvements - Act '91	C642 s7B Act 1991	June 4, 1996
\$2,165,367.34	Capital Improvements - Act '96	C642 s7C Act 1996	June 4, 1996
\$328,206.40	Computer Hardware	C44 s7 (28)	June 25, 1996 amended on October 30, 1997
\$445,835.30	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 25, 1996 amended on October 30, 1997
\$732,822.53	Capital Improvements - Act '96 School Dept.	C642 s7C Act 1996	July 9, 1996 amended on September 30, 1997, October 28, 1997, May 12, 1998
\$77,044.34	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 26, 1996 amended on October 21, 1997
\$16,343.37	Capital Improvements - Act '96	C642 s7C Act 1996	August 5, 1996 amended on September 30, 1997
\$140,969.33	Capital Improvements - Act '96	C642 s7C Act 1996	September 30, 1997
\$402,424.15	Urban Renewal - Boston Housing Authority	C121B s20	September 30, 1997
\$2,363,958.18	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
\$74,909.41	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
\$46,118.11	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
\$135,752.27	Computer Hardware	C44 s7 (28)	November 18, 1997
\$34,342.81	Capital Improvements - Act '96; Neighborhood Development	C642 s7C Act 1996	June 30, 1998
\$48,380.05	Computer Hardware School Dept.	C44 s7 (28)	July 21, 1998
\$1,216,105.75	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 21, 1998

<b>Amount</b>	<b>Purpose Name</b>	<b>Statute</b>	<b>Effective Date</b>
\$189,814.13	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 21, 1998
\$34,993.25	Urban Redevelopment and Renewal	C121B s20	August 24, 1998
\$22,775.70	Engineering & Architectural Services	C44 s7 (22)	August 12, 1999
\$3,594.59	Acquisition of Land; Cemeteries	C44 s7 (20)	August 12, 1999
\$188,730.87	Capital Improvements - Act '96	C642 s7C Act 1996	July 22, 1999
\$1,054,213.39	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 12, 1999
\$6,389.75	Construction of Buildings; Acquisition of Land	C44 s7 (3)	August 12, 1999
\$6,348,181.06	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 12, 1999
\$690,463.41	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	December 15, 1999
\$153,897.90	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	February 29, 2000
\$180,416.35	Construction of Buildings; Acquisition of Land	C44 s7 (3)	August 7, 2000
\$3,696,882.39	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 7, 2000
\$219,337.04	Construction of Public Ways	C44 s7 (5)	August 7, 2000
\$14,568.33	Engineering & Architectural Services	C44 s7 (22)	August 7, 2000
\$1,823,303.51	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 7, 2000
\$89,040.48	Computer Hardware	C44 s7 (28)	August 7, 2000
\$10,360.91	Capital Improvements - Act '96	C642 s7C Act 1996	July 17, 2000
\$78,580.44	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 7, 2000
\$201,548.91	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 28, 2000
\$448,628.24	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 1, 2001
\$7,353,531.97	Remodeling & Extraordinary Repairs	C44 s7 (3A)	September 7, 2001

<b>Amount</b>	<b>Purpose Name</b>	<b>Statute</b>	<b>Effective Date</b>
\$387,410.12	Construction of Bridges	C44 s7 (4)	August 16, 2001
\$1,931,204.20	Construction of Public Ways	C44 s7 (5)	September 7, 2001
\$285,218.70	Departmental Equipment	C44 s7 (9)	September 7, 2001
\$1,875,130.12	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	September 7, 2001
\$156,450.04	Capital Improvements - Act '91	C642 s7B Act 1991	August 17, 2001
\$671,823.42	Construction of Buildings; Acquisition of Land - Schools	C44 s7 (3)	September 7, 2001
\$1,530,113.98	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	September 7, 2001
\$7,568,789.88	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 5, 2002
\$1,840,905.22	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 5, 2002
\$1,028,504.93	Construction of Bridges	C44 s7 (4)	August 5, 2002
\$807,866.39	Construction of Public Ways	C44 s7 (5)	August 5, 2002
\$248,802.16	Traffic Signal and Public Lighting Installation	C44 s7 (14)	August 5, 2002
\$63,646.88	Acquisition of Land; Cemeteries	C44 s7 (20)	August 5, 2002
\$970,924.77	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 5, 2002
\$200,461.80	Computer Hardware	C44 s7 (28)	August 5, 2002
\$214,932.47	Capital Improvements - Act '96	C642 s7C Act 1996	July 15, 2002
\$8,960.68	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 28, 2003
\$5,000,163.03	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 28, 2003
<b><u>\$65,000,000.00</u></b>			

## PROPOSED FORM OF OPINION OF BOND COUNSEL

# PALMER & DODGE LLP

111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER  
BOSTON, MA 02199-7613

[On the respective dates of delivery for the Series A Bonds and the Series B Bonds, Bond Counsel expects to deliver the following opinion with respect to each series of Bonds.]

[Date of Delivery]

Collector-Treasurer  
City of Boston  
City Hall  
Boston, Massachusetts

(\$\_\_\_\_\_City of Boston, Massachusetts  
General Obligation Bonds, 2004 Series \_\_,  
dated \_\_\_\_\_, 2004)

We have examined the law, a certified copy of proceedings and other papers relating to the issue of \$\_\_\_\_\_ General Obligation Bonds, 2004 Series \_\_ (the "Bonds") by the City of Boston, Massachusetts (the "City").

On the basis of this examination we are of opinion, as of the date hereof and under existing law, as follows:

(1) The Bonds are valid 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 gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986 (the "Code"); it should be noted, however, that interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing corporate alternative minimum taxable income. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

(3) 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 as to other Massachusetts tax consequences arising with respect to the Bonds.

The rights of the holders of the Bonds and the enforceability thereof 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.

Yours faithfully,

**PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Boston, Massachusetts (the "City") in connection with the issuance of its \$\_\_\_\_\_ General Obligation Bonds, 2004 Series \_\_, dated \_\_\_\_\_, 2004 (the "Bonds"). The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City 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 City 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.

"National Repository" shall mean any nationally recognized municipal securities information repository for purposes of the Rule. The current National Repositories are listed on 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.

"Repository" shall mean each National Repository and each State Depository.

"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.

"State Depository" shall mean any public or private depository or entity designated by The Commonwealth of Massachusetts as a state information depository for the purpose of the Rule. (As of the date of this Disclosure Certificate there is no State Depository).

SECTION 3. Provision of Annual Reports.

(a) The City shall, not later than 365 days after the end of each fiscal year, provide to each Repository 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 City may be submitted when available separately from the balance of the Annual Report.

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board and the State Depository, if any, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The City'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 City's Official Statement dated February 11, 2004 relating to the Bonds regarding (i) the revenues and expenditures of the City relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the City, and (vi) pension obligations of the City, and
- (b) the most recently available audited financial statements of the City, prepared in accordance with generally accepted accounting principles.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Material Events.

(a) The City shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
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 or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

It should be noted, however, that as of this date events of the types listed in paragraphs 2, 3, 4, 5 and 10 above are not applicable to the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such an event would be material under applicable federal securities laws and if so, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Depository, if any.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City 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 City), 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 City 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 each Repository.

SECTION 8. Default. In the event of a failure of the City to comply with any provision of

this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the City 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 City to comply with this Disclosure Certificate shall be an action for specific performance of the City's obligations hereunder and not for money damages in any amount.

SECTION 9. 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: \_\_\_\_\_, 2004

CITY OF BOSTON, MASSACHUSETTS

By \_\_\_\_\_  
Collector-Treasurer

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
City Auditor

[EXHIBIT A - NATIONAL REPOSITORIES]

[EXHIBIT B - NOTICE OF FAILURE TO FILE ANNUAL REPORT]

## THE BOSTON ECONOMY

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 City’s economy and presents major economic, demographic and market indicators, and historical, statistical and other information. 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.

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## THE BOSTON ECONOMY

### *General*

The City is 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 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 offices. High technology, research and development, manufacturing, and wholesale distribution also contribute to the economy of the City and its suburbs.

The City is the twentieth largest city in the United States and the center of the seventh largest Consolidated Metropolitan Statistical Area (“CMSA”) in the nation, consisting of the Boston Primary Metropolitan Statistical Area (“PMSA”) plus the contiguous PMSAs of Brockton, Fitchburg-Leominster, Lawrence, Lowell, Manchester (New Hampshire), Nashua (New Hampshire), New Bedford, Portsmouth-Rochester (New Hampshire-Maine), and Worcester (Massachusetts-Connecticut). The Boston CMSA had a population of 5,819,100 in 2000, as reported by the U.S. Department of Commerce, Bureau of the Census (the “Bureau of the Census”). In 2000, the City had a population of 589,141, as reported by the Bureau of the Census, and had 688,077 jobs as reported by the U.S. Bureau of Economic Analysis from data of the Massachusetts Division of Employment and Training. 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 18% of the Massachusetts economy and 10% of that of the six New England states.

### *Overview of Current Economic Conditions*

In Boston, as of fall 2003, signs of a slow economy in Massachusetts, metropolitan Boston and the City were still evident dating from spring of 2001. Evidence of a turnaround is, however, showing up in the U.S. and Massachusetts as of January, 2004. The Boston economy peaked in the 1999-2000 time period as Boston’s office, hotel, and housing markets were among the strongest in the nation by mid-year 2000 and into early 2001. From about January of 2001 signs of economic slowing have been notable and have persisted through November of 2003. Boston’s slowing economic growth in 2001 was clear given existing information, including: an increasing unemployment rate, a growing number of initial unemployment claims, a higher level of continuing unemployment claims, a falling hotel occupancy rate and lower average daily hotel room rate, a growing office vacancy rate, and a slowing in residential sales. These trends had persisted into 2003, except for residential sales, which have increased. The latest data, however, are showing improvements in the labor market as well, as the economy is beginning to grow (noted above). Initial and continuing unemployment claims have fallen and the unemployment rate has stabilized as shown by data from the state, Boston metropolitan area, and City of Boston.

Many indicators of Boston’s economic performance in 2001 registered weakness given the twin factors of a burgeoning economic recession, which was evident in the summer of 2001 plus the tragic events of September 11th that compounded the slow-down. Unemployment rates, which had declined to a low of 2.2%, 2.6%, and 2.9% in the Boston metropolitan area, the Commonwealth, and in the City, respectively, by the end of 2000, rose to levels of 3.3%, 5.3% and 5.8%, respectively for full-year 2002. Boston’s office market has weakened with rising vacancy rates (over 10%), rising availability rates (over 17%) and negative absorption for two consecutive years, as has been the case for most other major office markets in the country. Hotel occupancy fell to 70% in 2001 and rose slightly to 72% in 2002 after being 78% in the year 2000. The total number of residential home sales, however, has been strong, with steady volume through mid-year 2003, due to low interest rates, while sales prices are still holding firm.

This report presents the major economic, demographic, and market indicators for the Boston economy. For the most part, they demonstrate that the City’s economy was very strong through the 1990s and into 2000. By early 2001 the economic slowdown was moving toward a national recession and then the events of September 11<sup>th</sup> compounded matters. Economic data through November 2003 still show effects of the lingering economic slowdown.

### ***Statistical Data***

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

The U.S. Bureau of the Census publishes information about population, housing and the economy. Data from the 2000 Decennial Census of Population and Housing are now available in part, with more data to be released in 2004. In addition, some monthly and quarterly data are available through November 2003 on certain topics for the region, Massachusetts, and the Boston metropolitan area. The U.S. Bureau of the Census does not publish such interim data for the City.

The U.S. 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 data for 2002 are the most recent annual data available; the most recent monthly data are for November 2003.

The U.S. Bureau of Economic Analysis publishes quarterly and annual statistics on income and employment. The most recent annual figures for the nation, New England, Massachusetts, the metropolitan counties, and Suffolk county, which consists of the City plus the municipalities of Revere, Chelsea and Winthrop, are from the May 2003 Regional Economic Information System (“REIS”). The most recent quarterly statistics are for the second quarter of 2003. The City comprises approximately 87% of Suffolk County’s population and approximately 96% of its employment.

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 from various local, regional, state and national sources on such topics as employment and occupation, 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.

Statistical data 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 data readily available to it in the discussion in this section, because of such necessary delays, the data contained herein may not reflect current conditions or trends. 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. Within such limits, the statistical data contained herein describe past activity and are not presented with a view toward predicting future economic activity either in particular categories or in general.

### ***New England, Massachusetts and Metropolitan Boston Economies***

New England comprises a six-state region that had a combined population of 14.1 million persons and 8.8 million jobs in 2001 according to the Bureau of Economic Analysis annual data. Total personal income in New England grew at an annual average compound rate of 4.8% from 1990 through 2002, just below the 5.1% national rate for the same period. In the most recent period for which data is available, from second quarter 2002 through second quarter 2003, personal income in New England grew at a rate of 1.5%, which was below the national rate of 2.8%. Employment in New England, grew by 897,370 from 1990 through 2001, an annual average of 1.0%.

The Massachusetts economy, with 6.4 million people and 4.1 million jobs in 2001 showed substantial growth in the 1990s. Total personal income grew at a 5.0% annual average rate from 1990 through 2002, nearly matching the national rate of 5.1%. From second quarter 2002 through second quarter 2003, personal income grew by 0.5%, much lower than the 2.8% national average. Massachusetts also gained 470,410 jobs between 1990 and 2001, an annual average of 1.2%

The five-county Boston metropolitan area (consisting of Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties) had 4.0 million people and 2.8 million jobs in 2001, and has shown economic trends similar to those for the Commonwealth. Total personal income from 1990 through 2001 grew at an annual average rate of 5.7%, just above the national mark of 5.4%. The most recent employment data show a gain of

323,839 jobs for the 1990-2001 period, an annual gain of 1.2%. The following table shows the 1990 and 1998-2002 trends for the U.S., New England, Massachusetts, and Metropolitan Boston; employment data for the City are set forth under “Employment Structure, Employment Trends and Occupational Changes” and its accompanying table.

**Population, Income and Employment  
1990, and 1998-2002  
(Income in current year dollars)**

	<u>1990</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
United States						
Total Personal Income (\$000) .....	\$4,885,525,000	\$7,418,497,000	\$7,779,521,000	\$8,398,871,000	\$8,677,490,000	\$8,891,093,018
Per Capita Income (\$) .....	\$19,572	\$26,893	\$27,880	\$29,760	\$30,413	\$30,832
Population .....	249,622,814	275,854,104	279,040,168	282,421,906	285,317,559	288,368,698
Employment .....	139,426,900	160,256,200	163,348,300	167,283,800	167,535,600	NA
New England						
Total Personal Income (\$000) .....	\$302,738,643	\$437,134,240	\$459,781,637	\$505,000,652	\$521,283,005	\$530,314,607
Per Capita Income (\$) .....	\$22,884	\$31,829	\$33,227	\$36,195	\$37,096	\$37,494
Population .....	13,229,502	13,733,828	13,837,653	13,922,517	14,052,232	14,144,141
Employment .....	7,919,825	8,423,723	8,568,315	8,787,541	8,817,195	NA
Massachusetts						
Total Personal Income (\$000) .....	\$139,772,372	\$205,176,386	\$217,065,716	\$241,963,032	\$248,777,745	\$250,965,602
Per Capita Income (\$) .....	\$23,208	\$32,714	\$34,360	\$38,034	\$38,864	\$39,044
Population .....	6,022,639	6,271,838	6,317,345	6,349,097	6,401,164	6,427,801
Employment .....	3,647,410	3,928,603	3,992,754	4,104,314	4,117,820	NA
Metropolitan Boston <sup>(1)</sup>						
Total Personal Income (\$000) .....	\$95,511,040	\$142,731,282	\$151,834,352	\$170,648,926	\$175,076,638	NA
Per Capita Income (\$) .....	\$25,226	\$36,065	\$38,103	\$42,567	\$43,393	NA
Population .....	3,786,229	3,957,661	3,984,862	4,001,752	4,034,633	NA
Employment .....	2,507,009	2,695,596	2,739,452	2,819,543	2,830,848	NA

(1) This metropolitan area only includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) but excludes the one county in New Hampshire (Hillsborough), which together comprises the NECMA (New England Counties Metropolitan Area).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, May, 2003, except 2002 data is from August 2003. 2000 population figures for all of the above are from the U.S. Census Bureau.

***Employment Structure, Employment Trends and Occupational Changes***

Between 1990 and 2000, the City’s employment structure continued to shift from traditional labor intensive manufacturing jobs to technology and service jobs, as shown in the table below, “City of Boston Employment, 1990-2000, With Percent Share, Absolute Change, and Percent Change.” Over the decade of the 1990s, the City’s economy gained over 68,000 jobs with an increase of 11%. Service industries, including transportation/communication/public utilities, finance/insurance/real estate and the full range of professional specialty services, expanded their share of the City’s total employment from 63% in 1990 to 68% in 2000. However, the share of total employment in manufacturing and trade declined from 5% to 4%, and from 13% to 12%, respectively.

**City of Boston Employment, 1990-2000, With Percent Share, Absolute Change, and Percent Change  
SIC (Standard Industry Classification)**

<u>Industry</u>	<u>1990</u>	<u>Share</u>	<u>1995</u>	<u>Share</u>	<u>2000</u>	<u>Share</u>	<u>Employ. Change</u>	<u>Percent Change</u>
Fishing/Mining/Agriculture .....	1,316	0.2%	1,136	0.2%	1,697	0.3%	381	29%
Construction .....	13,835	2	13,162	2	19,809	3	5,974	43
Manufacturing .....	32,274	5	29,014	5	27,978	4	-4,296	-13
Transportation/Communication/Utilities	36,795	6	36,389	6	38,298	6	1,502	4
Wholesale Trade.....	19,369	3	16,366	3	16,862	2	-2,507	-13
Retail Trade .....	61,593	10	60,826	10	66,600	10	5,008	8
Finance/Insurance/Real Estate .....	93,264	15	93,730	15	109,087	16	15,823	17
Banking .....	24,540	4	23,347	4	26,224	4	1,683	7
Securities .....	23,029	4	31,824	5	45,079	7	22,050	96
Insurance .....	31,357	5	25,325	4	21,720	3	-9,637	-31
Real Estate and Other.....	14,338	2	13,234	2	16,065	2	1,728	12
Services .....	261,854	42	273,815	44	314,441	46	52,587	20
Hotel.....	13,441	2	11,384	2	12,959	2	-482	-4
Health .....	78,615	13	88,202	14	94,721	14	16,106	21
Educational.....	31,431	5	31,752	5	32,343	5	912	3
Cultural .....	9,657	2	8,935	1	10,387	2	730	8
Social and Non-profit.....	23,843	4	23,334	4	25,989	4	2,146	9
Professional.....	63,621	10	63,115	10	80,768	12	17,147	27
Non-Professional Business ...	29,540	5	35,983	6	43,319	6	13,779	47
Personal and Repair .....	11,706	2	11,110	2	13,957	2	2,250	19
Government .....	98,924	16	92,040	15	93,306	14	-5,619	-6
Total .....	619,223	100	616,478	100	688,077	100	68,853	11

Source: 1990-2000 figures are mathematically derived from U.S. Bureau of Economic Analysis Series for Suffolk County ("BEA Regional Economic Information System 1969-2001, May 2003") pro-rated to Boston geography. Due to use of pro-rating factors, minor discrepancies of 1 to 3 units between totals and employment categories may result.

The economy of the Boston metropolitan area primarily rests 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. As used in this section, "professional services" includes business and professional services such as data processing, bookkeeping, news syndicates, law, accounting, engineering, advertising, and architecture. "Non-professional business services" includes building maintenance, security guards, duplicating services, etc.

The following table shows Boston's employment growth by industry category for 2001, 2002, and 2003. The industry categories are in the new North American Industrial Classification System (NAICS) format, which the BEA began using in 2001. From employment in 2000 (shown in the previous table) to 2003 (a preliminary estimate) an estimated 50,618 jobs have been lost, representing about 7% of total employment. Employment for 2003 in the following table is based upon data for the first six months of the year, annualized. Preliminary data for the last six months of 2003, only available at the state and metropolitan level, are suggesting that 2003 may be the bottom of the employment trough and that 2004 likely will see a return to employment growth, although growth in employment may be slow.

**City of Boston Employment 2001 – 2003**  
**NAICS (North American Industry Classification System)**

<u>Industry</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Absolute Change</u>	<u>Percent Change</u>
Fishing/Mining/Agriculture.....	123	382	382	258	209.5%
Utilities .....	2,703	2,414	2,186	-517	-19.1
Construction .....	19,501	18,450	16,625	-2,876	-14.7
Manufacturing.....	18,655	16,457	14,441	-4,214	-22.6
Wholesale Trade.....	11,007	10,422	9,420	-1,587	-14.4
Retail Trade (excludes food service) .....	31,080	30,482	29,618	-1,461	-4.7
Transportation and Warehousing.....	24,903	22,369	21,615	-3,288	-13.2
Transportation.....	23,373	20,844	19,977	-3,396	-14.5
Information .....	22,330	20,910	18,751	-3,579	-16.0
Finance and Insurance .....	86,824	83,847	78,012	-8,812	-10.1
Banking.....	19,972	19,496	20,237	265	1.3
Securities and other Financial Investment Activities..	47,949	45,383	39,746	-8,202	-17.1
Insurance Carriers and Related Activities.....	18,903	18,968	18,113	-790	-4.2
Real Estate and Rental and Leasing .....	18,620	17,918	16,725	-1,895	-10.2
Professional, Scientific, and Technical Services.....	74,919	68,725	64,797	-10,121	-13.5
Legal Services .....	20,970	20,487	19,648	-1,322	-6.3
Accounting, Tax Preparation, Bookkeeping.....	10,540	9,143	7,777	-2,727	-26.0
Architectural, Engineering, Design, and Related.....	12,230	11,195	9,247	-2,984	-24.2
Computer Systems Design and Related Services.....	6,485	5,040	4,998	-1,486	-22.9
Management, Scientific, and Technical.....	10,936	10,262	10,334	-603	-5.5
Scientific Research and Development Services.....	6,599	6,565	6,491	-108	-1.6
Other Professional, Scientific and Technical Serv.	7,195	6,032	5,707	-1,488	-20.7
Management of Companies and Enterprises.....	10,445	9,851	9,080	-1,365	-13.1
Admin. & Support and Waste Mgmt and Remediation Services.....	40,282	37,999	38,332	-1,950	-4.8
Educational Services.....	42,942	44,084	44,365	1,423	3.3
Colleges and Universities.....	36,777	37,946	38,085	1,308	3.6
Health Care and Social Assistance.....	100,403	104,550	106,989	6,586	6.6
Hospitals.....	65,414	70,523	73,514	8,100	12.4
Arts, Entertainment, and Recreation.....	12,408	13,300	13,384	976	7.9
Accommodation and Food Services.....	44,299	43,499	43,605	-693	-1.6
Accommodation .....	10,962	9,675	10,270	-692	-6.3
Food Service and Drinking Places.....	33,337	33,824	33,344	7	0.0
Other Services (except public administration).....	26,346	26,718	27,271	924	3.5
Government .....	<u>90,013</u>	<u>84,720</u>	<u>81,861</u>	<u>-8,152</u>	<u>-9.1</u>
Total.....	677,801	657,099	637,459	-40,342	-6.0

- Notes:
1. 2002 is an estimate based on final data from DET and estimates for BEA.
  2. 2003 employment is based upon data from DET for the first six months of the year.
  3. Other Services includes repair and maintenance, personal and laundry services, and religious, grantmaking, civic, professional, and similar organizations.

Source: 2001-2002 figures are mathematically derived from U.S. Bureau of Economic Analysis Series for Suffolk County ("BEA Regional Economic Information System 1969-2001, May 2003") pro-rated to Boston geography. Due to use of pro-rating factors, minor discrepancies of 1 to 3 units between totals and employment categories may result. 2003 figures are based upon DET data for the six months of the year and then expressed in a form consistent with the previous years.

A more recent picture of employment trends for the Commonwealth and the Boston metropolitan area is available from the Bureau of Labor Statistics (Current Employment Series or CES 790 series) non-agricultural employment data. As of early January 2004 these data were available through the month of November 2003, and are presented in the following tables for the Boston metropolitan area.

Data from the two following tables show that employment declined in the Boston metropolitan area throughout 2002 and 2003 for all months compared to the same month of the previous year. As of November a total decline of 34,600 jobs in the metropolitan area was evident over the previous year, and the drop from the high in June 2001 was 119,700 jobs, or 5.8%.

The industry composition of employment comparing November 2003 with November 2002 shows that the most severe job losses were evident in professional and business services, durables manufacturing, government, trade/transportation/utilities, information and construction. Gains were evident in education and health services, and other services. Only small losses were apparent in all other sectors except for natural resources and mining where there was no change.

**Boston Metropolitan Area Total Non-Agricultural Employment  
Monthly, 2001-2003  
(not seasonally adjusted, employment in 000's)**

<u>Month</u>	2001		2002		2003	
	<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 .....	2,041.7	2.9%	1,970.9	-3.5%	1,936.0	-1.8%
February .....	2,041.1	2.6	1,962.6	-3.8	1,930.0	-1.7
March .....	2,044.4	2.1	1,972.3	-3.5	1,930.2	-2.1
April .....	2,051.8	1.6	1,980.6	-3.5	1,944.4	-1.8
May .....	2,057.3	1.2	1,990.7	-3.2	1,951.4	-2.0
June.....	2,070.7	0.6	2,002.9	-3.3	1,963.2	-2.0
July .....	2,038.3	-0.4	1,976.6	-3.0	1,941.9	-1.8
August .....	2,032.6	-0.5	1,973.4	-2.9	1,934.0	-2.0
September .....	2,028.3	-1.4	1,975.4	-2.6	1,937.2	-1.9
October.....	2,025.1	-2.3	1,984.0	-2.0	1,948.6	-1.8
November.....	2,025.2	-3.0	1,985.6	-2.0	1,951.0	-1.7
December.....	2,028.4	-3.3	1,985.5	-2.1	NA	NA
ANNUAL.....	2,040.4	0.0	1,980.0	-3.0	NA	NA

Source: U.S. Department of Labor, bureau of Labor Statistics, 790 series of non-agricultural employment. January, 2004.

**Non-Agricultural Wage and Salary Employment by Industry  
November 2002 and November 2003  
Boston, Massachusetts – New Hampshire PMSA  
(seasonally unadjusted, employment in 000's)**

<u>Industry</u>	<u>2002</u>	<u>2003</u>	<u>Change</u>	<u>Percent</u>
Non-Agricultural Total .....	1,985.6	1,951.0	-34.6	-1.7%
Natural Economic Resources.....	0.7	0.7	0.0	0.0
Construction.....	83.5	78.7	-4.8	-5.7
Manufacturing.....	164.7	159.1	-5.6	-3.4
Durable Goods .....	113.1	107.6	-5.5	-4.9
Non-Durable Goods.....	51.6	51.5	-0.1	-0.2
Trade, Transportation & Utilities .....	341.2	335.7	-5.5	-1.6
Wholesale Trade .....	83.2	81.8	-1.4	-1.7
Retail Trade.....	206.6	204.2	-2.4	-1.2
Transport., Warehousing & Utilities .....	51.4	49.7	-1.7	-3.3
Information.....	68.1	64.6	-3.5	-5.1
Financial Activities.....	170.9	170.8	-0.1	-0.1
Professional and Business Services.....	318.2	308.6	-9.6	-3.0
Education and Health Services .....	366.3	369.1	2.8	0.8
Leisure & Hospitality.....	163.4	162.6	-0.8	-0.5
Other Services .....	66.4	66.5	0.1	0.2
Government.....	242.2	234.6	-7.6	-3.1

Note: Some of the sub-categories do not add to totals because in some cases these are not the full list of sub-categories.

Source: U.S. Department of Labor, bureau of Labor Statistics, 790 series of non-agricultural employment. January, 2004.

The following table below indicates that, as of 2000, 69% of City residents were White-Collar workers and 31% were Blue-Collar and Service workers, as compared to 1960 when 44% were White-Collar workers and 46% were Blue-Collar and Service workers. As shown in the following table, this trend among City residents away from Blue-Collar and Service occupations and toward White-Collar occupations was evident between 1960 and 1990. During the decade of the 1990s this trend showed some change. White-Collar occupations continued to grow but at a slower pace, with Managerial, Professional, and Technical jobs gaining but Sales and Office workers declining. At the same time, Blue-Collar and Services occupations continued to decline, with the exception of Production, and Transportation workers who showed a modest increase between 1990 and 2000.

### Occupational Change in the City's Resident Labor Force

	<u>1960</u>		<u>1970</u>		<u>1980</u>		<u>1990</u>		<u>2000</u>	
	<u>Number</u>	<u>%</u>								
White-Collar .....	126,471	44	146,657	55	154,456	60	191,251	67	197,049	69
Manag'l., Profess'l & Relat'd .....	49,080	17	59,929	23	77,217	30	107,206	38	123,850	43
Sales and Office .....	77,391	27	86,728	33	77,239	30	84,045	29	73,199	26
Blue-Collar and Service .....	134,610	46	119,848	45	101,561	40	97,453	33	88,810	31
Constr'n, Extract'n, Maint. ....	32,398	11	27,157	10	19,772	8	18,453	6	14,118	5
Product'n, Transp'n., and Rel. ....	52,175	18	36,695	14	24,825	10	19,971	7	23,630	8
Service and Farm & Fishing .....	50,037	17	55,996	21	56,964	22	59,029	20	51,062	18
Not Reported.....	<u>27,115</u>	<u>9</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total.....	288,196	100	266,505	100	256,017	100	288,704	100	285,859	100

Source: U.S. Department of Commerce, Bureau of the Census.

Percentages may not add due to rounding.

#### **Unemployment**

In 2002, the annual average unemployment rate for the City was 5.8%, slightly above that of Massachusetts at 5.3% and also above that for the metropolitan rate at 4.8%, but equal to the national rate of 5.8%. All of these rates were above the lows reached in the year 2000. The average annual number of people unemployed in the City for 2002, was 18,141, an increase from the 8,495 annual average for 2000. The 2000 Census data for Boston, which differ from the Bureau of Labor Statistics rates shown below due to sample size, accuracy of defining persons in the labor force and over-counting the officially unemployed, showed that when Boston's total unemployment rate was 7.2%, the rate for whites was 5.1%, the rate for all minority groups combined was 10.2%. This pattern is typical of many of the nation's urban centers.

#### **Annual Unemployment Rates, 1993-2002**

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
City of Boston <sup>(1)</sup>	6.6%	5.8%	5.4%	4.4%	4.2%	3.4%	3.3%	2.9%	4.1%	5.8%
Boston PMSA <sup>(1)</sup>	6.0	5.2	4.7	3.7	3.4	2.8	2.7	2.2	3.3	4.8
Massachusetts	6.9	6.0	5.4	4.3	4.0	3.3	3.2	2.6	3.7	5.3
New England	6.8	5.9	5.4	4.8	4.4	3.5	3.3	2.8	3.7	4.9
United States	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.8

(1) Primary Metropolitan Statistical Area, consisting of the City and 129 contiguous municipalities, with a population of approximately 3.4 million in 2000 according to U.S. Census data.

Sources: U.S. Bureau of Labor Statistics for United States, New England and Massachusetts and Massachusetts Division of Employment and Training for the City and Boston PMSA.

As the following table illustrates, monthly data for 2003, through eleven months, shows an increase over 2002 data, except for the City of Boston and the Boston metropolitan area where November 2003 rates were better than those for November 2002. In November 2003, Boston's unemployment rate registered 5.4% compared with the 5.6% mark one year earlier in November 2002 and the 4.3% rate two years earlier in June 2001. The number of unemployed in November 2003 was 16,730 having fallen from the 17,604 unemployed in November of 2002 but still greater than the 14,671 unemployed in November of 2001.

**Monthly Unemployment Rates for Boston, Boston PMSA, Massachusetts,  
New England and the United States for 2001, 2002 and 2003<sup>(1)</sup>**

	<u>City of Boston</u>			<u>Boston PMSA<sup>(2)</sup></u>			<u>Massachusetts</u>			<u>New England</u>			<u>United States</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Jan. ....	3.2%	5.7%	5.7%	2.6%	4.8%	5.1%	3.3%	5.5%	5.8%	3.5%	5.2%	5.6%	4.7	6.3%	6.5%
Feb. ....	3.0	5.5	5.4	2.5	4.7	4.9	3.2	5.4	5.7	3.5	5.2	5.5	4.6	6.1	6.4
Mar. ....	3.3	5.7	5.9	2.8	4.9	5.3	3.5	5.5	6.1	3.6	5.1	5.6	4.5	6.1	6.2
Apr. ....	3.2	5.6	5.5	2.6	4.6	4.7	3.0	5.1	5.3	3.3	4.7	5.1	4.2	5.7	5.8
May.....	3.6	5.6	5.8	2.8	4.5	4.9	3.2	4.9	5.3	3.3	4.6	4.9	4.1	5.5	5.8
Jun. ....	4.3	6.1	6.4	3.3	5.0	5.3	3.7	5.4	5.7	3.7	4.9	5.2	4.7	6.0	6.5
Jul. ....	4.7	6.3	6.4	3.6	5.2	5.2	4.0	5.6	5.6	3.8	4.9	5.2	4.7	5.9	6.3
Aug. ....	4.5	6.1	6.6	3.5	5.0	5.3	3.8	5.4	5.7	3.7	4.8	5.1	4.9	5.7	6.0
Sep. ....	4.9	6.3	6.5	3.8	5.2	5.4	4.1	5.5	5.8	3.8	4.8	5.0	4.7	5.4	5.8
Oct. ....	4.7	5.7	5.8	3.8	4.8	4.9	4.0	5.2	5.3	3.8	4.7	4.8	5.0	5.3	5.6
Nov. ....	4.8	5.6	5.4	3.9	4.7	4.6	4.2	5.1	5.1	4.0	4.7	4.8	5.3	5.6	5.9
Dec.....	4.7	5.3	NA	3.9	4.6	NA	4.2	5.1	NA	4.0	4.8	NA	5.4	5.7	NA

- (1) Unemployment rates are not seasonally adjusted. Most recent data are preliminary and subject to revision.  
(2) Primary Metropolitan Statistical Area, consisting of the City and 129 contiguous municipalities, with a population of approximately 3.4 million in 2000 according to U.S. Census data.  
Sources: U.S. Bureau of Labor Statistics for United States, New England and Massachusetts and Massachusetts Division of Employment and Training for the City and Boston PMSA (January 2004).

### ***Largest Employers***

The following table lists the thirty-six largest private employers in Boston, the total list of organizations with more than 1,000 employees, which had an aggregate of approximately 21% of private sector employment in 2001.

#### **Largest Private Employers In Boston, 2001 (listed alphabetically)**

Beth Israel Deaconess Medical Center	Liberty Mutual
Boston College	Massachusetts Eye and Ear Infirmary
Boston Medical Center	Massachusetts Financial Services
Boston University	Massachusetts General Hospital
Brigham and Women's Hospital	New England Baptist Hospital
Brown Brothers Harriman	New England Financial
Carney Hospital	New England Medical Center
Children's Hospital	Northeastern University
Dana Farber Cancer Institute	Northwest Airlines
Delta Airlines	Nstar (formerly Boston Edison)
Faulkner Hospital	Putnam Investments
Federal Reserve Bank of Boston	St. Elizabeth's Medical Center
Fidelity Investments	Shaw's
Filene's	State Street Corporation
Fleet Boston Financial	Stop & Shop Supermarkets
Gillette Company	Thompson Financial Services
Harvard University (Business and Medical)	US Air
John Hancock	WGBH

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Note: The following large Boston companies were surveyed but did not respond and likely have over 1,000 employees: Boston Consulting Group, the Boston Globe, Citizen's Bank, Commercial Union Insurance, Liberty Financial Companies, Inc, Macy's, Pricewaterhouse Coopers LLP, Teradyne, UNICCO Services, and Verizon (formerly Bell Atlantic).

Source: Survey by BRA/EDIC, conducted in 2001.

In addition, the public sector has large numbers of employees in the City. According to the BRA, using a series consistent with the Bureau of Economic Analysis, there were an estimated 81,861 federal state and local government workers in Boston in 2003, a reduction of 17,063, or -17.2% from 1990. Certain State government offices, Federal regional offices, U.S. Postal Service facilities, State-chartered authorities and commissions (such as the Massachusetts Port Authority and the Massachusetts Bay Transportation Authority), and the City's local government are all located within the City.

### ***Labor Force and Education***

According to U.S. Department of Commerce, Bureau of the Census, the City's resident labor force declined during the 1970s but increased during the 1980s. In contrast to the 12% decline in population between 1970 and 1980, the City's labor force (those residents aged 16 and over, available to work) declined by only 4%. The difference in these rates of decline was attributable to the fact that the decline in population was concentrated in the under-16 age group. 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. By 1990, the City's population had increased by 2% over 1980 levels, while the City's labor force increased by 12.8% in the same period, according to data from the U.S. Bureau of the Census. During the 1990's Boston's population continued to rise, posting a 2.6% increase between 1990 and 2000. During the same time period the City's labor force decreased by 4%, according to the Massachusetts Department of Employment and Training.

General improvement in educational attainment of residents aged 25 and over continued throughout the 1970-2000 period. The percentage of this population that had completed four or more years of college almost quadrupled during this period from 10% to 36%. 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 25% in 1960 to 36% in 1970, 76% in 2001, and 78% in 2002, based upon Boston School Department figures. 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 addition, 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, 1970-2000**

	<u>1970</u>		<u>1980</u>		<u>1990</u>		<u>2000</u>	
	<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 .....	91,582	26.1%	54,932	16.6%	37,824	10.3%	34,321	9.1%
9 to 12 years, no diploma .....	71,511	20.4	49,407	14.9	51,051	14.0	45,308	12.0
High school grad. (or GED) .	120,350	34.3	115,787	35.0	97,233	26.6	90,568	24.0
Some college or Associates ..	30,876	8.8	43,451	13.2	69,889	19.1	73,125	19.4
Bachelors, Masters, or Prof. .	<u>36,245</u>	<u>10.4</u>	<u>67,073</u>	<u>20.3</u>	<u>109,711</u>	<u>30.0</u>	<u>134,252</u>	<u>35.5</u>
Total.....	350,564	100.0	330,650	100.0	365,708	100.0	377,574	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: U.S. Department of Commerce, Bureau of the Census.

***Income, Wages, and Cost of Living***

Per capita personal income for Suffolk County was \$42,766 in 2001, 41% above the national per capita personal income of \$30,413, according to the U.S. Bureau of Economic Analysis. 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 (as defined in the table below) between 1990 and 1997. The City's median household income (in current year dollars), based on U.S. Census data, rose from \$7,835 in 1970, to \$12,530 in 1980, \$29,180 in 1990 and \$39,629 in 2000. 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, 1970, 1980, and 1990-2002**  
(in current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metro Boston<sup>(1)</sup></u>	<u>Suffolk County<sup>(2)</sup></u>
1970.....	\$ 4,095	\$ 4,453	\$ 4,486	\$ 4,515	\$ 4,652
1980.....	10,183	10,701	10,673	10,806	10,477
1990.....	19,572	22,884	23,208	23,545	24,826
1991.....	20,023	23,175	23,671	24,003	25,655
1992.....	20,960	24,299	24,731	25,135	27,152
1993.....	21,539	24,984	25,453	25,835	27,912
1994.....	22,340	25,928	26,559	26,994	29,303
1995.....	23,255	27,040	27,689	28,192	30,127
1996.....	24,270	28,340	29,166	29,688	31,808
1997.....	25,412	29,924	30,773	31,368	33,260
1998.....	26,893	31,829	32,714	33,411	36,044
1999.....	27,880	33,227	34,360	35,178	37,950
2000.....	29,760	36,195	38,034	39,125	42,069
2001.....	30,413	37,096	38,864	39,873	42,766
2002.....	30,832	37,494	39,044	NA	NA

(1) Metropolitan Boston denotes the New England County Metropolitan Area (NECMA), which is larger than the Primary Metropolitan Statistical Area (PMSA). The NECMA consists of five Massachusetts counties and Hillsborough County in New Hampshire. Known as Boston-Worcester-Lawrence-Lowell-Brockton, MA-NH (NECMA).

(2) City residents constitute approximately 87% of Suffolk County's population.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, May 2003 revised series, Regional Economic Information System.

Data for 2000 from the U.S. Bureau of Economic Analysis indicate that the average annual wage per job for 2001, by place of work, have been consistently higher over time in Suffolk County than in the Boston metropolitan area and the Commonwealth. Suffolk County's average wage per job (\$57,692) was 28% greater than that in the Boston metropolitan area (\$45,009) and 31% greater than the average state earnings level (\$43,943). The average annual wage per job reflects the combined income earned by individuals at their place of work for all industries combined.

**Average Wage Per Job Comparison, 1970, 1980, 1990, 2000 and 2001**  
(in current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metro Boston<sup>(1)</sup></u>	<u>Suffolk County<sup>(2)</sup></u>
1970.....	\$ 6,922	\$ 6,897	\$ 7,038	\$ 7,051	\$ 7,789
1980.....	13,997	13,356	13,524	13,643	15,468
1990.....	23,322	25,403	26,289	26,681	31,266
2000.....	34,647	39,952	43,261	44,382	55,576
2001.....	35,550	40,891	43,943	45,009	57,692

(1) Metropolitan Boston denotes the New England County Metropolitan Area (NECMA), which is larger than the Primary Metropolitan Statistical Area (PMSA). The NECMA consists of five Massachusetts counties and Hillsborough County in New Hampshire. Known as Boston-Worcester-Lawrence-Lowell-Brockton, MA-NH (NECMA).

(2) City residents constitute approximately 87% of Suffolk County's population.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, December 30, 2002 revised series, Regional Economic Information System.

During the years 1991-2000, based on the U.S. Bureau of Labor Statistics Consumer Price Index, the cost of living index rose at an annual average rate of 2.66% in the Boston metropolitan area, while the national index increased at a 2.64% annual rate. In 2002 the index for Boston rose at 2.6% while the national rate grew by 1.6%. From November 2002 to November 2003, the cost of living in the Boston metropolitan (Boston PMSA) area rose 3.0%, compared to a 1.8% rate rise for the nation.

**Consumer Price Index for All Urban Consumers  
For 1991 through July 2003  
(CPI-U)**

	<u>United States</u> <u>Index</u>	<u>Percent</u> <u>Change</u>	<u>Metro Boston</u> <u>Index</u>	<u>Percent</u> <u>Change</u>
1991.....	136.2	NA	145.0	NA
1992.....	140.3	3.0%	148.6	2.5%
1993.....	144.5	3.0	152.9	2.9
1994.....	148.2	2.6	154.9	1.3
1995.....	152.4	2.8	158.6	2.4
1996.....	156.9	3.0	163.3	3.0
1997.....	160.5	2.3	167.9	2.8
1998.....	163.0	1.6	171.7	2.3
1999.....	166.6	2.2	176.0	2.5
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
2002 (July).....	181.3	2.2	200.4	4.0
2003 (July).....	184.5	1.8	206.5	3.0

Note: Index based upon 1982-1984=100.0. Monthly data not seasonally adjusted.

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

**Population**

The U.S. Bureau of the Census reported the City's population as 589,141 in 2000, a 2.6% increase over 1990 and building on the 2.0% increase in the 1980s. The number of households in the City increased from 217,622 in 1970, to 218,457 in 1980, to 228,464 in 1990, and to 239,528 in 2000, while household size fell from 2.8 to 2.3 persons per household from 1970 to 2000. The U.S. Bureau of the Census population for Massachusetts in 2000 was 6,349,097, or an increase of 332,672 persons (5.5%) from the 1990 census. The population of metropolitan Boston rose to 3,398,051 in 2000, a rise of 170,344 persons or 5.3% over the decade. Estimates from the U.S. Census for population in 2003 have been released for states. The latest estimates for cities are for 2002. The population estimate for Massachusetts as of July 1, 2003 was 6,433,422, a gain of 1.3% over April of 2000. The population estimate for Boston as of July 1, 2002 was 589,281, a marginal gain.

**Population of Massachusetts, Metropolitan Boston,  
and the City of Boston 1970, 1980, 1990 and 2000**

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>1970-80</u>		<u>1980-90</u>		<u>1990-00</u>	
					<u>Population</u>	<u>Percent</u>	<u>Population</u>	<u>Percent</u>	<u>Population</u>	<u>Percent</u>
Massachusetts	5,689,170	5,737,037	6,016,425	6,349,097	47,867	0.8%	279,388	4.9%	332,672	5.5%
Metropolitan Boston <sup>(1)</sup>	2,899,101	3,149,000	3,227,707	3,398,051	-	<sup>(2)</sup>	78,707	2.5	170,344	5.3
City of Boston	641,071	562,994	574,283	589,141	(78,077)	(12.2)	11,289	2.0	14,858	2.6

(1) Boston PMSA.

(2) Because of a metropolitan area boundary change from Standard Metropolitan Statistical Area ("SMSA") to PMSA, the 1970-1980 change is not shown.

Source: U.S. Department of Commerce, Bureau of the Census.

Although, data from the 2000 Census has been reported to Boston since 2001, only but not all information regarding the demographic and housing characteristics of Boston's resident population is available. Changes in racial patterns 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%. Within the Asian/Pacific Islander classification, the largest growing groups were the Vietnamese, Chinese, Asian Indian, and Korean groups. Within the Hispanic classification the fastest growing groups were the Central and South Americans with a small but fast-growing Mexican community. 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 baby boom population (aged 35 to 54 years) increased significantly, to 20%, as that cohort aged and continued to show a preference for city living. The city saw a decline in the elderly population (aged 65 and over) between 1990 and 2000 as that segment declined by nearly 5,000

people to 10% of the population. Boston showed a general rise in the number of children as that population (aged 18 and under) increased by over 6,700 persons to 20% of the population. The trend toward fewer families of related people living together to more non-family households comprised of single persons and roommates, continued in Boston in the 1990s. 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 rose. Single-person households continued to grow. Families with children under 18 also grew, although married couples with young children fell because of the continued trend toward single-parent families with children. Children over 18 living with their families showed an upward trend as college students commuted in increasing numbers, and the cost of housing kept older children at home longer. Group quarters population continued to increase both for the institutionalized and non-institutionalized populations, the vast majority of which is the student dormitory population. Household size has only fallen by 2.5%, going from 2.37 persons to 2.31 despite the large growth in single person households. Average family size edged only marginally lower from 3.19 to 3.17 persons.

### ***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 the Boston metropolitan area. Expenditures by the institutions’ patients, students and visitors are important to the City’s trade and service sectors.

Twenty-two inpatient hospitals are located within the City, including Massachusetts General Hospital, Brigham and Women’s Hospital, Beth Israel/Deaconess Hospital, Children’s Hospital, the New England Medical Center and Boston Medical Center. These hospitals had a combined total of 5,888 beds in 2000 with total expenses of over \$5 billion. In 2000 the hospitals saw 217,000 in-patients, had over 3.8 million outpatient visits, and witnessed over 22,000 births according to data from the American Hospital Association. 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, not including health maintenance organizations and membership clinics.

In 2003, there were an estimated 106,989 persons employed in health services in the City, based on a series consistent with U.S. Bureau of Economic Analysis data. Health services represent over 1 out of every 6 jobs within the City. Growth in the health services sector has been stable, despite varying economic conditions. Data from this employment series showed that the number of hospital employees in Boston between 2001 and 2003 grew from 65,414 to an estimated 73,514.

According to the BRA, the City’s hospital and medical school community invested over \$1.5 billion in new facilities from 1984 to 2003. Large new hospital expansion projects completed over the 1984-1996 period included: Massachusetts General Hospital, Beth Israel/Deaconess Hospital, Brigham and Women’s Hospital, Boston Medical Center, St. Elizabeth’s and New England Medical Center. In 1996-1997 several hospital projects were completed including a Dana Farber research building and a Beth Israel ambulatory care facility. In 1999 the Shriners’ Burns Institute’s new building and the Franciscan Hospital gymnasium were finished. A new South End Health Center with 121,661 square-feet of space was opened in 2001. Tufts University completed a \$40 million biomedical research building and nutrition center of 146,800 square feet in 2002. Also in 2002, the Harvard Institutes of Medicine completed the redevelopment of the former English High School into medical research space with a \$120 million, 435,000 square-foot building. In 2003, Building 114 in the Charlestown Navy Yard with 90,000 square-feet of medical research space for Massachusetts General Hospital was renovated and opened.

As of January 2004, there were five hospital/medical center projects and three medical research projects under construction or set to begin. In the Longwood medical area, Children’s Hospital has two buildings under construction, a medical research building and a clinical building totaling 440,000 square feet. In addition, Emmanuel College has two medical research buildings scheduled: a building of 300,000 square feet to be occupied by the Merck pharmaceutical company has begun construction, and another research building of 166,000 square feet is expected to start construction in 2003. At Harvard Dental School in the Longwood section of Boston, a new building with 24,000 square-feet of educational space and 16,000 square-feet of medical research space is now in construction. At Boston University a new \$80 million sciences building with 187,000 square-feet of medical research space is ongoing. Massachusetts

General Hospital also has begun work on a \$125 million new 420,000 square foot ambulatory care facility with a 220,000 square foot outpatient clinic and a 725-car garage. Mass. General Hospital is also participating in the redevelopment of the Charles River Plaza expansion that will provide 387,000 square-feet of medical research space and some ancillary retail space to the West End. Several BRA Board-approved medical projects include: the Joslin Diabetes Center's proposed 490,000 square-foot expansion project; the 105,000 square-foot Boston University Medical Center's Moakley Cancer Care Center; the 575,000 square-foot Blackfan Research Center in the Longwood area; and a medical research and educational building for Harvard University.

For the eighth straight year, Boston emerged as the highest-ranking city in the United States for National Institutes of Health (NIH) grant awards, more than doubling receipts over the decade and edging away from its closest competitors. Boston received 3,269 awards totaling more than \$1.2 billion in fiscal 2001. Of that total, 2,858 were research grants amounting to more than \$1.1 billion and 152 were training grants adding up to about \$42 million. Boston's hospitals continue to attract funding, comprising the top five independent hospitals in the nation in terms of receiving NIH awards, and seven out of the top fourteen. In addition to public monies for medical research the Boston institutions also have private funding sources through agreements with private sector firms.

Boston is one of the nation's largest centers of medical research activities and biotechnology industries. In Massachusetts, one of the leading biotechnology centers in the United States, there were over 215 companies engaged in research and development and manufacturing of biotechnology products as well as scientific, equipment, supplies and support services to the industry according to the Massachusetts Biotechnology Council. The Ernst & Young annual biotechnology industry report, "Convergence, Millennium Edition, 2000," showed the New England Region as the nation's second largest center for biotechnology by number of publicly-traded companies (53), total assets (\$7.3 billion), and R&D spending (\$1.5 billion), as well as the nation's third largest center as ranked by product sales (\$2.3 billion), and total revenues (\$3.2 billion) and the nation's fourth largest center as ranked by employees (18,395).

As of academic year 2002-2003, the New England Board of Higher Education reported 74 colleges and universities in the Boston metropolitan area (PMSA), at which over 275,000 students were enrolled. The City's 34 universities, colleges and community colleges had a combined enrollment in fall 2002 of approximately 136,536, a 7.2% gain from fall of 1990. These numbers include the medical schools of Harvard and Tufts Universities, whose principal campuses are in Cambridge and Medford, respectively, which had 1,495 students in the City in 2002. However, several graduate schools of Harvard and Tufts which are in Boston are not counted in this total which may add another 3,000 or so students. Based on total graduate and undergraduate enrollment, Boston University was the largest university in Boston in fall of 2002, with 28,982 students.

Educational institutions are a source of new highly skilled professionals for the City's labor force. For example, according to the Massachusetts Institute of Technology, although only 10% of its enrollees over the decade of the 1980s were from the Boston area, 24% remained in the area after graduation.

From 1991 through 1998, according to the BRA, large projects at educational institutions in the City accounted for approximately \$300 million of investment. These included new construction at Boston University, Northeastern University, Tufts University, Boston College, the Massachusetts College of Pharmacy, and Harvard University, as well as major renovations by Emerson College and Suffolk University. Projects completed in the last decade include: the Boston University School of Management and the Boston University Photonics Center; Emerson College dormitory and administration space in renovated buildings; Suffolk University dormitory space; and, at Northeastern University, the Marino Recreation Center and an Engineering and Science building. In 1999 Suffolk University completed its new \$65 million Law School on Tremont Street in downtown Boston. In 2002 four developments were completed: Northeastern University finished the Behrakis Health science Building with 120,000 square-feet; Tufts University completed a Biomedical Research and Nutrition complex, a building of 146,800 square-feet; Simmons College finished a new Graduate Center; and Harvard Business School completed the 47,000 square-foot Hawes Hall. In 2003 Boston College added a Faculty Administration building with 156,000 square feet of space.

Between 1990 and 2002, Boston's colleges and universities added 10,511 dormitory beds, the equivalent of approximately 2,600 apartment units. In 2000 Boston University completed an 819-bed dormitory, and Northeastern University completed two smaller dormitories that added 470-beds. Subsequently, Boston University completed a renovation of 575 Commonwealth Avenue that added 221 rooms, and Northeastern completed several additional projects: a new dormitory with 630 beds; 15-unit Shawmut Estates; the \$51 million Davenport Commons with 538-beds, 60 affordable condominiums, and 2,100 square feet of retail space; and 780 Columbus Avenue, with 114 beds. Wentworth Institute opened a new 475-bed dormitory at 610 Huntington Avenue in 2001. Mass. College of Art completed a 9-story, 600-bed dormitory in July of 2002.

A number of dormitory and academic facilities are currently being constructed, or have recently been approved. Boston College, is building a new Residence Hall on St. Thomas More Drive with 104,000 square feet of space. Harvard is building a new 24,000 square-foot Dental school that also houses medical research uses. The Massachusetts College of Pharmacy is constructing a 93,300 square-foot addition to the White building. Northeastern University is making modifications to the 294,000 square-foot West Village. Also, the Judge Baker Children's Center began construction on a 63,000 square-foot facility. Emerson College has undertaken construction of its new \$40 million, 11-story, 80,000 square-foot Performing Arts Center on Allen's Alley adjacent to the Emerson Majestic Theater on Tremont Street. Educational projects that are approved by the BRA Board include the 72,000 square-foot Boston College Yawkey Athletic Center, a 60,000 square-foot addition to BC High School, and a new \$60 million dormitory for Emerson College. Harvard University continues its planning for future academic uses in the Allston neighborhood on land it owns near the Business School Campus and the athletic fields.

### ***Tourism***

According to the Greater Boston Convention and Visitors Bureau ("CVB"), an estimated 12.9 million people visited the Boston metropolitan area in 2002, up by 3% from the 12.6 million visitors in 2001. These data represent visitors, measured as tourists, business travelers and convention and meeting delegates who traveled at least 100 miles to get to the City. The latest data on the economic impact of tourism from the CVB show that, for the five county region of greater Boston, visitors spent an estimated \$7.5 billion for hotel accommodations, meals, entertainment, shopping, transportation and other services during 2001. The latest data for Suffolk County indicates that in the county alone the total domestic direct traveler impact in 2000 was \$5.6 billion, supporting 55,520 jobs and a payroll of \$1.6 billion, while generating \$139 million in state tax receipts and \$92 million of local tax receipts.

In recent years several large tourist events have taken place in Boston. In July 1992, Sail Boston, the tall ships flotilla, drew an estimated 6 million attendees, including visitors (as defined above) and local residents. During the summer of 1994, greater Boston was a regional host of the World Cup soccer championship. In April 1996, the 100<sup>th</sup> anniversary of the Boston Marathon attracted a record field of 38,708 runners and an estimated 750,000 spectators along the route, with 150,000 of them at the Copley Square finishing line. In August 1998, the 200th Anniversary of the refurbished frigate USS Constitution, "Old Ironsides," was celebrated with a gala three-day event with other tall ships from around the world in attendance. Also in 1998, the "Monet in the 20<sup>th</sup> Century" exhibition at the Museum of Fine Arts, the only showing in the United States, topped all museum exhibits in the United States with almost 566,000 visitors. In 1999 Boston was the site of Major League Baseball's All Star game. In 2000, the City held a large celebration, Millennium 2000, lasting several days, and Sail Boston 2000, which attracted over 4 million people to the waterfront for a parade of Tall Ships. In January 2001, Boston's Fleet Center hosted the US Figure Skating Championships and attracted 108,000 visitors. During 2002 Boston's 105<sup>th</sup> Marathon drew an estimated 1 million visitors and the Head of the Charles Regatta drew an estimated half-million attendees. In addition, every year there are a wide variety of special events in Boston including food, cultural, and musical events, ethnic celebrations, harbor, seaport and river festivals, parades, and collegiate and professional sporting contests that attract many visitors.

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 City provides venues for concerts, ice shows, circuses, plays, and other entertainment performances and sports events. The Fleet Center, a privately-financed, multi-purpose arena in Boston's North Station District constructed by the New Boston Garden Corporation, a subsidiary of Delaware North, owner of the existing Boston Garden/North

Station, opened on September 30, 1995. In the fall of 2002 the Democratic National Committee signed an agreement to host the 2004 Democratic Party Convention at the Fleet Center in Boston in July of 2004. Also, after a five year term in New York City the annual east coast Mac World computer show has agreed to return to Boston beginning in the summer of 2004.

Boston is an attractive destination for conventions, meetings, and trade-and-gate shows. Currently Boston has three small and medium convention sites: the John B. Hynes Veterans Memorial Convention Center, the World Trade Center and the Bayside Exposition Center. Together, these facilities have a combined capacity of over one million people per year. In addition, the Massachusetts Convention Center Authority (“MCCA”) and the City are developing a new 1.6 million square-foot convention and exhibition center in Boston that will provide facilities suitable for large national conventions. In 2003 Boston was projected to host over 300 events—meetings, conventions and expositions—including a total of 15 citywide conventions; these are defined as events that would each use over 2,000 hotel rooms on the peak night, which usually requires at least three hotels.

Several cultural institutions are pursuing development plans that are either currently proposed, approved, or under construction. The New England Aquarium is in the midst of an expansion plan and some of the project has been completed, including the new Simons IMAX Theater. The Museum of Fine Arts is planning a 462,400 square-foot expansion and this is currently under review. An Islamic Cultural Center in the Roxbury neighborhood is BRA Board-approved. The Boston Center for the Arts and the Huntington Theatre Company are working together on two new theaters now under construction that will open in the fall of 2004. Clear Channel, Inc. will complete its \$37 million renovation of The Boston Opera House on Washington Street in the summer of 2004. For the long-term, the Massachusetts Horticultural Society continues its effort to build a “Garden Under Glass” on a parcel atop the Central Artery, see “Large Public Sector Projects,” below. The Institute for Contemporary Art (the “ICA”) is completing its designs for a new facility on the Boston Waterfront. Over 100 new permanent artist studios will be under construction in the Fort Point Channel area and in Jamaica Plain. The City has also selected a developer to create 54 more artist studios in the South End. In April 2004, Artists for Humanities, a non-profit organization that helps Boston’s youth explore careers in the fields of arts and design by working with professionals in those fields, will complete a 23,500 square-foot building in South Boston containing an art gallery, a performance studio, a function hall, a photography studio, a darkroom, graphic design printing studios, and office space.

In lieu of the recent sale of the Boston Red Sox baseball franchise, the previous owner’s plans for a new ballpark are now defunct. This paves the way for the current owners to develop a new proposal for renovation of the existing Fenway Park or a new park. Such developments would require approval by the State and City.

### ***Hotel Market***

Boston’s favorable hotel market over the 1992-2000 period stimulated considerable new development. The number of hotel rooms in the City increased from 6,907 in 1980 to 12,136 as of July 1, 1997—an increase of 76%. Between July 1997 and July 2003 eighteen new hotels and five expansion projects were completed, adding a total of 3,550 rooms. During 2002 and the first seven months of 2003, the following hotels were completed: the Charlesmark Hotel, a 33-room hotel (reuse) on Boylston Street; the Nine Zero, a new luxury 190-room hotel on Tremont Street; the Hotel Commonwealth, a 149-room new hotel in Kenmore Square; Embassy Suites, a 272-room hotel in East Boston; and Marriott Residences, a 168-room new hotel on Tudor Wharf in Charlestown. An additional 676 rooms are expected to be added during 2004 with the completion of five hotels under construction (two new and three “reuse”) as of January 2004: the Courtyard by Marriott at 88 Exeter Street in the Back Bay with 81 rooms; Jurys Doyle on Berkeley Street also in the Back Bay with 220 rooms; Hotel Clarion at 115 Merrimack Street in North Station near the Fleet Center with 88 rooms; Hotel Onyx at 155 Portland Street near North Station with 112 rooms; and the Hampton Inn at Crosstown in the South End/Roxbury with 175 rooms. The City of Boston established a \$25 million hotel financing pool, using funds from the U.S. Department of Housing and Urban Development, to enable construction of two more hotels: the Westin Convention Center Hotel in the South Boston Waterfront district; and the Regent Boston Hotel on Battery Wharf. These hotels are not yet underway as of January 2004. Nine more hotels have BRA Board approvals but are not yet started.

Between 1991 and 2000, average annual occupancy rates grew steadily from 70.1% to 78.4% and average daily room rates rose steadily from \$118.17 to \$198.00. 2001 brought a more challenging environment for the hospitality industry as a slowing economy combined with the events of September 11<sup>th</sup> to dampen hotel market performance in Boston. In 2001 the occupancy rate fell to 69.6% and the room rate to \$182.52. For 2002, through, Boston's hotel occupancy, according to Pinnacle Advisory Group, an independent hospitality industry consultant, stood at 72.3% and the average daily room rate registered \$165.61. The first ten months of 2003 saw total hotel room demand improve by 3.8% from the first ten months of 2002, but, with the completion of more hotel supply, the occupancy rate fell slightly to 72.5% from 73.5% for the ten months. The Average Daily Rate slipped by 7.1%% over the year to \$147.01 for the ten months of 2003. Usually, room rates do not increase significantly until after a sustained period of higher occupancy rates. RevPAR (Revenue per available room) was \$111.21 for the ten months of 2003. The challenges ahead for Boston's hotel market include expanding demand at a rate faster than that of new supply added and taking full advantage of the large events planned for 2004—the Democratic National Convention and the opening of the new Boston Convention and Exposition Center.

### ***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 and Maine. 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, which includes a population of 2.8 million people in an area of 1,038 square miles. The MBTA, the fifth largest mass transit system in the nation as determined by ridership, currently serves about 1.2 million persons per day. The draft capital plan for 2004-2008 is not yet approved but is currently under review.

The capital program of the MBTA (Capital Investment Program) totals approximately \$2.8 billion over fiscal years 2003-2008, averaging about \$529 million per year. Approximately \$1.76 billion of bonds will be issued to fund capital expenditures, approximately \$1.1 billion of capital expenditures is expected to be funded through federal grants, and approximately \$62 million of capital expenditures will be funded with pay-as-you-go capital funding, state reimbursement and other project financing.

The five-year Capital Investment Program for fiscal years 2003-2008 consists of four major programmatic areas: (i) reinvestment in the infrastructure (\$2.07 billion); (ii) accessibility improvements (\$156 million); (iii) enhancement of existing service (\$266 million); and (iv) system expansion efforts (\$683 million). Capital Investment Program spending by transportation mode is as follows: subway, \$1.17 billion; commuter rail, \$574 million; Silver Line, \$302 million; d) bus, \$378 million; and systemwide, \$752 million.

Infrastructure improvements refer to vehicles, track/right-of-way, signals, communication, power, maintenance facilities, stations, facilities, bridges, and fare equipment. The major infrastructure spending will take place on revenue vehicles (\$707 million); station modernization primarily on the Red and Blue lines (\$325 million); rail signaling systems (\$197 million); maintenance facilities, including rail car houses and bus garages (\$171 million); track/right-of-way (\$142 million); and fare equipment (\$124 million).

Several specific system enhancement projects are underway. Current efforts are devoted towards the North Station Transportation Center, serving the Orange Line and Green Line subways, where an enhancement of the Green Line/Orange Line transfer station is underway. To date, \$145 million has been spent on this project in Phases one and two while the next two phases are expected to require \$107 million until project completion in fiscal year 2007. Another system enhancement project is a \$10 million effort to

support community planning and design efforts necessary to light-rail vehicle service along the Arborway corridor. The current plan has expended \$36 million in parking facilities and devotes another \$66 million toward parking over the next six fiscal years. The most significant efforts are the construction (nearly complete) of a new station with over 2,400 spaces in Woburn and the planned expansion of the North Quincy Garage with 1,189 spaces for park-and-ride passengers on the Red Line subway, while the majority of the other parking projects are located at commuter rail stations.

Since 1985 the MBTA has pursued large-scale commuter rail system expansion projects, including new rail service to Worcester, Middleborough, Plymouth, and Newburyport. The 2003-2008 plan programs \$421 million toward the expansion of the commuter rail system, 66% of expansion expenditures overall. The majority of the funding is devoted to the rehabilitation of the Old Colony Greenbush Branch with \$44 million expended and \$351 million planned for future expenditures over six years. This project consists of the construction of 17.1 miles of track, 7 stations, a layover facility, a tunnel through historic Hingham Square, and the purchase of rolling stock. The New Bedford/Fall River Extension (Phase 1) includes design and construction to support extension of MBTA services to New Bedford and Fall River. To date, \$24 million has been spent, and \$16 million of additional work is planned. Current efforts include rehabilitation of bridges in New Bedford and Fall River. Other efforts include the completion of three projects that include the Newburyport/Rockport extension, the Worcester Commuter Rail extension, and the Old Colony rehabilitation on the Middleborough and Plymouth lines.

Finally, the major MBTA subway enhancement project is the Silver Line development. The MBTA is constructing the Silver Line to operate as part of its core downtown transit system. This Silver Line will combine bus rapid transit services along Washington Street (through the Downtown, Chinatown, the South End, and Roxbury neighborhoods) and bus rapid transit services along the South Boston Piers Transitway (on the South Boston waterfront) into a single line. There are four projects currently related to the Silver Line. One project (a joint project with the Massachusetts Highway Department (MHD)) for the design and reconstruction of Washington Street from Dudley Square to Downtown, and includes 14 new stations that opened in July 2002. Two projects are related to the South Boston Piers Transitway, a one-mile long tunnel extending from South Station to the pier area with three stations – South Station, Courthouse Station, and World Trade Center Station scheduled to open in 2004. The remaining project involves conceptual planning and design to eventually connect Washington Street and the South Boston Piers Transitway with neighborhoods and job centers in the Financial District and the new South Boston waterfront. So far a total of \$443 million has been spent on these four Silver Line projects. The current six-year spending program for this Silver Line project is \$248.7 million, 36% of the MBTA system-wide expansion effort.

Since 1991, Amtrak has spent \$1.8 billion towards a multi-year high-speed rail infrastructure project intended to provide better ride quality, permit faster train speeds, and increase capacity for passengers on the rail corridor between Boston and New York. A key component of infrastructure upgrades was electrification of the remaining segment of the Northeast Corridor rail line between New Haven and Boston, which became operational in 2000. Amtrak has taken delivery on 19 of 20 new Acela Express high-speed trains, and all 15 high-horsepower electric locomotives. The new rolling stock reduces rail travel time from downtown Boston to downtown New York City to three hours and twenty-five minutes—which is competitive with air travel. When combined with all other planned infrastructure improvements over the next five years, the new high-speed trains will further reduce travel time to approximately three hours and fifteen minutes. The equipment contract also included construction of three new maintenance facilities servicing the trains and locomotives. One of these maintenance facilities, completed in 1999, is located in Boston at Southampton Yard. Ridership between New York and Boston has grown significantly as a result of the new high-speed service, despite the general downturn in the economy and regional travel. In fiscal year 2002, Amtrak carried 832,500 passengers between New York and Boston, up 20% over the previous year. The new Boston—Portland, Maine passenger rail service (the “Downeaster”) commenced December 15, 2001. The 250-passenger train runs four times a day in each direction between North Station and Portland. The trip takes 2 hours and 45 minutes, and makes intermediate stops in Haverhill (Massachusetts), Exeter, Durham, and Dover (New Hampshire), and Saco, Wells, and Old Orchard Beach (Maine). The roundtrip fare from Boston to Portland, Maine is \$35.

Water transportation has also become a significant factor in transportation with the Boston Harbor. Currently seven operators provide water transit services to approximately 1.5 million riders annually with ambitious plans for future expansion.

For a description of the depression of the Central Artery and the construction of a third tunnel under Boston Harbor, two other significant transportation projects in the City, 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 and the Tobin Memorial Bridge over the Mystic River. 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 has compelled significant expansion of both facilities. Massport's net investment in its facilities through June 2003 exceeded \$2.93 billion, consisting of \$2.36 billion invested in airports and \$566 million invested in the Tobin Bridge, maritime development and other capital projects.

The Port of Boston serves the six-state New England region as a natural deep-water berth, and provides access to world ports as well as feeder service several times weekly to Halifax, Canada and the Port of New York. The City's port activity includes handling bulk and general cargo, providing ship repair supply services, offering customs and international trading services, providing storage facilities and other commercial maritime services.

The City's port tonnage fell from the 1950s through the 1990s as a result of changes in transportation technology and in the regional economy. Since 1998 the Port of Boston has ranked as the 12th largest container port on the U.S. Atlantic Coast by container volume and for the past 20 years, the Port has handled between 1.2% and 1.8% of all U.S. Atlantic Coast port volume. During fiscal 2003 the Port activity of 86,149 boxed containers increased 18.8% over fiscal 2002, primarily as a result of new far-east service provided by COSCO, while the 29,559 automobiles handled in fiscal 2003 decreased by 63% from fiscal 2002 (reflecting the relocation of Volkswagen's importing business from Moran Terminal to Rhode Island) and the 162,824 in bulk tonnage for fiscal 2003 decreased by 21.6% from fiscal 2002's bulk tonnage.

The Port of Boston is now a major cruise port. The total number (207,245) of cruise passengers decreased in fiscal 2003 by 15.9% compared to fiscal 2002 but grew 11.4% compared to fiscal 2001, reflecting both a trend of continued growth as well as a large one-time increase in fiscal 2002 due to passengers diverted from New York City following the September 11, 2001 incident. The cruise port mainly runs from May through October.

In 1996, the BRA and Massport produced a Seaport Economic Development Plan for Boston Harbor, which provides policies, and guidelines for future development planning along Boston's waterfront. The plan is currently being implemented.

In calendar 2003, Logan Airport served a total of 22.6 million passengers, an increase from the 22.1 million passengers served in 2002. Through November, fiscal 2003 passenger volume was off by 1.7% to 10.2 million from 10.0 million for the same eleven months of fiscal 2002. A report on calendar year 2002 prepared by Airports Council International ("ACI") showed that Logan was the most active airport in New England, the 20<sup>th</sup> most active in the United States and the 37<sup>th</sup> most active in the world.

Logan Airport also plays an important role as a center for processing domestic and international air cargo. According to ACI, Logan Airport ranked 17<sup>th</sup> in the nation in total air cargo volume in 2002. In fiscal 2003 total combined cargo and mail volume was 817.8 million pounds a 2.9% increase from the 842.2 million pounds in fiscal 2002.

In January 2003, Massport projected that it would spend about \$1.25 billion during fiscal years 2003-2007 for ongoing capital improvements to Hanscom Field, Logan Airport, the Tobin Memorial Bridge and the port facilities and for improvements and major maintenance at various other Massport properties. Massport currently expects to finance these projects with a combination of bond proceeds, passenger facility charges, federal grants and internally generated funds. The capital program is currently at about

\$250 million per year. The plan to add a new runway at Logan airport was approved by state and federal authorities but is being challenged in court. See “Large Public Sector Projects,” below.

***Construction Activity***

Since 1960 the public and private sectors have carried out a major expansion of capital construction and investment activity. Private commercial development investment has added approximately 30 million square feet of office space to the physical inventory of the City since 1960—eight times the amount built in the previous 35 years.

The following table sets forth the estimated potential construction activity in the City from fiscal years 1994-2003, 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.

Revenue from building permit fees during fiscal 2003 indicated that the estimate of total potential construction activity was \$2.37 billion. Revenue from building permit fees increased in all but four of the fiscal years between 1993 and 2003. Data on building permit revenues for fiscal 2004 is available for the first six months of the twelve month period and shows that permit revenues would be \$19.3 million for the full year (annualized) and that estimated potential construction activity for the full year would total \$2.27 billion.

**Boston Building Permit Revenues and Estimated Potential Construction Activity  
Ten Fiscal Years, 1994-2003**

	<b>Building Permit Revenues<sup>(1)</sup></b>	<b>Estimated Potential Construction Activity<sup>(2)</sup></b>	<b>Estimated Potential Construction Activity Adjusted For Inflation<sup>(3)</sup></b>
1994.....	\$9,039,951	\$1,063,523,647	\$1,335,636,143
1995.....	7,629,395	897,575,882	1,095,837,897
1996.....	11,777,653	1,385,606,235	1,647,863,396
1997.....	9,199,877	1,082,338,471	1,244,979,672
1998.....	14,757,703	1,736,200,395	1,956,267,852
1999.....	11,404,006	1,341,647,713	1,486,524,089
2000.....	17,922,648	2,108,546,846	2,257,151,424
2001.....	27,191,839	3,199,039,882	3,265,051,816
2002.....	19,055,144	2,241,781,647	2,241,781,647
2003.....	20,145,888	2,370,104,471	2,370,104,471
Total.....	<u>\$148,124,104</u>	<u>\$17,426,365,189</u>	<u>\$18,901,198,406</u>
Annual Average 1994-2003.....	\$14,812,410	\$1,742,636,519	\$1,890,119,841

NOTE: The estimated building permit revenue for fiscal 2004, annualized based upon the last two quarters of data for calendar 2003 is \$19,349,872. Based on these permit revenues the estimated potential construction activity for full fiscal 2004 would be \$2,276,455,529 in November 2003 dollars.

- (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 potential construction activity adjusted to January 2003 constant dollars (CPI-U Boston).

Source: City of Boston, Auditing Department and City of Boston Annual Reports. Compiled by Boston Redevelopment Authority's Policy Development and Research Department (January 2004).

***Large Public Sector Projects***

Through 2004 the Boston metropolitan area will continue to be the site of several major public sector projects. In addition to the Boston Convention and Exposition Center ("BCEC") Project, two large transportation projects—the depression of the Central Artery, the elevated section of U.S. 93 that runs through downtown Boston and serves as the principle six-lane highway carrying traffic through the City; and the construction of a four-lane Ted Williams tunnel under Boston Harbor (together, the "Transportation Projects")—are under construction. The Transportation Projects, which are intended to improve traffic flow, are under the control of the Massachusetts Turnpike Authority.

The first major milestone achieved by the Transportation Projects was the completion of the Ted Williams Tunnel, in late 1995, which initially opened for limited use, and was open to all traffic in January 2003 when the U.S. 90 extension under Fort Point Channel was completed. The second major milestone, the Leverett Circle Connector Bridge, opened a week ahead of schedule in October 1999. The four-lane bridge over the Charles River carries traffic between Leverett Circle in downtown Boston and U.S. 93 in Charlestown. The third major milestone was achieved in January 2003 with the completion of 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. This major interchange in South Boston now provides direct access from the western suburbs to Logan Airport, as well as to development in the South Boston Waterfront including the new BCEC Project. The Ted Williams Tunnel is expected to carry 88,000 vehicles per day, and this traffic is projected to grow to 94,000 vehicles per day in 2004. Prior to the Transportation Projects, the Central Artery's only connection with Logan Airport was via the existing two-lane Sumner and Callahan tunnels, which handled traffic from north, west and south of the City. The fourth major milestone was the completion of the Northbound Central Artery and the opening of the Leonard P. Zakim Bunker Hill Bridge over the Charles River in March of 2003. An initial opening of the southbound Central Artery segment occurred in December 2003 with a complete opening scheduled between March and July 2005. Total project completion, including demolition of the existing elevated structure is slated to occur after that, although demolition on the closed north-bound segment of the existing elevated highway is

currently progressing rapidly. Construction on the development parcels including landscaping and parks will begin after the Transportation Projects are finished.

On July 31, 2003, the Turnpike Authority finalized its annual comprehensive cost and schedule review ("CSU Rev. 10") as stipulated in the Project Partnership Agreement with the Commonwealth and Federal Highway Administration (the "FWHA"). The results of this bottom-to-top review of project costs were incorporated into the project's annual finance plan submitted to the Federal Highway Administration on September 26, 2003. (The "September 2003 Finance Plan"). The Turnpike Authority estimated total project costs to be \$14.63 billion, with no increase over the October 2002 Finance Plan.

The CSU 10 included a contingency account budgeted at \$334.9 million, of which approximately \$62.0 million was allocated for unanticipated risks. In July 30, 2003 the Federal Highway Administration submitted to the Turnpike Authority the results of its annual budget review of the CA/T project. The Federal Highway Administration estimates that the total cost of the project to be \$14.52 billion, as compared to the 2002 estimate of \$14.46 billion.

The Commonwealth's Executive Office for Administration and Finance engaged an independent auditor to review and evaluate CSU 10, as required for the U.S. DOT's approval of the September 2003 Finance Plan. The independent auditor has filed its draft final report on CSU Rev. 10. The final report concluded that the total cost estimate of the CA/T Project in the amount of \$14.63 billion set forth in CSU10 was aggressive but did not recommend that the estimate be increased.

The Claims and Changes Department of the CA/T Project is responsible for administering the commercial aspects of the CA/T Project's construction contracts. In the fall of 2002, the Turnpike Authority Chairman directed the Claims and Changes Department to establish a "close-out" plan to resolve the pending backlog of contractor claims on the CA/T Project (at that time there were nearly 5,000 outstanding change order issues and claims with an average age of over 300 days). In February 2003, the National Academy of Engineering and the National Research Council (NRC) issued a report to the Turnpike Authority that identified as a major priority the resolution of outstanding CA/T Project contractor claims by July 2004. The Turnpike Authority Chairman has approved a Claims and Changes Department claim resolution plan with the objective of meeting the National Academy's recommended target date of July 2004.

In general, the claim resolution plan provides for (1) targeting complete or nearly complete contracts that have a large number and magnitude of claims; (2) establishing a dedicated negotiation team comprised of a Team Leader with technical support from other CA/T personnel (estimators, schedulers, auditors, etc.); and (3) entering into structured negotiation agreements with contractors that provide for, among other things, scheduled claim submissions, negotiations, and, if necessary, mediation. Consistent with the NRC recommendation, a significant budget commitment has been made to enhance the in-house staff and consultant resources necessary to support the claim resolution program. In addition, the Turnpike Authority is in the process of retaining nationally recognized claims and audit experts to assist the CA/T Project staff in analyzing, negotiating, and documenting prompt and equitable resolutions of all open matters with CA/T Project construction contractors.

The outstanding claim from Honeywell Technology Solutions, Inc. is currently being handled by the Claims and Changes Department with assistance from other departments of the CA/T Project. Due to the advanced state of construction on the CA/T Project and previous completion of certain CA/T Project milestones, management of the CA/T Project believes that risks associated with nonperformance of accelerated work by Honeywell on its contract have been substantially mitigated.

Massport has developed a long-range capital program of approximately \$3.0 billion for improvements at its facilities, most of which are located in the City. The capital program includes a major modernization of Logan Airport, over half of which is completed, that will include a new double-decked roadway system, a new 3,150 space parking garage, a new public transit terminal, improved walkways, major terminal renovations, a new 600-room hotel, and a new sign system. This capital program also includes non-Logan improvements and privately financed investments at Massport facilities. Massport is currently proposing to build a new runway at Logan Airport to enhance the efficiency of operations and to relieve reported flight delays. This proposal has received both state and federal environmental approval. Massport is seeking in state court to lift an existing injunction prohibiting construction of the runway.

There is also pending legislation in federal court challenging the environmental approval of the project. In the New England region, capital and operating improvements at the five other regional airports have resulted in capacity upgrading and more efficient usage of air traffic operations.

The Massachusetts Water Resources Authority (“MWRA”), an independent state authority, has recently completed construction of one of the largest wastewater treatment facilities in the nation. This project, which was undertaken pursuant to a federal district court order, was part of MWRA’s capital improvement program costing approximately \$3.5 billion (1999 dollars) and brought wastewater discharges in Boston Harbor into compliance with federal and state requirements.

The MWRA has also spent approximately \$680 million of Wastewater System Improvements and approximately \$1.4 billion on Waterworks System Improvements. The largest expenditures have been for the Walnut Hill Treatment Plant, improved water storage facilities and reduction of combined sewer overflow.

The MWRA is planning to spend approximately \$1.6 billion on additional water and wastewater system improvements over the next ten years. The largest expenditures will be to rehabilitate large sewer interceptors and pump stations, combined sewer overflow projects, and water treatment and distribution system improvements. Relatively small portions of these improvements are located within the City, but they should nonetheless provide major improvements in the system infrastructure that serves the City. Projects are funded through state loans and the issuance by MWRA of revenue bonds backed by rates and charges paid by system users. Such rates and charges are expected to continue to increase each year, dictated in large part by increased debt service costs in connection with financing its capital program. The City is not directly responsible for the costs of any of the above-described projects, although the BWSC, which pays approximately 31% of all MWRA rates and charges, is expected to bear a portion of the cost of the MWRA capital program through increased user fees.

The Boston Housing Authority (“BHA”) recently completed major revitalization initiatives at two of its public housing developments: Mission Main, in the Mission Hill neighborhood of Boston, and Orchard Park, in Roxbury. The BHA was able to initiate the revitalization of these developments when it was awarded two HOPE VI grants from the U.S. Department of Housing and Urban Development (“HUD”). The grants, totaling \$80 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. Construction is underway at Maverick Gardens, the BHA’s latest Hope VI site. Also, the BHA is commencing a Hope VI planning process for the Franklin Hill site. In Jamaica Plain, a grant of \$5 million from the U.S. Department of Housing and Urban Development will allow the redevelopment of a long-time vacant public housing building located at 80-90 Bickford Street, which will become 56 one-bedroom apartments for frail elderly residents. A joint venture between Haley House and the Madison Park Development Corporation submitted the winning proposal to assume ownership, management and renovation of four BHA properties in the South End. The BHA tentatively designated the partnership as developer and future owner of its properties at 282 Columbus Avenue, 68 West Concord Avenue and 564 and 688 Massachusetts Avenue.

Chapter 152 of the Acts of 1997 (“The Convention Center Act”) authorized the development of the BCEC Project on a 60-acre site in South Boston through the joint efforts of the City, the Commonwealth, the BRA, and the MCCA. The 1.6 million square foot facility will include 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 its role in the project is essentially completed. The MCCA is responsible for the design and construction of the BCEC project, and its operation upon completion. The construction of the BCEC is on schedule to be completed in the spring of 2004.

To date, the BRA has been reimbursed \$164.5 million by the City and \$53.9 by the Commonwealth for the site acquisition and preparation costs. Additional cost for site acquisition and preparation is primarily dependent on the outcome of eminent domain court cases for those parcels for which a final settlement has not been reached (less than one-tenth of the site acreage). The City estimates that the

potential liability for site acquisition and preparation costs will not exceed the total amount authorized in the Convention Center Act.

All cost of design and construction of the BCEC Project is being funded by the Commonwealth out of bond proceeds supported by the Convention Center Fund established pursuant to the Convention Center Act. The MCCA's construction budget for the BCEC Project is \$620.5 million. A guaranteed maximum price has been negotiated between the MCCA and the construction manager that includes a deadline for the construction manager that is structured both by financial incentives and penalties, and clearly defines the circumstances under which the financial burden of cost overruns shall be shifted from the MCCA to the construction manager.

In addition to the BCEC Project, the MCCA is involved in the development of a convention center hotel on the northeast corner of the BCEC Project site. After a public bidding process, a team composed of Starwood Hotels and Resorts Worldwide and Carpenter & Company was selected in November 1999 to be the operator and developer of the on-site hotel. The developer has signed a development agreement with the MCCA and made a substantial deposit as part of the agreement. A trio of local developers, Stephen Karp, Joseph O'Donnell and Joseph Fallon, have entered into an agreement with Starwood Hotels to join the development team. Preliminary work on the hotel project, such as design and permitting, is proceeding. Construction has been delayed as the developer sought financing for the project. The development team was selected to receive a \$15 million HUD loan from the City of Boston. The hotel's financing is expected to be finalized in 2004.

### ***Empowerment Zone Designation***

In January 1999, part of the City was designated an Empowerment Zone ("EZ") by the U.S. Department of Housing and Urban Development (HUD). The EZ, wholly within Boston, encompasses 5.8 square miles, running north to south right through the center of the City, including parts of the neighborhoods of South Boston, Downtown, the Seaport District, Chinatown, the South End, Mission Hill, Roxbury, Jamaica Plain, and Dorchester. The EZ contains 57,640 residents, roughly 10% of the City's population and contains a variety of businesses from internationally known financial firms and retail stores to industrial uses to neighborhood businesses.

This EZ designation makes Boston eligible to share in proposed federal grants and tax-exempt bonding authority to finance revitalization and job creation programs for 10 years. The ten-year EZ designation brings with it \$130 million in tax-exempt bonding authority for qualified projects. In addition, Boston is eligible to receive \$10 million a year, subject to annual appropriation by Congress, to further the goals of Boston's Strategic Plan which include: economic opportunity and job creation; health and well-being, education and job readiness; community capacity building and technology.

Boston Connects, Inc. (BCI), was established in November 1999 to oversee and implement the Strategic Plan. A 501(c)3 organization, BCI has a Board of 24 members, 12 appointed by the Mayor and 12 elected from the Zone.

As an Empowerment Zone, a total of \$130 million in facility bonds can be issued by the City to support economic development initiatives within the EZ. Pilot Seafood in the Seaport District, The Best Western Roundhouse Hotel in Newmarket, Katsiroubas Brothers also in Newmarket, Blue Hill Commons on Blue Hill Avenue and Crosstown Center in Crosstown have all utilized bonds to spearhead investment in the EZ. The bonds have been issued through the City of Boston's Industrial Development Financing Authority, as a collaborative partner.

One example of BCI's commitment to human and economic development has been its investment in Crosstown. BCI loaned \$7.0 million to Crosstown Associates, LLC to assist in the development of a mixed-use commercial development comprised of a 175-room hotel, 60,000 square feet of retail space, and a 650-space parking garage. This Phase I will create approximately 1,100 permanent jobs. All jobs will include a benefits package. Crosstown Associates, LLC has been working with BCI, local community-based organizations, and neighborhood residents of the EZ to prepare Zone residents for employment opportunities arising from the Crosstown Center Project. Crosstown Associates, LLC is further committed to hiring residents of the EZ. This phase of the project will open by June 2004 at the corner of Massachusetts Avenue and Melnea Cass Boulevard. Phase II will include offices and additional parking. When the Center is complete, there will be 1,500 workers in permanent jobs ranging from hospitality to

office work. The BCI board has voted to support the use of \$5 million in HUD 108/EDI loans and grants and \$48 million in bonds to the Crosstown Center. In addition the BCI board has invested \$7 million as equity toward the construction of the hotel and garage. The total development cost of the project will be \$70.4 million.

Achievements in human development initiatives are evident. The EZ has invested heavily in providing a continuum of adult education opportunities: English for Speakers of Other Languages (ESOL), Adult Basic Education (ABE), pre Graduate Equivalency Diplomas (GED), GED, work readiness and skills training. Investments have also been made in improving the quality of child care programs; providing affordable after-school seats; funding youth summer employment; and increasing access of Zone residents to technology. These human services goals benefit a wide spectrum of EZ residents.

Businesses in the EZ can access a variety of Tax Credits. The federal government has made both wage and other business tax credits available to EZ companies. Businesses can save money each year in salaries, property and business expenses and use monies to expand operations and increase profits. Businesses interested in locating to the EZ are encouraged to contact BCI offices and the City's Office of Business Development. One of the cross-cutting goals of EZs is to increase the number of job opportunities for EZ residents and these tax incentives work towards achieving this goal. Employee-Related Tax Credits include EZ Employment Wage Credit, Work Opportunity Tax Credit, and Welfare-to-Work Wage Credit. Business expense related tax incentives are also provided, including accelerated depreciation on purchase of equipment and machinery, reduced capital gains taxes, EZ tax-exempt facility bonds, new markets tax credits, and environmental cleanup cost deduction (Brownfields expensing). Other tax credits include Qualified Zone Academy Bonds (QZABs), Low-Income Housing Tax Credit (LIHTC), and Indian Employment Credit.

Prior to its designation as an EZ in 1999, Boston received a HUD Enhanced Enterprise Community ("EEC") designation in December 1994. As an EEC, Boston could access a total of \$44.0 million in Economic Development Initiative ("EDI") grants and Section 108 loan guarantees. EDI grants may be used to write down interest rates on Section 108 loans and to establish a loan loss reserve. The EDI funding makes the City eligible for matching Section 108 funds. Section 108 funds can be used (i) as capital improvement loans for commercial or industrial projects that produce jobs, 60% of which are for low and moderate-income residents; or (ii) aid in the prevention or elimination of slums or blight, or meet urgent community needs.

EDI and 108 funds have been instrumental in helping to revitalize neighborhoods and create job opportunities for City residents. Dudley Square has seen the revitalization of Palladio Hall and Fairfield Center. Grove Hall Mecca and La Cocina/Merengue have enlivened Blue Hill Avenue. The South End Health Center provides services to both City and Zone residents. Laboure Center, which strengthens and enhances the stability of families, has recently expanded its services in South Boston. New Boston Seafood and Pilot Seafood and North Coast Seafood have expanded their operations in the Seaport District. The Roxbury/Crosstown Corridor has seen the construction of Harry Miller Company and the expansion of the Harrison Supply company.

The EEC was also awarded \$3.0 million from Title XX Social Service Block Grant (SSBG) funding to conduct human service programs connecting residents to jobs. Programs included: adult job skills training; adult education, including ESOL, GED, ABE; alternative education for "youth at risk"; and expansion of Day Care availability. Finally, EEC designation enables development projects or human service programs impacting the EEC to take advantage of certain tax benefits and priority in other Federal funding programs.

In November 1995, the Boston Empowerment Center ("BEC") was created as a mechanism to provide small businesses with a comprehensive array of financial and technical assistance to help them start and stay in business. The BEC/One Stop Capital Shop, now known as the Business Assistance Center and managed by the City's Department of Neighborhood Development, provides information and services to support business development. Services include start-up assistance, acquisition, loan packaging assistance, help with business plan development, access to a wide-range of capital resources, and assistance with marketing plans, government procurement, international trade, technology transfer, market diversification, and language translation.

BCI's investment in human development is greatly facilitated by the investment in economic development. Construction projects financed through EEC or EZ funds have been instrumental in hiring EZ residents, some of whom have been trained by EZ funding. The use of wage credits has also facilitated the hiring of Zone residents and affected businesses' bottom line. Visit

### ***Office Market and New Development***

The City and its neighborhoods currently have approximately 66.5 million square feet of office space. By the third quarter of 2003 (September 30th) Boston's overall vacancy rate according to CB Richard Ellis was 13.8% (16.5% availability when including space to sub-let). Another realty firm, Spaulding & Slye, places the City's office vacancy rate at 11.1%. (availability 17.4%) 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. Certainly, given the economic slowdown office vacancies have risen substantially from early 2001 through mid-2003. Net absorption (rental) of office space in 2002 was—851,933 square feet. Absorption through September 2003 according to CB Richard Ellis was—338,316 square feet. In the third quarter, CB Richard Ellis pegged Boston's office vacancy rate at 13.8%, which, despite being high, still ranked Boston as the seventh best downtown office market out of the nations twenty largest downtowns.

From 2000 through 2002, thirteen office projects were completed. In 2000 there were three: the Seaport Center East office tower, a 475,000 square foot building on the South Boston waterfront; the Renaissance Center, a renovation of a 200,000 square-foot office building near the Ruggles Stop on the Orange Line in Roxbury; and, the Landmark Center reuse project in the Fenway which includes 600,000 square feet of office space. In 2001 and 2002 ten office projects were completed: 10 St. James at the former Greyhound bus terminal site, a 570,000 square-foot building; 111 Huntington Avenue at the Prudential complex, an 874,000 square-foot tower; 303 Congress Street, a 72,000 square-foot renovation; 326 Cambridge Street, a 70,000 square foot building; Independence Wharf, a 14-story 370,000 square foot renovation project; 25 Thompson Place, a 94,500 square foot building; Brighton Landing, a 1 million square foot mixed use building; 321 Summer Street (88,000 square feet); Seaport Center West, a 575,000 square foot tower on the South Boston waterfront; and Millenium Place, a 1.4 million square foot mixed use project between Washington and Tremont Streets that includes offices, hotel, condominiums, and retail.

In early 2003 construction was completed at four developments: 131 Dartmouth Street, a \$60 million, 11-story, 365,000 square foot building in the Back Bay district; One Lincoln Street, a \$350 million, 1,020,000 square foot office tower at the former Kingston-Bedford garage site in the Financial District which is 100% leased to State Street Financial; two buildings in the City Square section of Charlestown containing 156,000 square feet of office space; and One Brigham Circle (The Ledge Site) in the Mission Hill neighborhood with 177,000 square feet of space. As of January 2004, four major downtown office projects with 1.5 million square feet of new office space are under construction, and scheduled for completion in 2004: ManuLife Financial, a 14-story, 470,000 square foot building in the South Boston Waterfront area; 33 Arch Street a \$240 million, 936,000 square foot building (533,197 sf of office space and a 880 car garage); 100 Cambridge Street (The former State Saltonstall building), a 278,849 square foot renovation of an existing building (half of which will now be State offices and the other half rented to private sector tenants); and the 226 Causeway Street renovation with 171,610 square feet in the North Station district. In addition, there are two large neighborhood office projects with about 1.1 million square feet of new and renovated office space now under construction: Crosstown Center in Roxbury with 282,000 square feet of office space; and Hood Business Park in Charlestown, a 775,000 square foot renovation.

For completion beyond 2005, several large office developments are in the planning stages. Projects that are BRA Board approved but not started include: Two Financial Center, a 176,838 square foot building behind the One Financial Center tower; the Fan Pier project containing 1.2 million square feet of office space; and Midway (Channel Center) a 866,500-square foot development in South Boston. Beyond that there are more pending office developments under review in the Downtown, South Boston, and Charlestown districts with over 3 million square feet of space that will likely become available, if approved, after 2007 at the earliest. The largest one of these is the South Station Air Rights with 1.2 million square feet of office space.

**Boston Office Market—September 30, 2003**

<u>Market</u>	<u>Total (SF)</u>	<u>Available (%)</u>	<u>Vacancy (%)</u>	<u>YTD Absorption*</u>	<u>Average Asking Rent</u>
Central Business District.....	34,558,597	18.6%	14.8%	-48,808	\$36.52
Back Bay.....	13,273,771	15.7	13.8	-105,923	\$36.07
South Boston Seaport District.....	4,392,217	19.0	16.9	134,449	\$27.17
Charlestown/East Boston .....	2,845,796	10.5	10.5	-160,427	\$23.71
North Station/Waterfront .....	2,770,513	15.3	15.0	-2,791	\$24.61
Midtown.....	2,647,279	5.0	4.8	-13,324	\$21.74
South Station.....	1,485,199	26.8	19.1	-132,080	\$24.80
Dorchester/South Boston .....	860,987	14.2	14.2	-19,612	\$18.70
Allston/Brighton/Longwood Medical .	1,583,541	6.6	6.6	43,034	\$22.65
Fenway/Kenmore Square.....	1,929,639	5.8	5.8	51,234	\$21.27
<b>Total Boston Office Market .....</b>	<b>66,347,539</b>	<b>16.5</b>	<b>13.8</b>	<b>-338,316</b>	<b>\$34.01</b>

\* Columns may not add due to rounding.

Source: CB Richard Ellis, Third Quarter 2003.

**Comparative Office Vacancy Rates  
20 Largest Downtown Office Markets as of September 30, 2003**

<u>City</u>	<u>Vacancy Rate</u>	<u>City</u>	<u>Vacancy Rate</u>
Washington DC .....	7.0%	Baltimore .....	16.8%
Manhattan (Midtown).....	9.9	Minneapolis-St. Paul.....	17.1
Philadelphia.....	10.4	Los Angeles .....	18.7
San Diego .....	10.6	San Francisco.....	18.7
Chicago.....	13.0	Houston.....	19.4
Manhattan (Downtown).....	13.0	Atlanta .....	20.7
Boston .....	13.8	Phoenix .....	21.4
Denver .....	14.8	Kansas City .....	23.7
Oakland .....	15.6	Detroit.....	24.5
Seattle .....	15.9	Dallas .....	24.9

National Average<sup>(1)</sup> 14.5%

(1) National Average is based on 52 U.S. cities (44 downtowns) from the CB Richard Ellis Office Vacancy Index.

Source: CB Richard Ellis Office Vacancy Index, Third Quarter 2003.

**Retail Market**

As of 1997, the date of the last U.S. Economic Census, Boston was within the ninth largest metropolitan retail market in the nation, consisting of the City plus the Massachusetts metro areas of Lowell, Lawrence, Salem and Brockton. Of the approximately 15 million square feet of retail space in the City, approximately 7.25 million square feet are located in downtown Boston and Back Bay and almost 8 million square feet in the neighborhoods. For 2003 it is estimated that there are about 63,000 employees in retail stores consisting of about 30,000 in retail and 33,000 in food and beverage establishments. About 2,262 retail establishments were located in the City in 1997 and had estimated total sales of \$5.6 billion according to the U.S. Census of Retail Trade. 2002 figures on sales are close to \$6.5 billion. In addition to retail there are about 16,000 employees in personal services businesses that range from laundry, dry cleaning, and beauty and barbering services to travel, rental copying, and banking services that handle retail customers. These businesses do over \$1.0 billion in sales annually in Boston.

Recent major retail projects in downtown Boston include: TJ Maxx and H&M in the first phase of 33 Arch Street; Eddie Bauer's and Citizen's Bank in the Lafayette Corporate Center in Downtown Crossing; a CVS at 55 Summer Street; a Walgreen's at Winthrop Square; and a Sports Club/LA and Loews Boston Common movie theaters at the new Ritz Carlton Towers at Millennium Place. As part of the office and mixed-use projects downtown several new developments such as 33 Arch Street (100,000 square feet) and Fan Pier (135,000 sf) will have substantial new retail space. In the Back Bay, projects include: renovation work on a new Ralph Lauren store at 93 Newbury Street, the site of the former Kakas Furriers; an addition to Prudential mall (60,000 sf) at the 111 Huntington Avenue building; and, an Eastern Mountain Sports Store opened on Boylston Street. A variety of smaller retail projects in planned developments downtown are under review. Also in the Back Bay a new Shaw's grocery store opened recently on Huntington Avenue.

In the neighborhoods, the South Bay Center Mall open 24 hours a day, was completed in the 1990s containing The Home Depot, the first inner-city store for the company, as well as K-Mart, Toys-R-U's, a supermarket and other stores. Target announced plans in 2003 to replace the K-Mart store, following bankruptcy plans that have closed the South Bay store. In the Fenway, the new Landmark Center has been completed, containing roughly 200,000 square feet of retail and theater space. In other neighborhood developments, the Grove Hall Mecca, an inner-city shopping mall has opened as part of a major Blue Hill Avenue redevelopment. In Roxbury and Dorchester major efforts to redevelop retail business districts in Dudley Square and Grove Hall are showing building activity with completion of a Super Stop & Shop. A major retail development in the planning stages is Crosstown commercial complex in the South End, which will have 60,000 square feet of retail space serving the neighborhoods. One Brigham Circle in the Mission Hill/Jamaica Plain neighborhoods will have 60,000 square feet of retail space. The two new office buildings recently completed in City Square Charlestown (CANA Parcels 2 and 4) have added 44,000-square feet of store space. These are all solid signs of investment in the inner-city neighborhoods.

There are now 21 neighborhood business districts operating within The Main Streets Program following the addition of ones in West Roxbury and Jamaica Plain. 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 December 2003, has generated 444 net new and expanded businesses, created more than 3,000 net new jobs, assisted in 3,057 storefront improvement projects, and given design assistance to 506 businesses. Through December 2002, the Main Streets Program has leveraged more than \$7.9 million in private investment.

Also of importance are the supermarket developments that have taken place throughout Boston's neighborhood. Twenty-one new or expanded supermarkets have opened in Boston's neighborhoods since 1992. Ten of these have opened in the past six years while two have been expanded. Shaw's Supermarkets recently opened a 57,000 square foot store at the Prudential Center in the Back Bay and also has a 55,000 square foot store under construction in Dorchester's Lower Mills.

**Massachusetts, Metropolitan Boston, and Boston Retail Sales, 1992-1997**  
(In thousands, not adjusted for inflation)

	<u>Massachusetts</u>		<u>Metropolitan Boston</u>		<u>City of Boston</u>	
	<u>Retail Sales</u>	<u>Change</u>	<u>Retail Sales</u>	<u>Change</u>	<u>Retail Sales</u>	<u>Change</u>
1992.....	\$47,663,248		\$27,058,734		\$4,180,888	
1997.....	\$65,847,179		\$39,400,608		\$5,607,981	
	5-Year Change	38.2%	5-Year Change	45.6%	5-Year Change	34.1%

- (1) Metropolitan Boston in this usage is the Boston PMSA as defined in 1992
- (2) Total retail sales includes the new census definition of retail sales (NAICS) from the series of Retail trade plus the "foodservices and drinking places" category from the series of Accommodation and Food Services.

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).

***Industrial Market and Recent Developments***

According to surveys by the Boston Redevelopment Authority (BRA), Boston has just over 25 million square feet of industrial space within the City limits. As of January 2000, according to the BRA, over 5.6 million square feet of industrial space was surveyed and the vacancy rate was found to be 22.5%, with almost 1 million square feet unoccupied. The average rent for quality industrial space was estimated to range from \$2.50 to \$19.00 per square foot (triple net). According to records from the City's Assessing Department, there were 48.3 million square feet of industrial space in 2000, which consisted of manufacturing, warehouse, and research and development.

From 1992-1995, a Cambridge-based biotechnology firm, Genzyme Corporation, constructed an \$85 million biopharmaceutical manufacturing plant in Allston. Genzyme has plans to build further manufacturing, research and development and headquarters facilities on the site during the 2000s.

Certain companies were forced to lay off employees in the mid-1990s because of business strategies and downsizing efforts. For example, Digital Equipment Corporation ("DEC") closed its Roxbury plant in late 1993 and Stride Rite Corporation closed its plant in Roxbury in 1997. These plant closings eliminated a total of 350 manufacturing jobs, representing about 1.0% of the City's industrial jobs. In 1995, H.P. Hood decided to consolidate its operations in the suburbs and closed its Charlestown Plant.

The City purchased the former DEC building in Roxbury in late December 1994. The facility houses the Boston Technology Development Center (“BTDC”). The BTDC opened an Innovation Center operated by the Massachusetts Biotech Research Institute (“MBRI”). The Innovation Center can be thought of as a “super incubator” which includes four major components: a physical incubator with shared conference and reception facilities; a relationship with venture capital funding; a technology transfer office which helps locate technologies with commercial potential; and a comprehensive education and training program. The MBRI incubator space is currently fully occupied with spin-off firms. The BTDC is providing many benefits to the neighborhood and citywide including construction jobs, permanent jobs, education and training programs, public school seminars, youth education, and neighborhood workforce development programs. Over \$20 million in venture capital funding is supporting the new companies that are housed at the BTDC—\$5 million in Federal funds awarded to the project leveraged these private funds. Full occupancy of BTDC was achieved in 1998 with the tenancy of HiQ Computers, which took the final 30,000 square feet for the assembly and repair of computer systems. In 1999 the Crosstown site was planned to be developed into a shopping center and theater complex. HiQ Computers has been relocated, to Boston Marine Industrial Park (“BMIP”). The Boston Empowerment Center (“BEC”) office and MBRI have been relocated.

There were seven projects completed in the 1995-1997 period: the Advanced Electronics expansion to 110,000 square feet; the expansion of the Boston Freight Terminal in Marine Industrial Park; the American Engineered Components move from Cambridge to Boston; the Zoom Telephonics building doubling in size to 150,000 square feet; Boston Ship Repair’s expanded business in Dry-Dock 3 at BMIP; The Harry Miller Company development of 36,000 square feet of space with assistance in Boston’s EEC; and, the completion of the New Boston Seafood Center, housing seven seafood companies in a 70,000 square foot state-of-the-art facility in the BMIP.

In 2000 there were three major industrial projects completed on the waterfront in South Boston: the International Cargo Port, a 400,000 square foot warehouse, freight forwarding, and office facility on the South Boston waterfront; North Coast Seafood, a 60,000 square foot seafood processing facility in the BMIP; and the new Boston Seafood Center, a \$20 million, 150,000 square foot facility with seven companies as tenants.

In 2003 Pilot Sea Food completed a 65,999 square foot processing plant while Legal Sea Food completed a 75,000 square foot building, both near the South Boston waterfront. In Dorchester, the Dutch Maid Bakery expansion of 38,000 square feet and a graphics services office at 65 Bay Street with 76,000 square feet of space were completed in 2003. In Brighton, the New Balance (athletic shoe manufacturing) building was completed.

Other industrial projects are also in motion in 2003 around the City. A public storage facility in South Boston with 88,464 square feet of space is under construction. R & R Sales is BRA Board approved to build a 30,000 square foot building with manufacturing uses in Roxbury at 174 Hampden Street.

Mayor Menino announced the Back Streets Initiative in November of 2002, a plan to support and strengthen neighborhood industrial uses. The goal of the Back Streets Initiative is to foster commercial and industrial business growth and thereby stimulate the economy, strengthen neighborhoods, and create jobs. Areas of the city designated as Back Streets areas, which combined have existing businesses with 4,000 companies and 100,000 jobs, are eligible for loan financing.

### ***Housing Stock, Housing Values, and Development***

The U.S. Bureau of the Census reported on some characteristics of the City’s housing stock in April of 2000. The total of 250,863 units grew by 1,072 from 1990, the date of the previous decennial census. The composition of occupied housing has been changing. The number of occupied rental apartments increased between 1990 and 2000, going from 157,920 to 162,302, a gain of 4,382 or 2.8%. The number of owner-occupied units also increased between 1990 and 2000, going from 70,544 to 77,226, a gain of 6,682 or 9.5%. The percentage of owner to renter occupied units between 1990 and 2000 went from 30.9%/69.1% to 32.2%/67.8%. With the small addition of new units and the large gain in occupied units the number of vacant units dropped from 22,399 in 1990 to 12,407 in 2000 while the vacancy rate for owner and renter

housing fell from 2.6% and 7.8%, respectively, in 1990 to 1.0% and 3.0%, respectively, in 2000. As of late 2001, the housing vacancy rate was rising slightly.

Condominium units have increased from about 4,500 in 1980 to over 38,000 in 2000. Public and publicly assisted housing presently total 49,868 units constituting over 19% of the City's housing stock.

Within the City, the U.S. Bureau of the Census reported from the Special Survey in 2000 (C2SS) that the median value of a single-family home was \$216,563 in 2000, the median monthly mortgage payment was \$1,312, and the median contract rent in the City was \$875 per month in 2000. The reason these costs appear to be lower than the rent and sales figures in tables below is that the Census numbers track what people with existing housing are paying, not including any subsidies which might be involved (for rental housing) and the owner costs are what existing owners are paying. The tables below show what new owners would pay for sales prices and what new renters would pay in rent.

An August 2003 study done by the Department of Neighborhood Development showed that the median rent for an apartment in Boston in 2002 as advertised in the newspapers was \$1,550 per month for a two-bedroom apartment. Median rents for a two bedroom apartment ranged from a high of \$2,100 in the Back Bay to a low of \$1,200 in East Boston.

**Median Advertised Asking Monthly Rent in Boston Neighborhoods  
and the Volume of Advertised Two-Bedroom Apartments  
For 2001 and 2002**

<u>Neighborhood</u>	<u>Median Rent</u>			<u>Volume of Apartments</u>		
	<u>2001</u>	<u>2002</u>	<u>Percent</u>	<u>2001</u>	<u>2002</u>	<u>Percent</u>
Allston/Brighton.....	\$1,500	\$1,450	-3%	340	449	32%
Back Bay/Beacon Hill.....	2,400	2,100	-13	565	492	-13
Central.....	1,875	1,998	7	198	280	41
Charlestown.....	1,925	1,800	-7	144	187	30
Dorchester.....	1,295	1,300	0	72	83	15
East Boston.....	1,200	1,200	0	25	53	112
Fenway/Kenmore.....	1,900	1,613	-15	53	48	-9
Hyde Park.....	1,275	1,250	-2	24	23	-4
Jamaica Plain.....	1,400	1,500	7	123	180	46
Mattapan.....	1,250	**	***	10	6	***
Roslindale.....	1,300	1,300	0	49	95	94
Roxbury.....	1,300	1,398	8	31	20	-36
South Boston.....	1,500	1,450	-3	151	228	51
South End.....	2,000	1,800	-10	176	131	-26
West Roxbury.....	1,400	1,300	-7	67	92	37
<u>Citywide.....</u>	<u>1,700</u>	<u>1,550</u>	<u>-9</u>	<u>2,028</u>	<u>2,367</u>	<u>17</u>

\*\* Less than ten sales so data are not deemed to be reliable.

\*\*\* Not meaningful.

Source: City of Boston, Department of Neighborhood Development, "Real Estate Trends, Annual Report 2002." Uses the Boston Sunday Globe, from apartment listings for the first Sunday of the month. Apartments that include utilities or parking in the monthly rent are not represented in this survey (August 2003).

After nearly five years of relative stability from 1992 through 1995, home prices have risen at a fast pace since the first quarter of 1996. The National Association of Realtors reported that the median sale price of existing homes in the Boston metropolitan area was \$354,750 for 2001, a 7.6% increase over the 2000 median sales price. The 2002 price of \$397,200 was 12% higher than the price for 2001. Between 1996 and 2002 the median price increased by 110%. In 2003, the first three-quarters continue to show higher sales prices than for the same quarters in 2002.

**Greater Boston Annual Median Sales Prices for Existing Homes, 1992-2003  
(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>
1992.....	\$168,200	\$173,300	\$175,100	\$165,200	\$171,100	0.6
1993.....	160,500	175,600	176,900	172,700	173,200	1.2
1994.....	170,600	181,300	187,300	176,600	179,300	3.5
1995.....	175,100	179,000	183,200	177,400	179,000	(0.2)
1996.....	197,300	195,300	195,300	177,100	189,300	13.0
1997.....	NA	NA	NA	NA	229,000	21.0
1998.....	NA	NA	NA	NA	258,400	12.8
1999.....	265,000	294,000	301,000	291,000	290,000	12.2
2000.....	303,000	330,300	356,000	329,500	329,700	13.7
2001.....	345,100	356,200	367,300	350,400	354,750	7.6
2002.....	358,000	397,700	415,800	386,300	397,200	12.0
<u>2003.....</u>	<u>413,500</u>	<u>409,100</u>	<u>432,700</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>

Note: Data for the quarters of 1997 and 1998 were not available from the National Association of Realtors or the Greater Boston Real Estate Board.

Source: National Association of Realtors and the Greater Boston Real Estate Board (January 2004).

Within the City, residential sales prices increased steadily from the beginning of 1998 through the end of 2002. The median sales price for a single-family home in Boston increased from \$240,000 in the first quarter of 2001 to \$300,000 in the fourth quarter of 2002, a 25% rise over twenty-one months. Condominium prices also increased from \$245,000 in the first quarter of 2001 to \$295,000 in the fourth

quarter of 2002, a 20% rise in twenty-one months.

**Median Residential Sales Prices for Boston  
First Quarter 2001 Through Fourth Quarter 2002  
(Current Year Dollars)**

<u>Year</u>	<u>Quarter</u>	<u>Single Family</u>	<u>Two Family</u>	<u>Three Family</u>	<u>Condominium</u>
2001 .....	First.....	\$240,000	\$272,500	\$279,000	\$245,000
	Second.....	254,900	288,000	283,000	252,250
	Third.....	275,000	305,000	300,000	255,000
	Fourth.....	250,000	285,500	319,500	279,000
2002 .....	First.....	270,000	310,000	336,250	285,000
	Second.....	287,500	342,500	360,000	305,000
	Third.....	320,000	375,000	400,000	300,000
	Fourth.....	300,000	364,000	417,000	324,000

Source: City of Boston, Department of Neighborhood Development using Banker & Tradesman data (August 2003).

Banker & Tradesman, a local trade journal, reported that during the full year 2002 there were 10.1% more total residential sales in the City than there were in the full year 2001 (8,814 versus 8,006). Sales of single-family homes and condominiums both rose in 2002 compared with 2001 while sales of multi-family non-condominium buildings fell slightly. Sales of single-family homes, multi-family buildings and condominiums, however, decreased through the first four months of 2003.

**Annual Residential and Condominium Sales in Boston  
1991-2002 and First Four Months of 2003**

<u>Year</u>	<u>Single Family Sales</u>	<u>Percent Change</u>	<u>Multi-Fam. Residential Sales <sup>(1)</sup></u>	<u>Percent Change</u>	<u>Total Condominium Sales</u>	<u>Percent Change</u>	<u>Residential and Condo Sales <sup>(2)</sup></u>	<u>Percent Change</u>
1991 .....	908	2.0	1,660	(14.9)	1,995	(8.5)	4,534	(9.1)
1992 .....	1,114	22.7	1,732	4.3	2,479	24.4	5,296	16.8
1993 .....	1,257	12.8	2,129	22.9	2,748	10.9	6,094	15.1
1994 .....	1,602	27.4	2,731	28.3	2,921	6.3	7,180	17.8
1995 .....	1,554	(3.0)	2,775	1.6	2,845	(2.6)	7,110	(1.0)
1996 .....	1,566	0.8	2,875	3.6	3,448	21.2	7,820	10.0
1997 .....	1,623	3.6	3,001	4.4	3,909	13.4	8,460	8.2
1998 .....	1,512	(6.8)	3,046	1.5	4,434	13.4	8,891	5.1
1999 .....	1,573	4.0	3,289	8.0	5,060	14.1	9,849	10.8
2000 .....	1,308	(16.8)	2,956	(10.1)	4,663	(7.8)	8,862	(10.0)
2001 .....	1,279	(2.2)	2,428	(17.9)	4,299	(7.8)	8,006	(9.7)
2002 .....	1,376	7.6	2,339	(3.7)	5,099	18.6	8,814	10.1
2002 (4 mo.)	412	NA	754	NA	1,458	NA	2,624	NA
2003 (4 mo.)	277	(32.8)	599	(20.6)	990	(32.1)	1,866	(28.9)

(1) Does not include single-family homes or condominiums.

(2) Equals single-family, multiple-family residential sales plus total condominium sales.

Source: Banker and Tradesman (January 2004).

Prices and sales volumes for single-family homes and for condominiums show strength and remarkable diversity across the neighborhoods of Boston. Areas of the City with the largest numbers of single-family home sales included West Roxbury, Dorchester, Hyde Park and Roslindale. Single family prices ranged from \$187,500 in East Boston to \$1.6 million in the Back Bay with the median at \$295,000 and the typical house going for \$340,000 in West Roxbury, the most suburban-style single family neighborhood within the City limits. The median sales price was up 16% and the sales volume was up 15% between 2001 and 2002.

**Short Term Trends in Housing Prices**  
**Median Sales Prices and Sales Volume of Single Family Homes**  
**In Boston's Neighborhoods, 2001 and 2002**  
**(Not inflation adjusted)**

<u>Neighborhood</u>	<u>2001 Single Family Price</u>	<u>2002 Single Family Price</u>	<u>Percent Change</u>	<u>2001 Sales Volume</u>	<u>2002 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton .....	\$330,000	\$364,000	10%	51	63	24%
Back Bay/Beacon Hill ...	1,875,000	1,600,000	-15%	27	19	-30
Central .....	**	**	***	2	1	***
Charlestown.....	419,500	446,200	6	58	72	24
Dorchester .....	225,000	265,000	18	164	185	13
East Boston.....	170,000	187,500	10	46	53	15
Fenway/Kenmore .....	**	**	***	1	1	***
Hyde Park.....	225,000	255,000	13	157	227	45
Jamaica Plain.....	472,500	442,250	-6	75	80	7
Mattapan.....	189,500	205,000	8	74	84	14
Roslindale.....	259,000	309,000	19	144	133	-8
Roxbury.....	182,000	228,000	25	38	56	47
South Boston .....	235,000	312,500	33	71	74	4
South End .....	869,250	717,250	-17	14	18	29
West Roxbury.....	296,000	340,000	15	257	295	15
Citywide .....	255,000	295,000	16	1,179	1,361	15

\*\* Less than ten sales so data are not deemed to be reliable.

\*\*\* Not meaningful.

Note 1: These prices 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: These are not "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 city wide totals are higher.

Source: City of Boston, Department of Neighborhood Development, August 2003, Real Estate Trends, Annual Report 2002".

Condominium sales volume and prices also showed strength and diversity across the neighborhoods of Boston. The most expensive neighborhoods for condominiums were Central (downtown, including the North End, the West End, and the waterfront), the Back Bay/Beacon Hill, the South End, and Charlestown neighborhoods, which are the core residential pockets of the City. Five neighborhoods still had condominiums with the median price below \$150,000: Dorchester, East Boston, Hyde Park, Mattapan, and West Roxbury. The median citywide condominium price as of year-end 2002 was \$299,000, up 18% from the \$254,000 price for year-end 2001. Sales volume was up by 25%.

**Short Term Trends in Housing Prices**  
**Median Sales Prices and Sales Volume of Condominiums**  
**In Boston's Neighborhoods, 2001 and 2002**  
**(Not inflation adjusted)**

<u>Neighborhood</u>	<u>2001 Condominium Price</u>	<u>2002 Condominium Price</u>	<u>Percent Change</u>	<u>2001 Sales Volume</u>	<u>2002 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton .....	\$182,000	\$209,000	15%	578	581	1%
Back Bay/Beacon Hill ....	405,000	400,000	-1	645	893	38
Central .....	442,000	409,000	-7	363	511	41
Charlestown.....	375,000	381,500	2	313	373	19
Dorchester .....	164,500	186,750	14	212	220	4
East Boston.....	125,500	156,000	24	78	82	5
Fenway/Kenmore .....	217,000	250,000	15	195	264	35
Hyde Park .....	99,700	120,000	20	35	43	23
Jamaica Plain.....	227,000	260,000	15	279	311	11
Mattapan.....	147,000	187,000	27	18	25	39
Roslindale.....	183,442	229,500	25	137	170	24
Roxbury .....	196,815	219,950	12	76	96	26
South Boston .....	235,000	273,250	16	342	466	36
South End .....	360,000	400,000	11	549	761	39
West Roxbury.....	167,500	190,000	13	150	171	14
Citywide .....	254,000	299,000	18	3,970	4,967	25

Note 1: These prices 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: These are not "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 city wide totals are higher.

Source: City of Boston, Department of Neighborhood Development., August 2003, "Real Estate Trends, Annual Report 2002."

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 manages 64 developments, a few of which have both state and federal components. The BHA owns and manages some scattered site properties throughout the City of Boston as well. Of the 64 developments, 37 are designated as elderly/disabled developments and 27 are designated as family developments. Three of the 27 family developments have elderly/disabled housing on site and one of the elderly developments has designated units for families. The BHA currently owns 14,744 units of housing in Boston and houses about 27,000 people under the public housing program. In addition, the Authority administers approximately 11,000 rental assistance vouchers that allow families to rent in the private market and apply a subsidy to their rent. With 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. See "Large Public Sector Projects" for BHA development activity

Housing construction has accelerated between 2000 and 2003. The City of Boston has counted 5,905 housing units permitted from 2000 through 2002 and about another 2,000 were slated to begin in 2003. This includes all net new housing in projects both large and small.

Downtown and the Back Bay experienced significant residential building in 2000-2003 with several large developments completed, several nearing completion and others still in the planning stages. Major residential projects recently completed include: Millennium Place (350 units); Trinity Place/25 Huntington Avenue (21-stories, 102 units); Colonnade Residences (99 market rate units); 226 Causeway Street in North Station (108 total units, 20 affordable); and The Belvedere (11-stories, 65 units). Large housing developments under construction include: 100 Cambridge Street/Saltonstall Building (75 total units, 19 affordable); Tremont Tower Condominiums (89 market-rate units); Park Plaza Parcel 2 (255 market-rate units); and Parcel C/Oak Plaza in Chinatown (251 total units, 115 affordable). Major new residential projects approved in the Downtown area, among others, include: Battery Wharf in the North End (100

market rate units); Fan Pier (675 total residential units, with 130 being affordable); Liberty Place on Washington Street near Chinatown (468 total units, with 70 being affordable); 500 Atlantic Avenue (359 total units, 47 affordable); Liberty Place in Chinatown (440 units, 66 affordable); Kensington Place near Chinatown (346 units with 61 affordable); 500 Atlantic Avenue (141 market rate units); 140 Clarendon Street (the renovation of the former YWCA building into 188 units with 82 affordable); 80 Broad Street in the Financial District (95 units); and Boylston Street in the Back Bay (105 total units, 10 affordable). More in the Downtown and Back Bay are under review.

In addition, residential developments are also occurring in Boston's neighborhoods. Some of the larger or most notable projects are summarized here. In Allston-Brighton, the Archdiocese of Boston is now in construction with the redevelopment of the former St. John of God Hospital site (200 total units of which 58 are affordable) and B'nai Brith is building an addition with 42 housing units onto its existing Covenant House Elderly project. In Roxbury, Nazing Court Apartments (with 151 units, 100% affordable); 10 Coventry Street (63 units); and the Sister Clara Muhammad building on Magnolia Street (25 affordable units) are under construction. Also in Roxbury several larger developments are permitted or BRA Board approved: Hotel Dartmouth (65 units of mixed-income housing including 6 artists lofts); Washington Commons (50 units, 28 affordable); and Egleston Crossing (with 64 affordable units, all affordable). In Mattapan, the Foley Building (with 98 total units, 74 affordable) and the Harvard Commons development (with 98 total units, 74 affordable) are now in construction and three other larger developments with 161 units are BRA Board approved. In the South End and Bay Village, nine housing developments are under construction. The largest ones include: Rollins Square with 184 units (110 affordable); Parcel 8 - BCA (103 market rate units); Haley House Interfaith Residences (74 affordable units); 485-497 Harrison Avenue (39 units, 3 affordable); and 70-72 Northampton Street (32 units, 6 affordable). In Dorchester, three developments—Trinity Terrace (62 total units, all affordable); Talbot Bernard Homes and Talbot Bernard Senior Homes (75 affordable units); and the Howard Dacia Cooperative (26 affordable units) are all under construction. In the Fenway 580 Commonwealth Avenue (with 220 units) and three mid-sized developments with 73 units) are all under construction. In Jamaica Plain, JP CoHousing on Cornwall Street (with 30 units, 3 affordable) is under construction. In Roslindale, Sophia Snow House with 102 affordable units is BRA Board approved. In Charlestown the Charlestown Navy Yard parcel 4 Harborview Point development (with 215 units, 22 affordable) and the Little Neck Lofts (with 146 units, 15 affordable) are both BRA Board approved while the Mishawum Park Assisted Living Facility on West School Street (66 units of which 33 are affordable) is now under construction. In South Boston, a few of the larger developments are now in construction are: the Court Square Press Building (132 market-rate units); Channel Center (164 units); 3 Dorchester Street (54 units, 29 affordable); and 45 West Broadway (44 units, 8 affordable). Three large developments are approved—Massport Parcels F2, G and J (with 450 units, 12 affordable); D Street Residences (695 total units, 130 affordable); Midway/Channel Center (89 total units, 36 affordable); Channel Wharf (45 units, 5 affordable); and the redevelopment of 152 units (133 affordable units) at West Broadway. More developments in the neighborhoods are under review.

Clearly, the tight housing market has led to the substantial number of housing efforts underway in downtown Boston and in the neighborhoods, with many including "affordable" (below market rate) components.

### ***The Linkage Program***

The City implemented its development linkage program in December 1983, in order to direct some of the benefits of downtown investment to the building of affordable housing in its neighborhoods. Under the program, 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 make "linkage payments" in the amount of \$8.62 per square foot of construction over 100,000 square feet, of which \$1.44 per square foot goes to a job training fund and \$7.18 per square foot goes for affordable housing purposes, as of November 30, 2001.

Linkage payments into the Neighborhood Housing Trust are amortized over a period of either seven or twelve years, depending on the date of the initial agreement. Under Trust policy, current agreements provide for a seven-year payment period. The seven-member Neighborhood Housing Trust ("NHT") holds public hearings and has the authority to approve linkage grants to selected projects, except for the housing

creation option, which require the additional approval by the BRA. Since the inception of the linkage program through January 6, 2003, \$77.7 million has been awarded to various affordable housing projects.

Based on data through 2003, this funding allowed the construction or renovation of 7,341 housing units in 89 projects in the City's neighborhoods. Affordable housing units for low and moderate-income residents comprise 81% (5,968 units) of this total. Of these 89 housing developments created, linkage funds, for the most part, accounted for fewer than 7.5% of the total development costs of the projects. Only in one instance, in 1989, did linkage funds almost completely fund a project; it is no longer the policy of the NHT to be the sole source of funding for a project. Linkage money is 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 such as housing for pregnant, homeless women and alcohol recovery programs; condominiums; housing cooperatives and home ownership.

Funds for the Neighborhood Jobs Trust ("NJT") come from Jobs' Linkage Fees of \$1.44 per square foot for every foot in excess of the 100,000 square-foot threshold. This component of Linkage came from the 1986 amendment to the legislation and was followed by the creation of the NJT in 1987. Payments are made in two parts, with one half due at the point a building permit is issued, and the balance due one year later, or upon the issuance of an occupancy permit for the building. Over the fiscal year 1988-2003 time period \$13.6 million of funds had been committed and \$10 million of funds have been awarded resulting in the creation of 113 programs. Services funded under this program include: model program designs for entry-level jobs training, school-to-work transition, family literacy, workplace-based education, private sector involvement in the design and delivery of services, and capacity building in impacted communities. The NJT is particularly interested in supporting new and 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 communities' 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 ensuring that residents throughout the City have access to new jobs resulting from development. In addition to the \$10 million awarded, approximately \$950,000 has been spent on administration, bringing total expenditures from the NJT to nearly \$11 million.

### **Bond Insurance**

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix H for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series A Bonds (as defined in the Official Statement) maturing in years 2016 through 2024 (the "Insured Bonds") as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of an Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

### **MBIA**

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and

one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth in this Appendix G. Additionally, MBIA makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **MBIA Information**

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003, are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2003 MBIA had admitted assets of \$9.9 billion (unaudited), total liabilities of \$6.4 billion (unaudited), and total capital and surplus of \$3.5 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

**Financial Strength Ratings of MBIA**

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. MBIA does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

**FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation  
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]  
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary