

NEW ISSUE

Ratings†		
Fitch	Moody's	S&P
AA	Aa1	AA

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the 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

\$80,000,000

GENERAL OBLIGATION BONDS

2006 SERIES A

Dated: Date of Delivery

Due: January 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>	
2007	\$6,235,000	4.00%	3.26%	100853BA7	2017	\$3,130,000	5.00%	3.78%	100853BL3	*
2008	6,235,000	4.00	3.18	100853BB5	2018	3,130,000	5.00	3.83	100853BM1	*
2009	6,235,000	4.00	3.20	100853BC3	2019	3,130,000	5.00	3.88	100853BN9	*
2010	6,235,000	4.00	3.25	100853BD1	2020	3,130,000	5.00	3.93	100853BP4	*
2011	6,235,000	5.00	3.32	100853BE9	2021	3,130,000	4.00	4.09	100853BQ2	
2012	4,110,000	5.00	3.40	100853BF6	2022	2,525,000	4.00	4.13	100853BR0	
2013	4,110,000	5.00	3.50	100853BG4	2023	2,525,000	4.125	4.17	100853BS8	
2014	4,110,000	5.00	3.59	100853BH2	2024	2,525,000	4.125	4.21	100853BT6	
2015	4,110,000	5.00	3.69	100853BJ8	2025	2,525,000	4.125	4.25	100853BU3	
2016	4,110,000	5.00	3.75	100853BK5	2026	2,525,000	4.25	4.29	100853BV1	

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 Bonds dated January 11, 2006 (the "Official Notice of Sale"). Interest on the Bonds will be payable on July 1, 2006 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 Bonds will be issued for the purpose of funding various capital projects, as more fully described in Appendix C hereto. The Bonds will be valid general obligations of the City for the payment of the principal of and interest on which all taxable property in the City is subject to the levy of ad valorem taxes without limit as to rate or amount as more fully described herein under "Security for the Bonds."

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

The Bonds were sold by the City after competitive bidding pursuant to the Official Notice of Sale, and are offered subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City, and to certain other conditions described herein. Public Financial Management, Inc., Boston, Massachusetts, serves as Financial Advisor to the City. Deutsche Bank Trust Company Americas, New York, New York, will act as paying agent for the Bonds. It is expected that the Bonds will be available at the Depository Trust Company in New York, New York, or its custodial agent, on or about January 31, 2006.

January 18, 2006

† See "Credit Ratings."

* Priced to the January 1, 2016 optional redemption date. See "The Bonds—Redemption Prior to Maturity—Optional Redemption."

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. 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
\$80,000,000
GENERAL OBLIGATION BONDS, 2006 SERIES A

INTRODUCTION

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the “City”), and the \$80,000,000 General Obligation Bonds, 2006 Series A (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 “Security for the Bonds,” below. The proceeds of the Bonds will be used for the purposes of funding various capital projects, including the acquisition, design 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. See “Authorizations and Purposes,” below.

THE CITY

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

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

AUTHORIZATIONS AND PURPOSES

The Bonds will be issued under various statutory authorizations and loan orders of the City Council to finance various capital projects of the City, all as more fully described in “Appendix C—Authorizations and Purposes.”

SECURITY FOR THE BONDS

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

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

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 January 1, 2006 was \$109.7 million of the City’s Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the “Convention Center Bonds”) and \$108.0 million of the City’s Special Obligation Refunding Bonds, Boston City Hospital Issue (the “2002 BCH Refunding Bonds”). See “City Indebtedness—Special Obligation Debt” in “Appendix A – Information Statement of the City of Boston.” 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, or for obligations of the City or of the Boston Water and Sewer Commission issued to the Massachusetts Water Pollution Abatement Trust. See “City Indebtedness—Classification of City Debt” in “Appendix A – Information Statement of the City of Boston.”

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

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

THE BONDS

Description

The Bonds will be dated the date of delivery 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 cover page of this Official Statement. Interest on the Bonds will be payable on July 1, 2006 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 fifteenth day of the month next preceding a 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.

Deutsche Bank Trust Company Americas, New York, New York, will act as paying agent for the Bonds (the "Paying Agent").

Redemption Prior To Maturity

Optional Redemption

The Bonds maturing on or before January 1, 2016 will not be subject to redemption prior to maturity. The Bonds maturing on and after January 1, 2017 will be subject to redemption prior to maturity at the option of the City, on or after January 1, 2016, 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 Bonds to be redeemed, plus accrued interest to the redemption date.

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, 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.

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

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

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

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 January 1, 2006, the gross debt service requirements on the Bonds, and the resulting gross debt service requirements on general obligation bonds of the City following the issuance of the Bonds.

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

Fiscal Year Ending June 30	Bonds Outstanding as of January 1, 2006		The Bonds		Total Principal and Interest
	Principal	Interest	Principal	Interest	
2006.....	\$ 39,510	\$ 12,602	\$ —	\$ —	\$ 52,112
2007.....	76,641	35,358	6,235	3,318	121,552
2008.....	71,817	32,067	6,235	3,359	113,478
2009.....	69,708	28,678	6,235	3,110	107,731
2010.....	66,079	25,725	6,235	2,861	100,900
2011.....	60,885	22,640	6,235	2,611	92,371
2012.....	59,285	19,750	4,110	2,299	85,444
2013.....	54,785	16,944	4,110	2,094	77,933
2014.....	48,165	14,391	4,110	1,888	68,554
2015.....	43,685	12,050	4,110	1,683	61,528
2016.....	39,345	9,998	4,110	1,477	54,930
2017.....	36,085	8,088	3,130	1,272	48,575
2018.....	33,230	6,434	3,130	1,115	43,909
2019.....	29,360	4,913	3,130	959	38,362
2020.....	24,470	3,660	3,130	802	32,062
2021.....	19,650	2,562	3,130	646	25,988
2022.....	15,800	1,629	2,525	521	20,475
2023.....	12,300	888	2,525	420	16,133
2024.....	5,230	322	2,525	316	8,393
2025.....	2,660	106	2,525	211	5,502
2026.....	—	—	2,525	107	2,632
Totals.....	<u>\$808,689</u>	<u>\$258,808</u>	<u>\$ 80,000</u>	<u>\$31,072</u>	<u>\$1,178,566</u>

* 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 general obligation bonds over the following respective periods. This table is stated in two ways, with scheduled principal retirement prior to the issuance of the Bonds and then subsequent to the issuance of the Bonds:

<u>Term of Retirement</u>	<u>Debt Outstanding as of January 1, 2006 to be retired (in thousands)</u>	<u>Percentage of Debt Outstanding as of January 1, 2006 to be retired</u>	<u>Debt Outstanding After Issuance of the Bonds to be retired (in thousands)</u>	<u>Percentage of Debt Outstanding After Issuance of the Bonds to be retired</u>
Fiscal 2006-2011	\$384,639	47.6%	\$415,814	46.8%
Fiscal 2012-2016	245,265	30.3	265,815	30.0%
Fiscal 2017-2021	142,795	17.7	158,445	17.8%
Fiscal 2022-2026	35,990	4.4	48,615	5.5%
<u>Total</u>	<u>\$808,689</u>	<u>100.0%</u>	<u>\$888,689</u>	<u>100.0%</u>

Source: City of Boston Auditing Department

LITIGATION

No litigation is pending or, to the knowledge of the City's Corporation Counsel, threatened (a) seeking to restrain or enjoin the issuance or delivery of the Bonds, (b) contesting or affecting any authority for or the validity of the Bonds, (c) contesting the power of the City to issue the Bonds or the power of the City to offer and sell the Bonds to the 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. No litigation is pending or threatened which is likely to result, either individually or in the aggregate, in final judgments against the City which would affect materially its ability to pay the principal of and interest on the Bonds when due or which would affect materially its financial condition.

TAX EXEMPTION

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the 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 therefrom 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 D 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 requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements 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 City has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements. 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 any pending, proposed or future legislation, including amendments to the Code, if enacted into law, 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.

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," "Aa1," and "AA," respectively, to the Bonds, reflecting the City's capacity to pay debt service. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the Bonds.

COMPETITIVE SALE OF BONDS

The Bonds were offered for sale by the City on January 18, 2006, in accordance with the Official Notice of Sale dated January 11, 2006. Banc of America Securities LLC ("Banc of America") was the successful bidder for the Bonds. Information provided by Banc of America regarding the interest rates and reoffering yields of the Bonds is set forth on the cover of this Official Statement. The Bonds are being purchased from the City by Banc of America at an aggregate price of \$83,695,492.28, reflecting the principal amount of \$80,000,000.00, plus net original issue premium of \$3,871,549.80, less the underwriters' discount of \$176,057.52. Banc of America Securities, and any of its associates underwriting the Bonds, 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.

CITY OF
BOSTON, MASSACHUSETTS



INFORMATION STATEMENT
Dated January 1, 2006

This Information Statement contains certain general and financial information concerning the City of Boston, Massachusetts (the "City"). The information is authorized by the City to be distributed to prospective purchasers in connection with bonds or notes offered for sale by the City, and to the nationally recognized municipal securities information repositories currently recognized by the Securities and Exchange Commission for purposes of its Rule 15c2-12. This Information Statement may not be reproduced or used in whole or in part for any other purpose without the express written consent of Lisa C. Signori, Chief Financial Officer and Collector-Treasurer, Boston, Massachusetts.

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

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

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

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THE CITY

The City, incorporated as a town in 1630 and as a city in 1822, exists under Chapter 486 of the Acts of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth 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 fourth four-year term from January 2006 through January 2010. 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 2008, are set forth below.

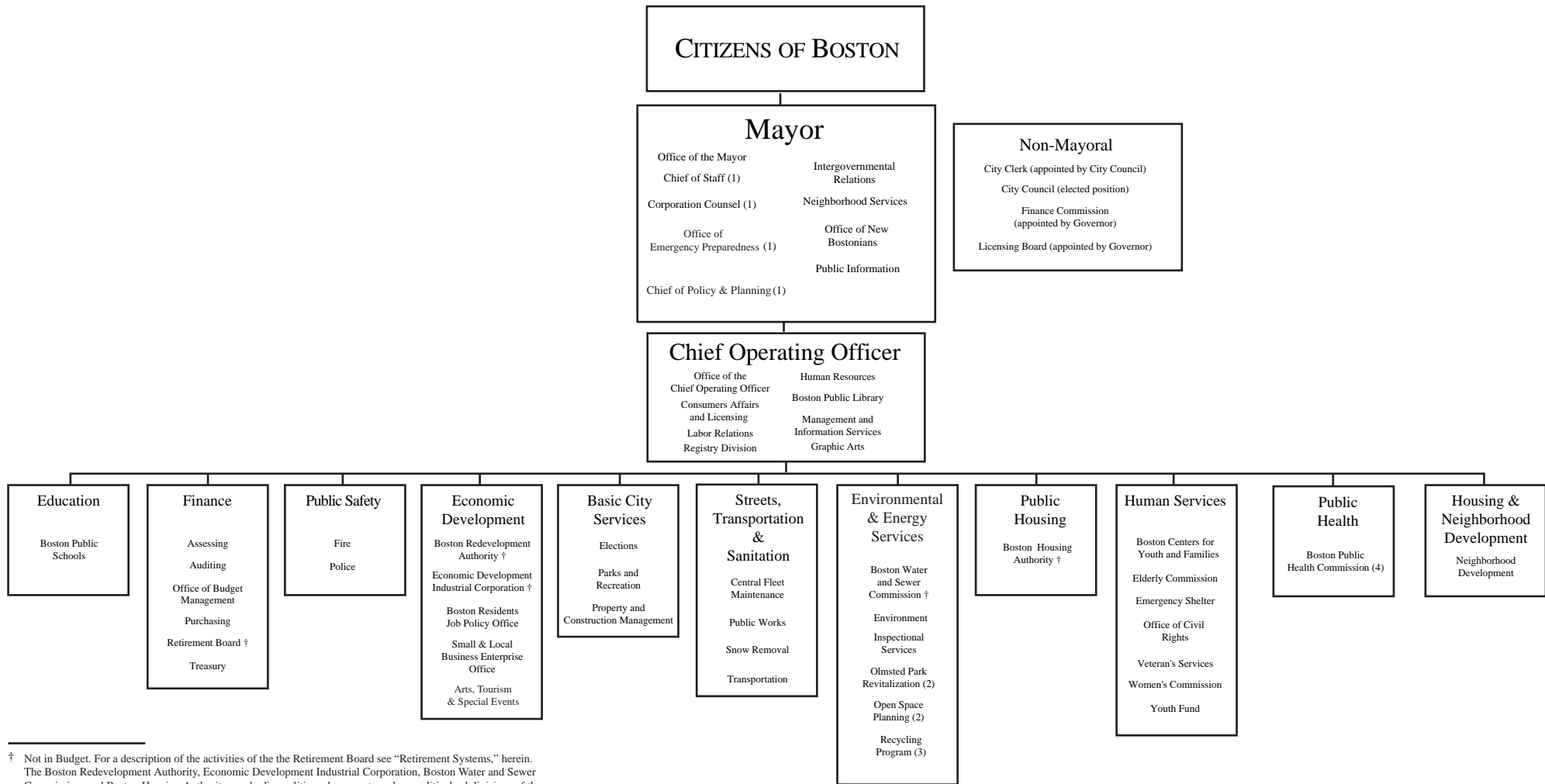
Michael F. Flaherty, Jr. (President).....	At Large
S.H. Samuel Yoon.....	At Large
Stephen J. Murphy	At Large
Felix D. Arroyo	At Large
Paul J. Scapicchio.....	District 1
James M. Kelly.....	District 2
Maureen E. Feeney.....	District 3
Charles C. Yancey.....	District 4
Robert J. Consalvo	District 5
John 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



A-2

† Not in Budget. For a description of the activities of the the Retirement Board see "Retirement Systems," herein. The Boston Redevelopment Authority, Economic Development Industrial Corporation, Boston Water and Sewer Commission, and Boston Housing Authority are bodies politic and corporate and are political subdivisions of the Commonwealth. For a description of such entities, see "City Indebtedness-Debt of Agencies Related to the City."

(1) Has cabinet rank.

(2) Programmatically within this cabinet. Financially in Parks 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" and "City Indebtedness-Debt of Agencies Related to the City-Boston Public Health Commission."

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

Chief of Staff

Merita A. Hopkins was appointed Chief of Staff by Mayor Menino in August 2004. The Chief of Staff is the chair of the Mayor's cabinet, and as such has an advisory role over all operations of City government. The Chief of Staff is also charged with supervising and directing the operations of the Mayor's office, including scheduling, security, policy and planning, press, constituent services and intergovernmental relations. Ms. Hopkins has served as the Mayor's Corporation Counsel for the last 10 years. She continues to hold this position while a search is underway for her successor. The Corporation Counsel has supervisory authority over all City attorneys and legal affairs.

Chief of Policy and Planning

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

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

City Auditor

Sally D. Glora was appointed 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, the Office of Small and Local Business Enterprises, the Office of Boston Residents Job Policy and the Office of Arts, Tourism and Special Events.

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 June 2006. The School Committee has established a process and named a Committee for the search for a new Superintendent. The expectation is that finalists will be selected by the springtime, and that a new Superintendent will be named by June 30. 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 38-year veteran, was appointed Fire Commissioner by Mayor Menino in November 2001. The City's Police and Fire Departments provide and promote public safety and protection services, firefighting and fire prevention services. For a description of Police and Fire Department resources and personnel see "The City—Principal Governmental Services—Public Safety" below.

Director of the Office of Emergency Preparedness

Carlo A. Boccia was appointed director of the City's Office of Emergency Preparedness by Mayor Menino in March 2004. Mr. Boccia, a security expert, has over thirty years experience with both the Drug Enforcement Agency and in private practice.

Chief of Human Services

J. Larry Mayes was appointed Chief of Human Services by Mayor Menino in September 2004. The Human Services Cabinet is responsible for providing human and other support services for all of Boston's

residents through its seven departments: Boston Centers for Youth and Families, the Boston Youth Fund, the Elderly Commission, the Emergency Shelter Commission, the Women’s Commission, the Veteran’s Services Department, and the Office of Civil Rights, which is comprised of the Fair Housing Commission, the Commission for People with Disabilities, and the Human Rights Commission.

Chief of Public 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, including: the Emergency Medical Service, which includes the City’s ambulances, EMTs and paramedics responding to the “911” emergency system; Homeless Services; Communicable Disease Control; Substance Abuse Services; Community Health; and Child and Family Health. For additional information concerning the Boston Public Health Commission see “The City—Principal Government Services—Public Health” below.

Chief of 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 Election Department and the Property and Construction Management Department, of which Mr. Galvin is Commissioner and Director of Public Facilities, and which includes Capital Construction, the Animal Control Unit, 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 and Energy Services

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

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 Streets, Transportation & Sanitation Cabinet includes the Public Works Department, the Transportation Department, Central Fleet Maintenance and Snow Removal. 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.

Principal Government Services

The following tables show, respectively, the distribution of the City’s fiscal 2006 appropriations and full-time equivalent City employees by primary government functions and departments.

**Purposes of City Appropriations—Fiscal 2006 ⁽¹⁾
(Budgetary Accounting Basis) ⁽²⁾
(\$ in thousands)**

	<u>Amount</u>	<u>Percent of Total Appropriations</u>
General Government	\$ 58,807	2.8%
Public Safety.....	427,692	20.9
Public Works	93,812	4.6
Property and Development	32,351	1.6
Parks and Recreation	15,134	0.7
Library	26,694	1.3
Human Services.....	24,506	1.2
Schools	712,683	34.7
Boston Public Health Commission.....	61,300	3.0
Judgments and Claims	3,500	0.2
Employee Benefits	159,002	7.8
Current Period Retirement Contributions	190,985	9.3
Debt Requirements	119,246	5.8
State and District Assessments	<u>125,102</u>	<u>6.1</u>
Total.....	<u>\$2,050,814</u>	<u>100.0%</u>

(1) Represents the fiscal 2006 Tax Rate budget as of December 16, 2005.

(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** ⁽¹⁾

	<u>2003</u>	<u>2004</u>	<u>2005</u>
<i>City Funded:</i>			
Public Safety ⁽²⁾	4,608	4,393	4,451
Public Works.....	426	409	424
Other City Departments ⁽³⁾	2,913	2,762	2,739
Boston Public Health Commission ⁽⁴⁾	745	728	743
Subtotal	<u>8,692</u>	<u>8,292</u>	<u>8,357</u>
Schools	<u>8,440</u>	<u>7,792</u>	<u>8,009</u>
Total City Funded	<u>17,132</u>	<u>16,084</u>	<u>16,366</u>
<i>Grant Funded:</i>			
Schools	934	866	924
All Others ⁽⁵⁾	<u>1,480</u>	<u>1,468</u>	<u>1,449</u>
Total	<u>19,546</u>	<u>18,418</u>	<u>18,739</u>

- (1) All data are as of January 1 in the year stated. The methodology used in compiling these data was established jointly by the City and the Boston Municipal Research Bureau.
- (2) Public Safety includes both the Police Department and the Fire Department.
- (3) Includes Boston State Retirement System employees funded solely from the investment income account of the system.
- (4) Boston Public Health Commission employees are funded by the City, but are not employees of the City.
- (5) 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 58,238 students for the 2004-2005 school year, a decrease of approximately 1,926 students from the preceding school year.

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

Public Safety

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

The Police Department maintains eleven neighborhood police stations and one headquarters building. It also maintains 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. The City's newest police station in the South End was completed in Spring 2001.

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 2004, in order to facilitate mitigation of emergencies and fires, the Fire Department began to provide critical information to firefighters wirelessly via laptop computers.

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

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 four-year term beginning July 1, 2005 and ending June 30, 2009. The cost of these services equaled approximately \$41.27 million in fiscal 2005. The estimated cost of these contracts in fiscal 2006 equals approximately \$42.6 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 50,000 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 abolish the government of Suffolk County.

Under legislation enacted in 1985 and 1991, the Commonwealth 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 (96% in fiscal 2006) of the state-approved operating budget for the Sheriff's Office. The City's fiscal 2006 budget includes an appropriation for the remaining 4% 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 all of the City's non-school department employees are organized into bargaining units represented by various unions. Most of these unions are affiliated with the AFL-CIO. Three large unions, the American Federation of State, County, and Municipal Employees ("AFSCME") Council 93 (laborer employees), the Service Employees International Union ("SEIU") Local 285 (clerical employees), and the Salaried Employees of North America ("SENA") Local 9158 (middle manager employees) represent the majority of City's non-public safety employees.

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

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

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

Collective Bargaining Units (City and Schools)

<u>Union</u>	<u>Department</u>	<u>Number of Employees Represented</u> ⁽¹⁾	<u>Contract Expiration Date</u>
Boston Patrolmen's Association	Police	1,419	6/30/06
Boston Police Superior Officers	Police	257	6/30/06
Boston Police Detectives Benevolent Society	Police	250	6/30/06
Superior Detective Benevolent Society	Police	102	6/30/06
Police Cadet Association	Police	40	9/30/06
School Traffic Supervisors Assoc.	Police	207	11/30/06
International Association of Firefighters, Local 718	Fire	1,532	6/30/06
Municipal Police Patrolmen's Association	Property & Construction Mgmt	106	6/30/06
Municipal Police Superior Officers Association	Property & Construction Mgmt	21	6/30/07
SEIU, Local 888	Citywide	1,168	9/30/06
SENA, Locals 9158 and 9158E	Citywide	658	6/30/06
AFSCME C93 (Citywide & various locals)	Citywide	1,203	6/30/06
AFSCME Local 1526	Library	288	9/30/06
Professional Staff Association (BPL)	Library	147	9/30/06
Graphic Arts Unions	Graphic Arts and Police	23	9/30/06
Other City Unions	Inspectional Services and Property & Construction Mgmt	41	6/30/06
Boston Teachers Union	School	7,439	8/31/06
BASAS (School Administrators & Supervisors)	School	299	8/31/06
SEIU Local 888	School	479	11/30/06
Boston School Police	School	58	8/31/06
School Police Superior Officers Assoc.	School	22	6/30/06
School Custodians Local 1952, Painters & Allied Trades District Council #35	School	519	8/31/08
Plant Administrators Association	School	13	8/31/08
School Bus Monitors USWA Local 8751	School	417	6/30/07
Lunch Hour Monitors Association	School	333	8/31/07
AFSCME C93, Local 230 Cafeteria Workers	School	436	8/31/06
AFSCME C93, Storekeepers & Deliverymen	School	<u>16</u>	8/31/06
		17,493	

(1) Number of members (not Full-Time Equivalents) as of January 1, 2005.

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

FINANCIAL OPERATIONS

Budget Process

Program-Based Budgeting

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

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

The City Council may reduce or reject any item in the Mayor’s budget but may not, except upon the recommendation of the Mayor, increase or add an item. 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 2006 were approved by the City Council on June 29, 2005. See “Financial Operations—Fiscal 2006 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 2006 portion of the Five-Year Capital Plan were submitted to the City Council on April 13, 2005, and were approved by the City Council on June 29, 2005.

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

accounting basis in the prior year's operating budget, or a deficit incurred in the property tax abatement reserves.

Capital Budgeting

The 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 2005, Mayor Menino released the FY06-10 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.

Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2002-2006

The table below shows the City's legally adopted General Fund budget for fiscal 2006, together with budgetary actual results for fiscal 2002 through 2005. 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"). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures.

In fiscal 2004, the Commonwealth's Department of Revenue included Charter School Tuition 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 annual comparisons of total expenditures and of total revenues between years prior to fiscal 2004 and after.

Thus, in order to state the comparisons fairly, both the table and the text that follow are adjusted to the fiscal 2004 reporting method and assume the amount charged to the City for Charter School Tuition in fiscal 2002 and 2003 is accounted for as a charge and not as revenue offset. The following comparisons are impacted by this adjustment: total expenditures, total revenues, state assessments and state aid.

Fiscal 2006 Budget
Compared to Fiscal 2002, Fiscal 2003, Fiscal 2004 and Fiscal 2005 Actual Results
General Fund—Budgetary Basis
(\$ in millions)*

	Fiscal 2002 Actual Results	Fiscal 2003 Actual Results	Fiscal 2004 Actual Results	Fiscal 2005 Actual Results	Fiscal 2006 Budget ⁽¹⁾
Revenues:					
Recurring Revenue					
Property Taxes	\$ 972.7	\$ 1,035.9	\$ 1,094.1	\$ 1,150.6	\$ 1,207.6
Overlay Reserve ⁽²⁾	(46.3)	(39.8)	(42.1)	(44.3)	(40.8)
Excises	80.6	83.1	59.6	82.5	71.0
Fines	60.7	59.0	66.7	65.6	64.6
Interest on Investments	14.8	8.6	7.8	17.8	16.0
Payments in Lieu of Taxes	19.6	22.1	22.3	23.4	23.3
Urban Redevelopment Chapter 121A	48.4	54.1	54.8	54.9	53.5
Misc. Department Revenue	54.1	45.6	40.8	43.1	32.7
Licenses and Permits	29.6	30.1	34.8	33.8	27.2
Penalties & Interest	8.1	9.2	9.8	9.8	8.3
Available Funds	4.6	11.8	2.9	5.5	12.1
State Aid	522.7	476.6	459.8	461.1	469.6
Teachers' Pension Reimbursement	45.3	53.7	61.4	76.5	76.5
Total Recurring Revenue	<u>\$ 1,814.8</u>	<u>\$ 1,849.9</u>	<u>\$ 1,872.8</u>	<u>\$ 1,980.4</u>	<u>\$ 2,021.6</u>
Non-Recurring Revenue ⁽³⁾					
	0.0	13.0	20.0	0.0	29.2
Total Revenues	<u>\$ 1,814.8</u>	<u>\$ 1,862.9</u>	<u>\$ 1,892.8</u>	<u>\$ 1,980.4</u>	<u>\$ 2,050.8</u>
Expenditures:					
Departmental Expenditures					
City Departments	\$ 754.6	\$ 776.5	\$ 779.5	\$ 849.5	\$ 845.7
Boston Public Health Commission	64.0	63.9	58.8	60.6	61.3
School Department	639.7	650.6	656.5	680.2	712.7
Collective Bargaining Reserve	6.2	8.4	21.3	-	-
Total Department Expenditures	<u>\$ 1,464.5</u>	<u>\$ 1,499.4</u>	<u>\$ 1,516.0</u>	<u>\$ 1,590.1</u>	<u>\$ 1,619.7</u>
Fixed Costs					
Pensions ⁽⁴⁾	\$ 129.7	\$ 134.4	\$ 137.0	\$ 146.6	\$ 186.3
Debt Service ⁽⁵⁾	115.6	121.3	123.9	118.4	119.7
State Assessments	94.3	101.1	106.5	111.7	120.6
Suffolk County Sheriff	4.5	4.7	4.6	4.2	4.5
Reserve	1.0	0.2	0.4	1.1	-
Total Fixed Costs	<u>\$ 345.2</u>	<u>\$ 361.8</u>	<u>\$ 372.4</u>	<u>\$ 381.9</u>	<u>\$ 431.1</u>
Total Expenditures	<u>\$ 1,809.7</u>	<u>\$ 1,861.1</u>	<u>\$ 1,888.4</u>	<u>\$ 1,972.1</u>	<u>\$ 2,050.8</u>
Excess of Revenues Over Expenditures	<u>\$ 5.2</u>	<u>\$ 1.8</u>	<u>\$ 4.4</u>	<u>\$ 8.3</u>	<u>\$ -</u>

* Columns may not add due to rounding.

- (1) Represents the budget at the time of the approval of the tax rate on December 16, 2005.
- (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 levy an amount sufficient to generate additional reserves to cover the shortfall.
- (3) Non-recurring revenue in fiscal 2003 and 2006 includes a portion of the proceeds from the Surplus Property Fund (\$13 million and \$9.2 million, respectively). In fiscal 2004 and 2006 non-recurring revenue includes Budgetary Fund Balance of \$20 million in each year.
- (4) Excludes noncontributory pensions and annuities that are included in departmental expenditures. The amount of such non-contributory pensions and annuities equaled \$6.0 million, \$4.9 million, \$4.9 million and \$4.9 million, respectively in fiscal 2002, 2003, 2004 and 2005. The budgeted amount for fiscal 2006 is \$4.7 million.
- (5) 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 2001-2005." See "City Indebtedness-Debt Service Requirements."

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

Fiscal 2002-2005 Actual Results

On a budgetary basis, fiscal 2002 was a stable year during which the City received adequate resources, controlled spending and added to reserve fund balance. During fiscal 2003 and fiscal 2004, the City absorbed substantial decreases in annual aid from the Commonwealth and in various economically sensitive excise tax revenue streams due to the national recession. (For a discussion of aid from the

Commonwealth, see “City Revenues—State Aid.”) These revenue reductions occurred in tandem with increasing fixed costs, specifically in the areas of employee health insurance and pension funding. In response, the City implemented several cost containment and reduction initiatives including, among others, a position control review board, a hiring freeze, retirement incentives, a three-year extension of the pension funding schedule, and the first use of reserve fund balance in over ten years. Through these efforts and continued growth in the property tax, the City maintained a balanced operating budget, protected core public services and produced operating surpluses throughout this period.

In fiscal 2005, City revenues recovered from the recession-driven lows of the prior two years and the property tax continued to produce steady revenue growth. State aid to the City did not return to pre-recession levels, however, and the City continued to experience steep increases in employee health insurance and pension costs. In spite of these cost pressures and minimal state aid growth, the City was able to maintain a balanced budget, forgo the use of reserves, and produce a small operating surplus.

Fiscal 2006 Budget

The following is a summary of the City’s fiscal 2006 budget on a budgetary accounting basis. The figures cited are from the fiscal 2006 tax rate budget at the time of certification of both the aggregate amount of and the rates of tax for the City’s fiscal 2006 property tax levy by the Massachusetts Department of Revenue. This certification was completed on December 16, 2005.

Expenditures

In fiscal 2006, the City’s budgeted expenditures total \$2.05 billion including direct expenditures for departmental services and fixed expenses, representing an increase of \$78.7 million or 4.0% from fiscal 2005 actual expenditures. Budgeted fiscal 2006 departmental expenditures compare with actual fiscal 2005 expenditures as follows: City Departments decreased \$3.7 million or .4%; the Public Health Commission increased \$.7 million or 1.2%; and the School Department increased \$32.5 million or 4.8%. Budgeted fixed expenses for fiscal 2006 compare with fiscal 2005 actual expenses as follows: Pensions increased \$39.7 million or 27.1%; Debt Service increased \$1.3 million or 1.1%; State Assessments increased \$8.9 million or 8.0%; and City costs for the Office of the Suffolk County Sheriff increased \$.3 million or 6.7%. 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.”

The net decrease in City Departments is in part due to the extraordinary Snow Removal expenses incurred in fiscal 2005 which totaled \$22.0 million. The fiscal 2006 budget of \$10.6 million for Snow Removal, a significantly lower amount, was based on a five year average including a projection of fiscal year 2005 expenditures made several months before year end. Factors contributing to offsetting cost increases in City Departments are collective bargaining costs scheduled for fiscal 2006 and inflationary increases in health insurance and non-personnel costs such as utilities and trash removal. The increases in the School Department and the Public Health Commission are largely reflective of collective bargaining and health insurance increases. The increase in pension expenses is a result of a recent update to the City’s pension funding schedule which is required to be updated every three years. The new schedule includes the impact of the early retirement incentive program of October 2002 as well as an adjustment that reflects corrections to past asset performance assumptions. The City’s current pension schedule fully funds the system by the end of fiscal 2023—five years earlier than required by law. The schedule was approved by the State-Boston Retirement System and the state actuary and is a legal obligation of the City. State Assessments are also mandatory; the amounts are determined by the Commonwealth. All but a small portion of the increase in State Assessments is the result of the increase in the charge to the City for Charter School Tuition.

Revenues

Budgeted revenues for fiscal 2006 equaled \$2.05 billion, an increase of \$70.4 million or 3.6% from fiscal 2005 actual revenues. Selected fiscal 2006 budgeted revenues compare with fiscal 2005 actual revenues as follows: the Gross Property Tax Levy (including new growth) increased \$57.0 million or 5.0%; Excises decreased \$11.6 million or 14.0%; Interest on Investments decreased \$1.8 million or 10.0%; Miscellaneous Department Revenue decreased \$10.4 million or 24.0%; Licenses and Permits decreased \$6.6 million or 19.6%; Available Funds from parking meter and cemetery fees increased \$6.6 million or 119.0%; State Aid increased \$8.5 million or 1.8%; and Non-Recurring Revenue increased by \$29.2 million or 100%.

Property Taxes, the City's largest source of revenue, have become increasingly important to the City's revenue growth given the minimal growth of State Aid. Property tax revenues are expected to rise \$57.0 million in fiscal 2006 after having increased by over \$50 million in each of fiscal years 2003, 2004 and 2005. The near-term outlook for the City's property tax levy is one of stable and sustained growth.

The decrease in Excises is the result of a conservative projection in Motor Vehicle Excise receipts due to the possible effects of interest rate increases, and one extra quarterly jet fuel excise payment of \$4.1 million received in fiscal 2005. The decrease in Fines is a projection based on current parking ticket issuance and average fine rates experienced in the first half of fiscal 2006. The decrease in Miscellaneous Department Revenue is due to the expected absence of various unpredictable departmental reimbursements present in fiscal 2005. The decrease in Licenses & Permits is due to expected lower building permit activity with increasing interest rates. The increase in Available Funds is due to the low amount actually used in fiscal 2005. The minor increase in State Aid is due to increases in lottery and school aid. The increase in Non-Recurring Revenue is due to the fact that although \$15 million in Budgetary Fund Balance and \$1.9 million in Surplus Property funds were originally budgeted to support the fiscal 2005 budget, such amounts were ultimately not needed to cover fiscal 2005 actual expenditures. Budgetary Fund Balance is available for appropriation after certification of its value by the Department of Revenue. Fiscal 2006 becomes only the second year of use of this reserve since fiscal 1992.

Financial Statements

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

The City's audited financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, ("GAAP"). The accounts of the City are organized on the basis of funds. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets/fund balance, revenues and expenditures/expenses. For a discussion of the significant accounting policies employed in preparing the City's fiscal 2005 audited financial statements, see Note 2 of such audited financial statements, which are attached hereto as Supplement I. The City's fiscal 2005 financial statements comply with GASB Statement No. 34, GASB Statement No. 40, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*.

GAAP accounting differs from the "statutory" accounting or "budgetary" accounting basis prescribed by the Bureau of Accounts of the Commonwealth, for the annual budget and property tax certification process. The major differences are explained in Note 4 of the fiscal 2005 audited financial statements, attached hereto as Supplement I.

Summary and Comparison of Operating Results (GAAP Basis)—Fiscal 2001-2005

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 2001 through 2005 prepared by the City and audited by KPMG LLP, an independent certified public accounting firm, in accordance with the GAAP basis of accounting.

**Summary of Statements of Revenues, Expenditures, Other Financing Sources
and Changes in Fund Equity Fiscal Years 2001-2005 (GAAP Basis)
(\$ in millions)***

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total revenues	\$1,692.7	\$1,801.3	\$1,794.5	\$1,824.2	\$1,912.7
Total expenditures	<u>1,603.9</u>	<u>1,735.1</u>	<u>1,739.9</u>	<u>1,758.8</u>	<u>1,895.4</u>
Excess of revenues over expenditures	88.8	66.2	54.6	65.4	17.3
Total other financing (uses) sources	<u>(43.0)</u>	<u>1.8</u>	<u>34.6</u>	<u>16.5</u>	<u>22.5</u>
Excess of revenues and other financing sources over expenditures and other financing uses.....	<u>45.8</u>	<u>67.9</u>	<u>89.2</u>	<u>81.9</u>	<u>39.8</u>
Fund balance, beginning of year as previously reported	<u>220.7</u>	<u>266.5</u>	<u>402.1</u>	<u>491.4</u>	<u>573.2</u>
Cumulative change in accounting principles ⁽¹⁾	-	67.7	-	-	-
Fund Balance, beginning of year as restated ..	<u>-</u>	<u>334.2</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year ⁽²⁾	<u>\$ 266.5</u>	<u>\$ 402.1</u>	<u>\$ 491.4</u>	<u>\$ 573.2</u>	<u>\$ 613.0</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 at the end of fiscal 2001, 2002, 2003, 2004 and 2005 were \$182.0 million, \$345.8 million, \$331.5 million, \$377.1 million and \$415.2 million, respectively.

Source: City of Boston Auditing Department.

The following is a summary analysis of the City's financial operations on a GAAP basis over the period fiscal 2003 through fiscal 2005. 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 Supplement I, Note No. 4, "Budgetary Data."

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

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 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 fiscal 2002. The increase is primarily due to an increase in property tax revenue.

Fiscal 2004

Revenues showed a slight increase in fiscal year 2004 from fiscal year 2003. Two sources of revenue that declined were in the areas of Excise Taxes (\$8.8 million) and Investment Income (\$0.7 million). The decrease in Excise Taxes was due to the timing of collections and the decrease in Investment Income was the result of continued weak market performance and low interest rates, yielding poor returns on otherwise favorable cash balances. Department and Other Revenues also declined due primarily to decreases in the Municipal Medicaid Reimbursement (\$6.1 million), Indirect Costs Reimbursements (\$1.9 million) and Prior Years Reimbursements (\$3.4 million). Property Taxes increased \$28.6 million or 2.7%, reflecting the increase in property values and new growth. Fines increase \$7.2 million (12.1%), due partially to increased collections of parking fine receipts. The overall growth in Revenues represents a \$29.7 million increase or 1.7% more than fiscal 2003.

Overall, fiscal year 2004 expenditures increase slightly from the previous year by 1.1% or \$19.0 million. The most notable increases are the increase in the cost of health insurance, causing Other Employee Benefits to increase by \$15.4 million (13.5%) and the increase in Retirement Costs of \$13.2 million (17.7%) primarily due to the impact of the Early Retirement Incentive. Schools increased slightly by \$1.3 million (0.2%) as a result of increased labor costs. These increases are offset by decreases in costs for most other areas of government.

The General Fund’s equity balance as of June 30, 2004 was \$573.2 million, as compared to \$491.4 million in Fiscal 2003. The increase of \$81.9 million or 16.7%, is primarily due to an increase in property tax revenues and adjustments to accruals not reported on a GAAP basis.

Fiscal 2005

Revenues showed slight increases in fiscal year 2005 from fiscal year 2004. The most notable occurred in real and personal property taxes, investment income and departmental and other revenues. Property taxes increased \$55.7 million, or 5.1%, reflecting continuing increases in property values. An increase in investment income (\$9.7 million) was the result of stronger market performance and rising interest rates, yielding positive returns on the City’s cash balances. Departmental and other revenues increased due primarily to additional receipts from Municipal Medicaid Reimbursement (\$2.6 million), an increase in fees of \$0.7 million and a change in GAAP accruals that comprised the balance of the increase in this category as of June 30, 2005. The increase in Intergovernmental (State Aid) revenues was nominal, increasing by only \$1.1 million or .23%. The overall growth in revenues represents an \$88.5 million increase or 4.9% more than fiscal 2004.

Overall, fiscal year 2005 expenditures increased over the previous year by 7.8% or \$136.6 million. The most notable increases occurred in General Government of \$27.4 million or 91.2% over fiscal 2004 expenditures, Public Safety by \$66.7 million or 17.1%, Public Works by \$19.7 million or 22.6%, Parks & Recreation by \$4.4 million or 39.5% and Schools by \$16.7 million or 2.6% over fiscal year 2004 costs. Most of these increases are attributable to settled collective bargaining agreements that were all paid in fiscal 2005 and expenditures attributable to snow removal. Solid financial controls over other expenditure categories allowed for the overall percentage of increase in expenditures to remain moderate.

The General Fund’s equity balance as of June 30, 2005 was \$613.0 million, as compared to \$573.2 million in fiscal 2004. The increase of \$39.8 million or 6.9% is primarily due to a continued increase in Property and Excise Taxes. Please refer to the statements of General Fund activity in the Comparative Balance Sheets and Statements of Revenues and Expenditures (Supplement II to this Appendix A), and Note 2 in Notes to Basic Financial Statements (Supplement I to this Appendix A) for a more in-depth explanation of these entries and the manner in which they impact the Fund equity balance calculation.

Cash Flows

The following table represents the end-of-month unaudited cash balances for the City’s General Fund commencing with fiscal 2003 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 2003-2006

	(\$ in thousands)			
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
July	\$682,030	\$581,902	\$683,229	\$714,211
August	713,968	652,157	723,471	788,747
September	705,532	657,697	786,818	755,123
October	694,431	682,418	771,963	788,120
November	680,607	653,917	761,412	735,438
December	658,939	596,227	636,217	629,052
January	412,265	567,665	693,799	
February	533,376	614,063	727,636	
March	498,945	581,150	686,182	
April	554,653	633,748	686,583	
May	563,193	648,230	743,488	
June	571,334	718,903	788,497	

Source: City of Boston Treasury Department.

Financial Administration

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

Revenue Collections

The City has 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 also allows its taxpayers to pay property taxes on-line using direct debit. The City secures its statutory lien for delinquent real estate taxes with instruments recorded at the Suffolk County Registry of Deeds (“tax takings”). For more information concerning tax takings and the collection of delinquent real estate taxes, see “City Revenues—Property Taxes—Delinquent Taxes and Tax Title.”

Debt Management

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

The Treasury Department manages all City borrowings. The Treasury Department focuses on the timing of borrowings to take advantage of favorable market conditions and manages the City’s cash flows to help obviate the need for short-term borrowings for operating purposes. The Treasury Department has established a series of debt management guidelines 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.

Other Post Employment Benefits

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of Other Postemployment Benefits (OPEB). OPEB includes postemployment healthcare, as well as other forms of postemployment benefits such as life insurance. The City will be required to implement the provisions of Statement No. 45 for the fiscal year ending June 30, 2008. The City currently provides postemployment healthcare and life insurance benefits to eligible retirees in accordance with state law and pays its share of the cost of such benefits on a pay-as-you-go basis. The City has begun the process of determining its unfunded actuarial accrued liability with respect to future post-employment benefit obligations.

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 \$65 million all risk protection after a \$10 million deductible; boiler and machinery losses are insured up to \$2.5 million, and 70% 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 \$10 million at the end of fiscal 2005.

Energy Management

In September 2002, the Mayor established an Energy Management Board and charged it with the mission to make decisions regarding the City's procurement, use, and conservation of energy as well as the minimization of the impact of fossil fuel consumption on public health. The Energy Management Board is comprised of the City's Chief Financial Officer and Collector-Treasurer, Chief of Environmental and Energy Services, Chief of Basic City Services, and Chief of Public Health.

The Energy Management Board commissioned an Integrated Energy Management Plan that is intended to assure progress toward the fulfillment of its mission. The Integrated Energy Management Plan is expected to be finalized in January 2006.

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

CITY REVENUES

The principal sources of City revenue available to meet operating expenditures are Property Taxes, State Aid, Excise Revenues, Departmental Revenues, and Federal and State Grants, all of which are described below. Except as specifically noted, all amounts are stated on a budgetary accounting basis. References to fiscal 2006 are unaudited.

Property Taxes

Real and personal property taxes are the largest single source of the City's revenue. The City's gross property tax levy for fiscal 2006 equals \$1.21 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 2006, 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 gross levy in fiscal 2006 equals \$1.21 billion. In fiscal 2006, the allowable 2.5% increase is \$28.8 million, and "new growth" is \$28.6 million.

In order to mitigate its adverse impact on local government revenues, Proposition 2½ limits the annual rate of increase of aggregate, statewide assessments made upon cities and towns by the

Commonwealth and certain of its governmental entities, such as assessments made upon the City and certain other cities and towns for the Massachusetts Bay Transportation Authority (“MBTA”), to 2.5% of the prior year’s assessment. Proposition 2½ also limits the motor vehicle excise tax rate to 2.5%.

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 2002-2006⁽¹⁾
(\$ in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total Assessed Valuation	\$54,189,508	\$57,533,345	\$66,141,730	\$69,253,528	\$74,738,001
Growth Levy Limit	972,449	1,035,297	1,094,069	1,149,230	1,207,764
Levy Ceiling	1,354,738	1,438,334	1,653,543	1,731,338	1,868,450
Tax Levy ⁽²⁾	972,234	1,035,271	1,093,937	1,148,742	1,207,620
Under Levy Ceiling	382,504	403,063	559,606	582,596	660,830

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

Source: City of Boston Assessing Department

Revaluation

State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between 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 concluded work on its eighth three-year revaluation in February 2004. The eighth revaluation showed an unusual trend in the real estate market: while residential real estate values increased considerably, values for business properties decreased. Vacancy rates in the downtown office market increased, commercial lease rates declined, and the demand for hotel rooms remained below historical levels. Although this change in value did 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 resulted 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 was mitigated under legislation adopted in 2004 that temporarily increased the limit on the portion of the tax levy that may be shifted from residential properties to business properties. See “City Revenues—Property Taxation—Taxation by Use; Tax Rates.”

Certified Triennial Revaluations

<u>Assessment Date</u>	<u>Real and Personal Property Value</u>	<u>Applicable Years</u>
January 1, 2003	\$66.14 billion	fiscal 2004 through 2006
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

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, 2005. The fiscal 2006 tax rates were applied to the January 1, 2005 valuation to determine levy and tax liability for fiscal 2006.

Assessed Valuation of Taxable Real Property by Real Estate Classes, Assessment Dated January 1, 2005

<u>Real Estate Classes</u>	<u>Land Area (Square feet)</u>	<u>Land Valuation</u>	<u>Building Valuation</u>	<u>Total Valuation</u>
Apartments	31,529,188	\$1,065,985,747	\$2,865,799,960	\$3,931,785,707
Agricultural	546,757	55,100	160,400	215,500
Commercial	76,340,445	3,976,826,357	12,829,290,397	16,806,116,754
Commercial Condominium	7,254,163	2,504,700	1,004,548,600	1,007,053,300
Residential Condominium	46,970,401	922,560	17,059,965,768	17,060,888,328
Commercial Land	30,188,859	459,739,925	315,062,844	774,802,769
Condominium Main ⁽¹⁾	41,544,190	-	-	-
Condominium Parking	248,631	2,367,500	32,177,500	34,545,000
Industrial	47,921,726	543,847,806	720,127,217	1,263,975,023
Residential & Commercial	14,841,101	775,261,793	2,173,685,260	2,948,947,053
Residential Land	34,307,098	163,170,678	7,741,789	170,912,467
1-Family	156,249,025	2,540,319,326	8,564,064,791	11,104,384,117
2-Family	88,658,123	1,441,816,301	6,150,737,215	7,592,553,516
3-Family	56,665,469	1,044,902,002	5,916,904,226	6,961,806,228
4-Family (4-6 units)	10,266,989	495,683,429	1,256,829,486	1,752,512,915
TOTAL		<u>\$12,513,403,224</u>	<u>\$58,897,095,453</u>	<u>\$71,410,498,677</u>

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

Source: City of Boston Assessing Department.

Tax Rates, Fiscal 2002-2006 (per \$1,000 of assessed value)

<u>Fiscal Year</u>	<u>Commercial, Industrial and Personal Property</u>	<u>Residential Property</u>
2006.....	\$30.70	\$11.12
2005.....	32.68	10.73
2004.....	33.08	10.15
2003.....	31.49	11.29
2002.....	30.33	11.01

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 2006 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. As a result of the 2004 legislation described above, the increase in the amount of the tax levy that may be shifted to business properties has allowed 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 legislation contains a schedule that annually reduces the taxable valuation limit for commercial, industrial and personal

property from the maximum of 200% of its share of total taxable value in fiscal 2004 back to 170% of its share of the total taxable value by fiscal 2009.

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 2006, qualifying residents who receive the residential exemption have their taxable assessed values reduced by \$120,926. The residential exemption has no impact on the overall tax rate.

Tax Base

The following table shows, for purposes of year-to-year comparison, the assessed valuations with respect to all property in the City subject to taxation, used for determining the tax levies and tax rates in fiscal years 2002 through 2006.

Assessed Valuations—Fiscal Years 2002-2006 ⁽¹⁾ **(\$ in thousands)***

Fiscal Years	Value of Taxable Land	Value of Taxable Buildings	Total Value Taxable Land and Buildings	Value of Taxable Personal Property	Total Assessed Taxable Value
2006.....	\$12,513,403	\$58,897,095	\$71,410,498	\$3,327,508	\$74,738,001
2005.....	12,385,681	53,734,580	66,120,261	3,133,267	69,253,528
2004.....	12,336,679	50,381,046	62,717,725	3,424,025	66,141,750
2003.....	11,201,851	43,188,916	54,390,766	3,142,579	57,533,345
2002.....	11,080,453	40,219,239	51,299,693	2,889,815	54,189,508

* Rows may not add due to rounding.

(1) Represents assessed values determined as of January 1 in the prior fiscal year. For example, fiscal 2006 assessed values are as of January 1, 2005.

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 2006. Assessed valuations and fiscal 2006 taxes reflect the valuation of property as of January 1, 2005 and the tax liability using applicable tax rates.

Largest Taxpayers: City of Boston, Fiscal 2006⁽¹⁾

Name	Personal Property ⁽²⁾	Real Property	Total Assessed Value	Fiscal 2006 Tax Liability
Equity Office Properties	\$ 619,040	\$2,001,455,000	\$2,002,074,040	\$61,463,673
Nstar / Boston Edison Company	1,356,290,440	70,065,301	1,426,355,741	43,789,121
Boston Properties	3,530,010	988,074,200	991,604,210	30,442,249
Beacon Properties	1,038,790	885,240,900	886,279,690	27,208,786
Brookfield Properties Corporation	211,210	576,378,500	576,589,710	17,701,304
Fort Hill Associates	20,170	565,561,500	565,581,670	17,363,357
TST One Twenty Five High Street	135,060	464,181,500	464,316,560	14,254,518
UIDC of Massachusetts, Inc.	254,710	417,435,000	417,689,710	12,823,074
One Hundred Federal Street, Lps	—	349,085,000	349,085,000	10,716,910
American Financial Realty Trust	—	343,882,800	343,882,800	10,557,202
Dewey Square Tower Associates	478,090	334,835,000	335,313,090	10,294,112

(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, 2005 and the total amount (net of refunds) of taxes (current and all prior levies) collected during fiscal 2001 through 2005. Excluded from the following table are receipts from PILOTs and receipts on account of Chapter 121A corporations.



CITY OF BOSTON, MASSACHUSETTS

Basic Financial Statements and Required Supplementary Information

June 30, 2005

(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 (the City), Massachusetts, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 3% and 3% of the assets and revenues, respectively, of the aggregate remaining fund information and 29% and 27% 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. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*, 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 the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2005, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its



compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 14 and the schedules of funding progress and employers' contributions on page 62 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Boston, Massachusetts
November 18, 2005

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2005

The City of Boston (the City) provides this Management's Discussion and Analysis to present additional information to the readers of the City's Basic Financial Statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2005. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information regarding historical pension information. 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:

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

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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, and debt service.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the activities related to the City's Convention Center Bond Fund and Hospital Bond Fund.

Discretely Presented Component Units – These are operations for which the City has financial accountability but 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 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

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recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the City.

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

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

Of the City's 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 21. 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 generally accepted accounting principles (GAAP). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied, while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the general fund that GAAP records in separate funds, and "budgetary" records 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 to 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.

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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 Fund (the State-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 fund financial statements.

New for fiscal year 2005 is the implementation of Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*. Please see note 5 to the financial statements for additional reporting and information.

Also for fiscal year 2005, the City recorded a long-term intergovernmental receivable from the Commonwealth of Massachusetts (the Commonwealth) and revised its estimate of uncollectible and notes receivables. See note 18 to the 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 the statement of activities found on pages 15 and 16, respectively, 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, 2005 by \$875.7 million (presented as net assets). Of this amount, \$472.3 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.

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Changes in Net Assets – The City's total net assets increased by \$457.8 million in fiscal year 2005. Net assets of governmental activities increased by \$452.6 million, while net assets of the business-type activities showed an increase of \$5.2 million.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (government and business-type activities) totaled \$875.7 million at the end of 2005, compared to \$417.9 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 – this amount is \$108.9 million, indicating that the net book value of the City's capital assets exceeds the amount of capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's governmental net assets (30.7%) 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. Part of the unrestricted net assets (approximately \$258.8 million) represents the receivable from the Massachusetts School Building Authority (the MSBA) for the reimbursement of bonded school construction costs. The payments to be received from the MSBA coincide with the City's future debt service payments. In fiscal 2006, the amount to be received by the City to pay debt service is approximately \$112.3 million. Although this receivable increases unrestricted net assets, it will not effect the City's free cash position.

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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 Governmental Activities. The negative balance in business-type activities is a result of special obligation bonds outstanding at year end. The negative balance is intended to be covered by user charges, grants, and lease receipts from third parties.

City of Boston Net Assets – Primary Government

(In thousands)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets	\$ 1,496,597	1,105,228	50,010	46,510	1,546,607	1,151,738
Capital assets	1,013,034	979,662	—	—	1,013,034	979,662
Other assets	4,748	4,912	2,987	3,174	7,735	8,086
Due from others	28,106	29,326	92,370	99,739	120,476	129,065
Total assets	\$ 2,542,485	2,119,128	145,367	149,423	2,687,852	2,268,551
Noncurrent liabilities	\$ 1,032,463	1,105,147	217,683	227,126	1,250,146	1,332,273
Other liabilities	549,872	506,423	12,166	11,951	562,038	518,374
Total liabilities	\$ 1,582,335	1,611,570	229,849	239,077	1,812,184	1,850,647
Invested in capital assets net of related debt	\$ 108,924	92,802	—	—	108,924	92,802
Restricted	294,453	258,940	—	—	294,453	258,940
Unrestricted	556,773	155,816	(84,482)	(89,654)	472,291	66,162
Total net assets	\$ 960,150	507,558	(84,482)	(89,654)	875,668	417,904

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City of Boston Changes in Net Assets – Primary Government

(In thousands)

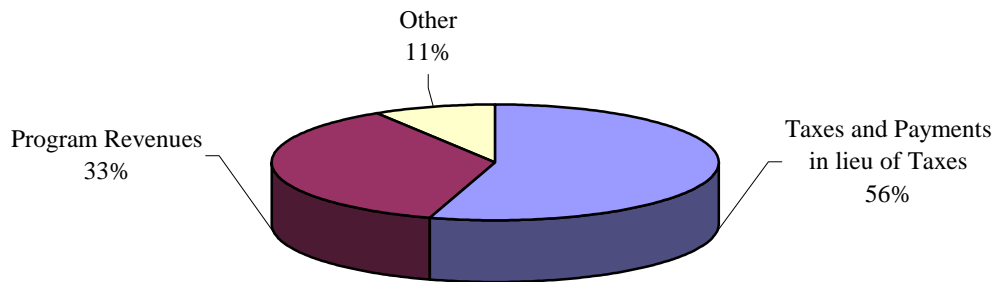
	Governmental activities		Business-type activities		Totals	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 158,513	140,418	—	—	158,513	140,418
Operating grants and contributions	581,220	644,429	297	24,256	581,517	668,685
Capital grants and contributions	21,079	38,595	—	—	21,079	38,595
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,136,487	1,103,003	—	—	1,136,487	1,103,003
Excises	100,888	91,551	28,028	23,845	128,916	115,396
Payment in lieu of taxes	42,218	42,373	—	—	42,218	42,373
Grants and contributions not restricted	231,258	171,976	—	—	231,258	171,976
Investment income	28,072	18,304	6,116	5,653	34,188	23,957
Miscellaneous	2,344	11,849	—	—	2,344	11,849
Total revenues	<u>2,302,079</u>	<u>2,262,498</u>	<u>34,441</u>	<u>53,754</u>	<u>2,336,520</u>	<u>2,316,252</u>
Program expenses:						
General government	113,255	83,416	—	—	113,255	83,416
Human services	36,413	35,748	—	—	36,413	35,748
Public safety	542,512	485,229	—	—	542,512	485,229
Public works	121,513	98,753	—	—	121,513	98,753
Property and development	89,213	124,330	—	—	89,213	124,330
Parks and recreation	19,801	15,461	—	—	19,801	15,461
Library	37,878	35,025	—	—	37,878	35,025
Schools	921,311	885,931	—	—	921,311	885,931
Public health programs	62,296	58,848	—	—	62,296	58,848
County	109,817	110,020	—	—	109,817	110,020
State and district assessments	115,894	111,061	—	—	115,894	111,061
Repairs and maintenance	10,134	12,378	—	—	10,134	12,378
Interest on long-term debt	35,877	39,042	—	—	35,877	39,042
Convention center	—	—	6,165	38,541	6,165	38,541
Hospital	—	—	5,104	5,285	5,104	5,285
Total program expenses	<u>2,215,914</u>	<u>2,095,242</u>	<u>11,269</u>	<u>43,826</u>	<u>2,227,183</u>	<u>2,139,068</u>
Excess before special items and transfers	86,165	167,256	23,172	9,928	109,337	177,184
Special items	348,427	—	—	—	348,427	—
Transfers	18,000	17,000	(18,000)	(17,000)	—	—
Change in net assets	<u>452,592</u>	<u>184,256</u>	<u>5,172</u>	<u>(7,072)</u>	<u>457,764</u>	<u>177,184</u>
Net assets – beginning	<u>507,558</u>	<u>323,302</u>	<u>(89,654)</u>	<u>(82,582)</u>	<u>417,904</u>	<u>240,720</u>
Net assets – ending	<u>\$ 960,150</u>	<u>507,558</u>	<u>(84,482)</u>	<u>(89,654)</u>	<u>875,668</u>	<u>417,904</u>

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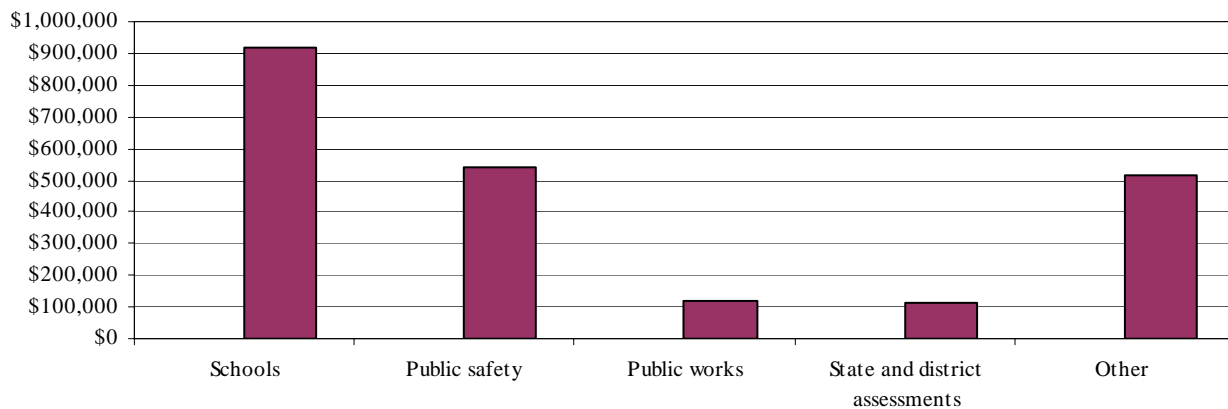
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**Revenues – Governmental Activities
Fiscal Year 2005**



**Expenses – Governmental Activities
Fiscal Year 2005
(In thousands)**



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Governmental Activities

The City's governmental activities net assets increased by \$452.6 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal 2005. Increases in assets included: cash and investments increased by \$49.2 million, receivables increased by \$342.2 million, and capital assets increased by \$33.4 million. Changes in the liability accounts included: increases in warrants payable of \$22.9 million, and current long term debt of \$43.7 million, with \$2.9 million and \$20.1 million decreases in deferred revenue and accrued liabilities, respectively.

The City's largest sources of revenues were property and excise taxes and payments in lieu of taxes of \$1.28 billion and \$760.8 million of program revenues. Approximately 55.6% of the City's total revenue came from taxes and payments in lieu of taxes, while 33.0% resulted from program revenues. Interest, unrestricted grants and contributions, and other miscellaneous revenues totaled \$261.7 million. The City's expenses cover a range of services. The largest expenses were for schools (\$921.3 million), public safety (\$542.5 million), public works (\$121.5 million), state and district assessments (\$115.9 million), general government (\$113.3), county (\$109.8 million), and property and development (\$89.2 million). In 2005, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.46 billion. This shortfall was covered primarily through taxes (\$1.28 billion) and grants and contributions not restricted (\$231.3 million).

Significant changes in revenues, specifically property tax revenue and federal and state grant revenue, allowed for increased spending in expense categories such as schools, public safety, and public works. Comparative data on these revenues and expenses are summarized in the table "*City of Boston Changes in Net Assets – Primary Government*" on page 9.

Business-Type Activities

Net assets from business-type activities increased by \$5.2 million during fiscal 2005. This change in net assets resulted primarily from an increase in excise tax revenues.

Financial Analysis of the City's Individual Funds

This analysis is based on the Fund Financial Statements on pages 17 through 25.

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 2005, the City's governmental funds reported a combined ending fund balance of \$857.3 million, an increase of \$25.1 million from the prior year. Of this total amount, \$435.9 million represents the "unreserved and undesignated fund balances," with \$415.2 million of this amount in the general fund.

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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 2005 was \$415.2 million, which represents approximately 21.9% of GAAP general fund operating expenditures.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of undesignated fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash." Free cash is the amount of statutory fund balance in the general fund, as certified by the Commonwealth 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-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 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 post-employment 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 2005 with a \$8.3 million dollar surplus. This represents the City's 20th consecutive year with a balanced budget. Changes to the original budget resulted in an increase of \$89 thousand to the overall budget. These two supplemental appropriations, totaling \$89 thousand, were for 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 from the 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 predefined purposes. The fiscal year 2005 special revenue fund balance is reported at \$181.3 million, a \$22.4 million increase from fiscal year 2004.

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

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funds. The fiscal year 2005 capital projects fund balance is \$18.6 million. The \$36.6 million decrease from fiscal year 2004 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 permanent trust funds. The fiscal year 2005 other governmental funds fund balance is \$44.3 million, a \$499 thousand decrease from fiscal year 2004.

Proprietary Funds

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

The City's proprietary funds net assets for fiscal year 2005 are a negative \$84.5 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, 2005 included \$2.08 billion of cost and accumulated depreciation of \$1.06 billion, leaving a net book value of \$1.02 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was about 3.4% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$81.3 million for the year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements. Depreciation charges for the year totaled \$47.9 million. Additional information on the City's capital assets can be found in note 8 to the financial statements.

Long-Term Obligations

Debt Administration – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year end, the City had \$835.7 million in General Obligations Bonds principal outstanding – a decrease of 6.5% over last year.

The key factors in this decrease were the issuance of the February 1, 2005 Series A \$127.8 million General Obligation Bonds, \$52.8 million of which were Refunding 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.

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Notes Payable and Other Long-Term Obligations – The City's general long-term notes and other obligations increased by \$26.5 million, or 7.1%, during the current fiscal year. The key factors were net increases in workers' compensation of \$19.6 million and compensated absences of \$6.5 million.

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

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all of the City's citizens, taxpayers, customers, investors, and creditors. 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.

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Statement of Net Assets

June 30, 2005

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Assets:				
Current assets:				
Cash and investments	\$ 878,754	—	878,754	144,771
Cash and investments held by trustees	46,973	50,010	96,983	17,946
Receivables, net:				
Property taxes	15,716	—	15,716	—
Intergovernmental	303,693	—	303,693	—
Other	29,531	—	29,531	28,043
Other assets	4,748	2,987	7,735	16,319
Internal balances	18,000	(18,000)	—	—
Due from BMC	—	—	—	1,302
Due from primary government	—	—	—	84
Due from component units	10,106	—	10,106	—
Total current assets	<u>1,307,521</u>	<u>34,997</u>	<u>1,342,518</u>	<u>208,465</u>
Noncurrent assets:				
Intergovernmental receivables	146,491	—	146,491	—
Notes and other receivables	75,439	—	75,439	83,957
Other assets	—	—	—	141,923
Capital assets:				
Nondepreciable	335,467	—	335,467	21,186
Depreciable, net	677,567	—	677,567	36,566
Due from component units	—	110,370	110,370	—
Total noncurrent assets	<u>1,234,964</u>	<u>110,370</u>	<u>1,345,334</u>	<u>283,632</u>
Total assets	<u>2,542,485</u>	<u>145,367</u>	<u>2,687,852</u>	<u>492,097</u>
Liabilities:				
Current liabilities:				
Warrants and accounts payable	112,973	—	112,973	17,620
Accrued liabilities – current:				
Tax abatement liability	27,100	—	27,100	—
Compensated absences	39,889	—	39,889	—
Judgments and claims	7,375	—	7,375	—
Payroll and related costs	102,332	—	102,332	—
Deposits and other	67,293	2,946	70,239	2,665
Current portion of long-term debt and leases	180,894	9,220	190,114	12,492
Due to component units	84	—	84	—
Due to BMC	—	—	—	16,268
Due to primary government	—	—	—	120,435
Deferred revenue	11,932	—	11,932	44,716
Total current liabilities	<u>549,872</u>	<u>12,166</u>	<u>562,038</u>	<u>214,196</u>
Noncurrent liabilities:				
Bonds due in more than one year	779,674	217,683	997,357	—
Notes and leases payable due in more than one year	58,687	—	58,687	137,011
Other noncurrent liabilities	194,102	—	194,102	5,109
Total noncurrent liabilities	<u>1,032,463</u>	<u>217,683</u>	<u>1,250,146</u>	<u>142,120</u>
Total liabilities	<u>1,582,335</u>	<u>229,849</u>	<u>1,812,184</u>	<u>356,316</u>
Net assets:				
Investment in capital assets, net of related debt	108,924	—	108,924	38,572
Restricted for:				
Capital projects	18,632	—	18,632	—
Expendable trust	44,299	—	44,299	—
Other purposes	231,522	—	231,522	58,269
Unrestricted (note 18)	556,773	(84,482)	472,291	38,940
Total net assets	<u>\$ 960,150</u>	<u>(84,482)</u>	<u>875,668</u>	<u>135,781</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Activities
Year ended June 30, 2005
(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	Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 113,255	10,129	32,799	5,949	(64,378)		(64,378)	
Human services	36,413	20	10,470	—	(25,923)		(25,923)	
Public safety	542,512	112,585	21,209	—	(408,718)		(408,718)	
Public works	121,513	15,114	—	8,050	(98,349)		(98,349)	
Property and development	89,213	4,685	67,156	2,025	(15,347)		(15,347)	
Parks and recreation	19,801	301	953	743	(17,804)		(17,804)	
Library	37,878	333	5,449	462	(31,634)		(31,634)	
Schools	921,311	15,308	338,508	3,850	(563,645)		(563,645)	
Public health programs	62,296	—	—	—	(62,296)		(62,296)	
County	109,817	38	104,676	—	(5,103)		(5,103)	
State and district assessments	115,894	—	—	—	(115,894)		(115,894)	
Repairs and maintenance	10,134	—	—	—	(10,134)		(10,134)	
Interest on long-term debt	35,877	—	—	—	(35,877)		(35,877)	
Total governmental activities	<u>2,215,914</u>	<u>158,513</u>	<u>581,220</u>	<u>21,079</u>	<u>(1,455,102)</u>		<u>(1,455,102)</u>	
Business-type activities:								
Convention Center	6,165	—	297	—	—	(5,868)	(5,868)	
Hospital Bonds	5,104	—	—	—	—	(5,104)	(5,104)	
Total business-type activities	<u>11,269</u>	<u>—</u>	<u>297</u>	<u>—</u>	<u>—</u>	<u>(10,972)</u>	<u>(10,972)</u>	
Total primary government	<u>\$ 2,227,183</u>	<u>158,513</u>	<u>581,517</u>	<u>21,079</u>	<u>(1,455,102)</u>	<u>(10,972)</u>	<u>(1,466,074)</u>	
Component units:								
Boston Public Health Commission	\$ 114,915	—	102,909	1,289				(10,717)
Boston Redevelopment Authority	19,918	11,246	4,085	—				(4,587)
Trustees of the Public Library of the City of Boston	13,865	970	11,051	—				(1,844)
Economic Development and Industrial Corporation of Boston	34,177	14,354	17,316	—				(2,507)
Total component units	<u>\$ 182,875</u>	<u>26,570</u>	<u>135,361</u>	<u>1,289</u>				<u>(19,655)</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					1,136,487	—	1,136,487	—
Excises					100,888	28,028	128,916	—
Payments in lieu of taxes					42,218	—	42,218	—
Grants and contributions not restricted					231,258	—	231,258	—
Investment income					28,072	6,116	34,188	7,249
Miscellaneous					2,344	—	2,344	18,457
Special items (note 18)					348,427	—	348,427	—
Transfers					18,000	(18,000)	—	—
Total general revenues, special items, and transfers					<u>1,907,694</u>	<u>16,144</u>	<u>1,923,838</u>	<u>25,706</u>
Change in net assets					452,592	5,172	457,764	6,051
Net assets – beginning of year					507,558	(89,654)	417,904	129,696
Prior period adjustment					—	—	—	34
Net assets – end of year					<u>\$ 960,150</u>	<u>(84,482)</u>	<u>875,668</u>	<u>135,781</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2005

(In thousands)

Assets	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Cash and investments	\$ 692,679	123,608	31,910	2	848,199
Cash and investments held by trustees	—	—	2,429	44,544	46,973
Receivables, net:					
Property taxes	15,716	—	—	—	15,716
Intergovernmental	343,686	103,493	3,005	—	450,184
Departmental and other	29,082	75,439	—	336	104,857
Total receivables	<u>388,484</u>	<u>178,932</u>	<u>3,005</u>	<u>336</u>	<u>570,757</u>
Due from other funds	20,690	1,363	—	—	22,053
Due from component units	10,065	—	—	—	10,065
Total assets	<u>\$ 1,111,918</u>	<u>303,903</u>	<u>37,344</u>	<u>44,882</u>	<u>1,498,047</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 94,107	14,752	3,493	583	112,935
Accrued liabilities:					
Payroll and related costs	100,798	1,534	—	—	102,332
Deposits and other	4,508	28,162	15,219	—	47,889
Deferred revenue	297,452	75,439	—	—	372,891
Due to other funds	1,945	2,690	—	—	4,635
Due to component units	84	—	—	—	84
Total liabilities	<u>498,894</u>	<u>122,577</u>	<u>18,712</u>	<u>583</u>	<u>640,766</u>
Fund balances (deficit):					
Reserved for:					
Encumbrances	33,155	51,090	84,471	462	169,178
Future appropriations	—	—	43,724	—	43,724
Unreserved:					
Designated for subsequent years expenditures	164,621	—	—	—	164,621
Undesignated	415,248	130,236	(109,563)	—	435,921
Reported in permanent funds	—	—	—	43,837	43,837
Total fund balance	<u>613,024</u>	<u>181,326</u>	<u>18,632</u>	<u>44,299</u>	<u>857,281</u>
Total liabilities and fund balances	<u>\$ 1,111,918</u>	<u>303,903</u>	<u>37,344</u>	<u>44,882</u>	<u>1,498,047</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

June 30, 2005

(In thousands)

Total fund balance – Governmental funds		\$ <u>857,281</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		15,866
Land improvements		79,463
Buildings and improvements		1,177,761
Furniture and equipment		176,628
Infrastructure		308,062
Construction in progress		319,601
Less accumulated depreciation		<u>(1,064,347)</u>
		<u>1,013,034</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis		360,959
Internal service funds are included in the government-wide statements		26,660
Bond issuance costs are capitalized in the government-wide statements		2,875
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		(985,293)
Capital leases		(13,413)
Bond issue premiums		(31,876)
Deferred bond gains (losses)		11,327
Accrued interest on bonds		(19,403)
Compensated absences		(174,664)
Landfill		(14,489)
Judgments and claims		(45,748)
Tax abatements		<u>(27,100)</u>
		<u>(1,300,659)</u>
Net assets of governmental activities		\$ <u><u>960,150</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

Year ended June 30, 2005

(In thousands)

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:					
Real and personal property taxes	\$ 1,138,254	—	—	—	1,138,254
Excises	93,906	—	—	—	93,906
Payments in lieu of taxes	42,218	—	—	—	42,218
Fines	65,280	17	—	—	65,297
Investment income	17,970	282	—	70	18,322
Licenses and permits	33,491	74	—	—	33,565
Departmental and other	60,704	52,882	3,065	5,949	122,600
Intergovernmental	460,898	332,331	8,800	—	802,029
Total revenues	<u>1,912,721</u>	<u>385,586</u>	<u>11,865</u>	<u>6,019</u>	<u>2,316,191</u>
Expenditures:					
Current:					
General government	57,471	22,548	—	4,489	84,508
Human services	23,821	8,678	—	—	32,499
Public safety	457,541	24,338	—	—	481,879
Public works	106,749	2,719	—	—	109,468
Property and development	29,836	57,154	—	—	86,990
Parks and recreation	15,708	1,001	—	—	16,709
Library	27,594	5,579	—	—	33,173
Schools	673,009	134,992	—	—	808,001
Public health programs	60,586	1,710	—	—	62,296
County	—	101,832	—	—	101,832
Judgments and claims	6,620	—	—	—	6,620
Retirement costs	59,419	—	—	—	59,419
Other employee benefits	142,721	—	—	—	142,721
State and district assessments	115,894	—	—	—	115,894
Capital outlays	2,683	805	87,974	—	91,462
Debt service	115,769	3,879	—	—	119,648
Total expenditures	<u>1,895,421</u>	<u>365,235</u>	<u>87,974</u>	<u>4,489</u>	<u>2,353,119</u>
Excess (deficiency) of revenues over expenditures	<u>17,300</u>	<u>20,351</u>	<u>(76,109)</u>	<u>1,530</u>	<u>(36,928)</u>
Other financing sources (uses):					
Long-term debt and capital leases issued	—	1,381	83,228	—	84,609
Issuance of refunding bonds	—	—	52,775	—	52,775
Payments to refunded bonds escrow agent	(1,025)	(6,180)	(96,539)	—	(103,744)
Premiums on long-term debt issued	—	10,409	—	—	10,409
Transfers in (out)	23,529	(3,500)	—	(2,029)	18,000
Total other financing sources (uses)	<u>22,504</u>	<u>2,110</u>	<u>39,464</u>	<u>(2,029)</u>	<u>62,049</u>
Net change in fund balances	39,804	22,461	(36,645)	(499)	25,121
Fund balance – beginning	573,220	158,865	55,277	44,798	832,160
Fund balance – ending	\$ <u>613,024</u>	<u>181,326</u>	<u>18,632</u>	<u>44,299</u>	<u>857,281</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, 2005

Net change in fund balances – total governmental funds \$ 25,121

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 (\$81,260) exceeded depreciation expense (\$47,888). 33,372

Tax revenues in the statement of activities that are not reported as revenues
in the governmental funds. (11,150)

Proceeds of long-term debt (\$137,384) 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 (\$195,010) is an expenditure
in the governmental funds, but reduces long-term liabilities in the statement of
net assets. This is the amount by which repayments exceeded proceeds. 57,626

Bond premiums net (\$8,233) 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 (\$2,053) are expenditures in the governmental
funds, before deferred assets in the statement of assets. This is the amount
by which premiums exceeded issuance costs. (6,180)

Special items related to legislative changes and changes in estimates of
uncollectible receivables 348,427

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
compensated absences (\$6,510), judgments and claims (\$20,280), and
interest payable (\$1,830) offset by a decrease in landfill liabilities, \$58,
payroll settlements, \$21,305, and property and development expense, \$2,505. (4,752)

Net income from the internal service fund which is presented in the statement
of activities, but not in the governmental funds. 10,128

Change in net assets of governmental activities \$ 452,592

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

Year ended June 30, 2005
(with comparative actual amounts for 2004)

(In thousands)

	<u>Original budget</u>	<u>2005 Final budget</u>	<u>Actual</u>	<u>Variance over (under)</u>	<u>2004 Actual</u>
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,105,029	1,105,029	1,106,336	1,307	1,052,067
Excises	98,950	98,950	118,657	19,707	94,269
Commonwealth of Massachusetts	523,342	523,342	537,655	14,313	521,232
Departmental and other revenue	38,393	38,482	53,142	14,660	50,959
Fines	61,844	61,844	65,280	3,436	66,342
Payments in lieu of taxes	39,999	39,999	42,218	2,219	42,373
Investment income	7,300	7,300	17,787	10,487	7,792
Licenses and permits	25,350	25,350	33,821	8,471	34,820
Other available funds	28,905	28,905	5,529	(23,376)	22,933
Total revenues and other available funds	1,929,112	1,929,201	1,980,425	51,224	1,892,787
Expenditures:					
General government	56,911	60,435	59,837	598	75,926
Human services	24,516	23,986	23,853	133	22,945
Public safety	409,149	408,662	429,376	(20,714)	393,827
Public works	91,122	92,452	106,699	(14,247)	87,639
Property and development	22,475	25,480	25,425	55	26,400
Parks and recreation	14,485	15,471	15,179	292	13,436
Library	25,739	26,601	26,600	1	24,086
Schools	680,118	680,207	680,181	26	656,539
Boston Public Health Commission	60,388	60,568	60,568	—	58,762
Judgments and claims	3,500	3,500	10,884	(7,384)	18,842
Other employee benefits	146,289	146,155	147,803	(1,648)	133,206
Retirement costs	151,463	151,463	151,463	—	141,867
State and district assessments	121,079	115,869	115,894	(25)	111,061
Debt requirements	121,878	118,352	118,330	22	123,866
Total expenditures	1,929,112	1,929,201	1,972,092	(42,891)	1,888,402
Excess of revenues and other available funds over expenditures	\$ —	—	8,333	94,115	4,385

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets – Proprietary Funds

June 30, 2005

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Assets:				
Current assets:				
Cash and investments	\$ —	—	—	30,555
Cash and investments held by trustees	30,044	19,966	50,010	—
Receivables, net	—	—	—	154
Total current assets	30,044	19,966	50,010	30,709
Noncurrent assets:				
Due from other funds	—	—	—	582
Due from component units	—	110,370	110,370	—
Other assets	1,369	1,618	2,987	1,873
Total noncurrent assets	1,369	111,988	113,357	2,455
Total assets	31,413	131,954	163,367	33,164
Liabilities:				
Current liabilities:				
Warrants and accounts payable	—	—	—	39
Accrued liabilities	—	—	—	6,465
Due to other funds	18,000	—	18,000	—
Accrued interest payable	892	2,054	2,946	—
Current portion of long-term debt	2,915	6,305	9,220	—
Total current liabilities	21,807	8,359	30,166	6,504
Noncurrent liabilities:				
Special obligation bonds	106,785	—	106,785	—
Revenue bonds	—	110,898	110,898	—
Total noncurrent liabilities	106,785	110,898	217,683	—
Total liabilities	128,592	119,257	247,849	6,504
Net assets:				
Unrestricted	(97,179)	12,697	(84,482)	26,660
Total net assets	\$(97,179)	12,697	(84,482)	26,660

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

Year ended June 30, 2005

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Operating revenues:				
Contributions	\$ —	—	—	92,812
State aid – pledged for debt service	28,028	—	28,028	—
Departmental and other	—	—	—	—
Total operating revenues	<u>28,028</u>	<u>—</u>	<u>28,028</u>	<u>92,812</u>
Operating expenses:				
Payments made on behalf of State	84	—	84	—
Health benefits	—	—	—	82,684
Total operating expenses	<u>84</u>	<u>—</u>	<u>84</u>	<u>82,684</u>
Operating income	<u>27,944</u>	<u>—</u>	<u>27,944</u>	<u>10,128</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	297	—	297	—
Investment earnings – pledged for debt service	—	5,293	5,293	—
Investment earnings – other	823	—	823	—
Interest expense	(6,081)	(5,104)	(11,185)	—
Total nonoperating revenue (expense)	<u>(4,961)</u>	<u>189</u>	<u>(4,772)</u>	<u>—</u>
Income before transfers	22,983	189	23,172	10,128
Transfer to general fund	<u>(18,000)</u>	<u>—</u>	<u>(18,000)</u>	<u>—</u>
Change in net assets	4,983	189	5,172	10,128
Total net assets – beginning	<u>(102,162)</u>	<u>12,508</u>	<u>(89,654)</u>	<u>16,532</u>
Total net assets – ending	\$ <u>(97,179)</u>	<u>12,697</u>	<u>(84,482)</u>	<u>26,660</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2005
(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Cash flows from operating activities:				
Cash received from State aid	\$ 28,028	—	28,028	92,953
Other cash received	—	—	—	—
Cash paid to vendors	—	—	—	(82,100)
Cash payments on behalf of State	(84)	—	(84)	—
Net cash provided in operations	27,944	—	27,944	10,853
Cash flows from noncapital financing activities:				
Grants received from State	297	—	297	—
Interest paid on debt	(6,042)	(5,281)	(11,323)	—
Lease receipts	—	11,664	11,664	—
Transfers to other funds	(17,000)	—	(17,000)	—
Repayment of long-term debt	(2,780)	(6,125)	(8,905)	—
Net cash provided (used) by noncapital financing activities	(25,525)	258	(25,267)	—
Cash flows from investing activities:				
Investment income	823	—	823	—
Net cash provided by investing activities	823	—	823	—
Increase in cash and cash equivalents	3,242	258	3,500	10,853
Cash and cash equivalents, beginning of year	26,802	19,708	46,510	19,702
Cash and cash equivalents, end of year	\$ 30,044	19,966	50,010	30,555

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2005
(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Reconciliation of operating income to cash provided by operating activities:				
Operating income	\$ 27,944	—	27,944	10,128
Reconciliation of operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	—	—	—	141
Other assets	—	—	—	107
Due (to) from other funds	—	—	—	104
Accounts payable and accrued liabilities	—	—	—	373
Net cash provided by operating activities	<u>\$ 27,944</u>	<u>—</u>	<u>27,944</u>	<u>10,853</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2005

(In thousands)

	<u>Employee retirement plans</u>	<u>Private purpose trusts</u>	<u>Agency funds</u>
Assets:			
Cash and cash equivalents	\$ 2,438	74,201	1,278
Receivables:			
Interest and dividends	7,053	—	—
Securities sold	56,841	—	—
Other	91,286	2,452	—
Total receivables	<u>155,180</u>	<u>2,452</u>	<u>—</u>
Investments, at fair value:			
Short-term:			
Domestic	326,386	—	—
International	15,090	—	—
Equity:			
Domestic	1,598,379	—	—
International	623,624	—	—
Fixed income:			
Domestic	493,104	—	—
International	216,935	—	—
Real estate	170,789	—	—
Venture capital funds	229,230	—	—
Total investments	<u>3,673,537</u>	<u>—</u>	<u>—</u>
Securities lending short-term collateral investment pool	219,129	—	—
Other assets	—	30	—
Total assets	<u>4,050,284</u>	<u>76,683</u>	<u>1,278</u>
Liabilities:			
Accounts payable	13,294	2,209	—
Securities purchased	270,021	—	—
Collateral held on securities lending	219,129	—	—
Refunds payable and other	—	—	1,278
Total liabilities	<u>502,444</u>	<u>2,209</u>	<u>\$ 1,278</u>
Net assets:			
Held in trust for pension benefits and other purposes	\$ <u>3,547,840</u>	<u>74,474</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, 2005

(In thousands)

	<u>Employee retirement plans</u>	<u>Private purpose trusts</u>
Additions:		
Contributions:		
Employers	\$ 170,043	—
Employees	106,577	—
Donations and other	—	20,656
Total contributions	<u>276,620</u>	<u>20,656</u>
Investment earnings:		
Net appreciation in the fair value of investments	292,331	—
Interest and dividends	85,043	599
Less investment expenses	(9,740)	—
Net investment earnings	<u>367,634</u>	<u>599</u>
From securities lending activities:		
Securities lending income	3,070	—
Less borrower rebates and fees	(2,748)	—
Net income from securities lending activities	<u>322</u>	<u>—</u>
Total net investment income	367,956	599
Intergovernmental	14,670	
Total additions	<u>659,246</u>	<u>21,255</u>
Deductions:		
Benefits	321,603	—
Reimbursement to other systems	9,449	—
Refunds of contributions	14,042	—
Administrative expenses	3,128	18,600
Total deductions	<u>348,222</u>	<u>18,600</u>
Change in net assets	311,024	2,655
Net assets, beginning of year	3,236,816	71,819
Net assets, end of year	<u>\$ 3,547,840</u>	<u>74,474</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(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, 2003 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

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

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

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

The financial statements of the discretely presented component units are included for their respective fiscal year ends, which is June 30, 2005.

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, 2005

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

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

The *hospital revenue bond fund* accounts for the activities related to the Boston City Hospital Revenue Bonds. These Bonds are payable solely from the mortgage note payments received from the 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

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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 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.

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

(e) *Interfund Receivables and Payables*

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

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

(f) *Uncollectible Tax and Other Receivables*

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

CITY OF BOSTON, MASSACHUSETTS

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June 30, 2005

(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 activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Any significant construction commitments are encumbered at year-end in the City's Capital Project Fund.

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, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Building improvements	30
Infrastructure	30
Land improvements – major	30
Land improvements – playgrounds	15
Computer upgrades	10
Equipment and machinery	10
Computers and related equipment	3
Furniture and fixtures	3
Motor vehicles	3

(h) Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2005 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

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Notes to Basic Financial Statements

June 30, 2005

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 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 is accounted for as a liability in the general fund to the extent it is “due and payable.” At June 30, 2005, 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 Closure and Postclosure Care Costs

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2005, 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 total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the general fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the government-wide statement of net assets. Expenditures related to the Gardner Street landfill site closure and postclosure care in fiscal year 2004 were approximately \$58 thousand.

(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

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Notes to Basic Financial Statements

June 30, 2005

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.

(3) Short-Term Debt

During fiscal year 2005, the City had no short-term debt issued or outstanding.

(4) Budgetary Data

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

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3 million, which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. There were no supplemental appropriations, other than the aforementioned transfers, for the fiscal year ended June 30, 2005.

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

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

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The City’s general fund budget is prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The “actual” results column in the statement of revenues and expenditures – budgetary basis – general fund is presented on a “budgetary basis” to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis, where applicable, are that:

- (a) Revenues are recorded when cash is received, except for real estate and personal property taxes which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations 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, 2005 (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	\$ 1,980,425	1,972,092	—	8,333
Adjustments:				
Revenues to modified accrual basis	31,321	—	—	31,321
Expenditures, encumbrances, and accruals, net	—	(150)	—	150
Reclassifications:				
State-funded teachers’ retirement costs	(76,521)	(76,521)	—	—
Convention Center fund revenue	(18,000)	—	18,000	—
Transfers	(4,504)	—	4,504	—
As reported on a GAAP basis	<u>\$ 1,912,721</u>	<u>1,895,421</u>	<u>22,504</u>	<u>39,804</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, 2005

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.

For the year ended June 30, 2005, the City and its blended component unit adopted Government Accounting Standards Board Statement (GASB) No. 40, *Deposit and Investment Risk Disclosures*. The standard requires that entities disclose essential risk information about deposits and investments.

Primary Government (except the pension trust fund)

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits and investments that are fully insured by FDIC insurance, collateralized and deposits that are not collateralized and are uninsured. As of June 30, 2005, the bank balances of uninsured and uncollateralized deposits totaled approximately \$3.7 million.

(b) Investment Policy

The City's primary concern in connection with its investment activities is a concern shared by all municipal governments: the preservation of capital. The City's investment policy establishes a domain in which all of the City's investment activities may be safely conducted while it strives to use its capital resources as efficiently as possible. The frontiers of that domain are fixed by Massachusetts General Laws M.G.L. c. 44, sec. 55, which prohibits Massachusetts communities from investing in certain categories of high-risk investments; limit the amount of the City's bank deposits in any one financial institution; and which establish qualifying criteria for banking institutions.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a listing of the City's fixed income investments (in thousands) and related maturity schedule as of June 30, 2005:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1-5</u>
External investment pool	\$ 620	620	—
Mutual funds	45,960	45,960	—
U.S. Treasury notes and bonds	10,670	—	10,670
Domestic corporate	4,472	—	4,472
	<u>\$ 61,722</u>	<u>46,580</u>	<u>15,142</u>

(d) Credit Risk

The City's fixed income investments as of June 30, 2005 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard and Poor's rating scale:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>
Mutual funds	\$ 45,960	AAA
External investment pool	620	Not rated
Domestic corporate	4,472	AAA to BBB+
	<u>\$ 51,052</u>	

(e) Concentration Risk

The City adheres to the provisions of M.G.L. c. 44, sec. 55 when managing concentration risk. M.G.L. c. 44, sec. 55 contains several restrictions limiting where and under what circumstances the City may deposit its funds. Pursuant to M.G.L. c. 44, sec. 55, cities and towns in the Commonwealth may deposit available fund balances in banks, trust companies, or banking companies, provided that the amounts deposited do not exceed 60% of the capital and surplus of an institution unless satisfactory security for the amount in excess of 60% is provided by the depository.

State-Boston Retirement System (SBRS or the System)

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name. The System also carries deposits that are not collateralized and are uninsured. As of December 31, 2004, the bank balances of uninsured and uncollateralized deposits totaled approximately \$3,950,000.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(b) Investment Policy

The provisions of M.G.L. c. 32, sec 23(2) govern the System’s investment practice.

Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec. 23(3), the “Prudent Person” rule.

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

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

(c) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a listing of the System’s fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2004:

Investment type	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes and bonds	\$ 28,693	6,460	7,563	—	14,670
U.S. agencies	76,200	4,958	51,153	20,089	—
Domestic corporate	269,247	21,829	105,772	102,776	38,870
International corporate	89,145	8,928	47,801	28,256	4,160
International government	127,790	4,395	81,581	24,270	17,544
Asset-backed:					
CMOs	22,428	—	—	1,034	21,394
Mortgage-backed	67,762	—	864	264	66,634
Other	32,855	—	27,516	2,995	2,344
	<u>\$ 714,120</u>	<u>46,570</u>	<u>322,250</u>	<u>179,684</u>	<u>165,616</u>

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

The System has included approximately \$4,081,000 of U.S. Treasury notes in the above schedule that are classified as short-term investments on the statement of plan net assets.

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2004 are highly sensitive to changes in interest rates.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(d) Credit Risk

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

The System’s fixed income investments as of December 31, 2004 were rated by Standard and Poor’s and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard and Poor’s rating scale:

<u>Investment type</u>	<u>Fair value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>	<u>Not rated</u>
U.S. agencies	\$ 76,200	76,200	—	—	—	—	—	—	—
Domestic corporate	269,247	6,897	15,464	132,999	27,102	32,204	51,012	1,179	2,390
International corp.	89,145	42,348	1,629	4,167	11,965	9,302	1,645	—	18,089
International gov’t	127,790	84,240	21,178	1,086	1,153	3,873	—	—	16,260
Asset-backed:									
CMOs	22,428	18,603	—	—	—	—	—	—	3,825
Mortgage-backed	67,762	2,261	—	—	—	—	—	—	65,501
Other	32,855	27,100	861	2,443	2,451	—	—	—	—
	<u>\$ 685,427</u>	<u>257,649</u>	<u>39,132</u>	<u>140,695</u>	<u>42,671</u>	<u>45,379</u>	<u>52,657</u>	<u>1,179</u>	<u>106,065</u>

In addition to the above schedule, the System has approximately \$28,693,000 invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

(e) Concentration Risk

The System has no investments, at fair value, that exceed 5% of the System’s net assets held in trust for pension benefits as of December 31, 2004.

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

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies. Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2004, there were no open forward currency contracts.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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

<u>Currency</u>	<u>Short-term</u>	<u>Fixed income</u>	<u>Equity</u>	<u>Total</u>
Australian dollar	50	7,705	11,243	18,998
Canadian dollar	12	5,532	4,302	9,846
Danish krone	—	1,534	5,263	6,797
Euro currency	382	88,327	113,505	202,214
Hong Kong dollar	9	—	5,732	5,741
Japanese yen	104	50,166	77,326	127,596
Mexican peso	—	1,086	—	1,086
New Zealand dollar	3	1,111	236	1,350
Norwegian krone	—	1,371	2,955	4,326
Pound sterling	88	15,763	80,467	96,318
Singapore dollar	8	10,732	1,341	12,081
Swedish krona	—	9,217	8,727	17,944
Swiss franc	129	2,188	28,541	30,858
International equity pooled funds (various currencies)	458	—	273,556	274,014
Total securities subject to foreign currency risk	1,243	194,732	613,194	809,169
United States dollars (securities held by international investment managers)	13,847	22,203	10,430	46,480
Total international investment securities	15,090	216,935	623,624	855,649

(6) Property Taxes

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

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

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On July 27, all properties

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

with unpaid fiscal year 2004 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>Capital projects</u>	<u>Other nonmajor funds</u>	<u>Internal service</u>	<u>Total</u>
Receivables:						
Property taxes	\$ 32,666	—	—	—	—	32,666
Other taxes	149,234	—	—	—	—	149,234
Intergovernmental	343,686	103,493	3,005	—	—	450,184
Other	31,742	75,439	—	336	154	107,671
Gross receivables	<u>557,328</u>	<u>178,932</u>	<u>3,005</u>	<u>336</u>	<u>154</u>	<u>739,755</u>
Less allowance for uncollectibles	<u>(168,844)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(168,844)</u>
Net total receivables	<u>\$ 388,484</u>	<u>178,932</u>	<u>3,005</u>	<u>336</u>	<u>154</u>	<u>570,911</u>

(a) Long-Term Receivable

The City participates in the Commonwealth’s school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (90% of total costs) to the City to build and/or renovate schools. As of June 30, 2005, under this program, the City was due funds totaling \$258.8 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown as of June 30, 2005 (in thousands), through 2010, and in five-year increments after that:

<u>Fiscal year(s)</u>	<u>Anticipated revenue</u>
2006	\$ 112,272
2007	15,279
2008	15,163
2009	14,650
2010	14,407
2011-2015	53,744
2016-2020	33,248
Total	\$ <u>258,763</u>

(b) Notes Receivable

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. Housing and Urban Development (HUD) provides grants to local governments, which in turn provides loans to developers. As of June 30, 2005, under this program, the City determined that \$75.4 million was collectible.

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)	\$ 26,757	—
Due from component units	—	10,065
Section 108 receivable	75,439	—
School building assistance receivable	258,763	—
Other	—	1,867
Total deferred/unearned revenue for governmental funds	\$ <u>360,959</u>	<u>11,932</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(8) Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows (in thousands):

Primary Government

	Beginning balance	Increases	Decreases	Ending balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,466	1,400	—	15,866
Construction in progress	<u>507,546</u>	<u>72,227</u>	<u>(260,172)</u>	<u>319,601</u>
Total capital assets not being depreciated	<u>522,012</u>	<u>73,627</u>	<u>(260,172)</u>	<u>335,467</u>
Capital assets being depreciated:				
Land improvements	25,021	54,442	—	79,463
Buildings and improvements	1,024,418	153,378	(35)	1,177,761
Furniture and equipment	160,075	18,941	(2,388)	176,628
Infrastructure	<u>266,950</u>	<u>41,112</u>	<u>—</u>	<u>308,062</u>
Total capital assets being depreciated	<u>1,476,464</u>	<u>267,873</u>	<u>(2,423)</u>	<u>1,741,914</u>
Less accumulated depreciation for:				
Land improvements	7,634	1,107	—	8,741
Buildings and improvements	792,027	17,567	(2)	809,592
Furniture and equipment	125,079	20,076	(2,353)	142,802
Infrastructure	<u>94,074</u>	<u>9,138</u>	<u>—</u>	<u>103,212</u>
Total accumulated depreciation	<u>1,018,814</u>	<u>47,888</u>	<u>(2,355)</u>	<u>1,064,347</u>
Total capital assets being depreciated, net	<u>457,650</u>	<u>219,985</u>	<u>(68)</u>	<u>677,567</u>
Governmental activities capital assets, net	\$ <u><u>979,662</u></u>	<u><u>293,612</u></u>	<u><u>(260,240)</u></u>	<u><u>1,013,034</u></u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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

Governmental activities:		
General government	\$	9,247
Human services		463
Public safety		8,385
Public works, including depreciation of general infrastructure assets		9,649
Property and development		1,208
Parks and recreation		1,544
Library		1,152
Schools		16,105
County		135
		<hr/>
Total depreciation expense – governmental activities	\$	<u><u>47,888</u></u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2005, are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 20,690	1,945
Special revenue	1,363	2,690
Convention Center	—	18,000
Internal service	582	—
	<hr/>	<hr/>
Balances at June 30, 2005	\$ <u><u>22,635</u></u>	<u><u>22,635</u></u>

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

<u>Discrete component unit balances</u>	<u>Receivable</u>	<u>Payable</u>
Primary government:		
General	\$ 10,065	84
Hospital revenue bond	110,370	—
	<hr/>	<hr/>
	120,435	84
	<hr/>	<hr/>
Discretely presented component units:		
TPL	—	18
PHC	84	120,417
	<hr/>	<hr/>
	84	120,435
	<hr/>	<hr/>
Balances at June 30, 2005	\$ <u><u>120,519</u></u>	<u><u>120,519</u></u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(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, 2005 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Bonds and notes payable:						
General obligation refunding bonds dated 2/1/05	2.5-5.0%	\$ —	127,775	—	127,775	5,125
General obligation refunding bonds dated 4/1/04	2.0-5.0%	42,330	—	5,325	37,005	6,530
General obligation refunding bonds dated 2/1/04	3.0-5.0%	100,870	—	3,800	97,070	5,090
General obligation refunding bonds dated 2/1/03	2.25-5.0%	155,150	—	8,540	146,610	9,010
General obligation refunding bonds dated 11/15/02	4.0-5.0%	28,800	—	7,895	20,905	4,790
General obligation refunding bonds dated 8/15/02	2.875-5.0%	47,795	—	270	47,525	275
General obligation bonds dated 2/1/02	3.0-5.0%	87,820	—	6,090	81,730	6,090
General obligation refunding bonds dated 4/11/01	3.50-5.0%	47,310	—	4,210	43,100	300
General obligation bonds dated 2/1/01	4.25-5.0%	94,920	—	8,360	86,560	8,360
General obligation bonds dated 2/1/00	5.0-5.75%	44,155	—	14,030	30,125	6,025
General obligation bonds dated 10/15/98	3.25-5.0%	81,450	—	40,775	40,675	6,685
General obligation refunding bonds dated 4/15/98	4.5-5.25%	50,815	—	9,995	40,820	4,960
General obligation bonds dated 1/15/98	4.5%	34,695	—	13,005	21,690	4,625
General obligation bonds dated 11/15/96	5.0%	21,200	—	10,400	10,800	5,400
General obligation bonds dated 10/15/95	5.0-5.25%	7,300	—	4,000	3,300	3,300
General obligation bonds dated 9/1/94	5.0-6.0%	5,040	—	5,040	—	—
General obligation refunding bonds dated 2/1/94	4.0-5.0%	43,835	—	43,835	—	—
		<u>\$ 893,485</u>	<u>127,775</u>	<u>185,570</u>	835,690	<u>76,565</u>
Add (deduct):						
Unamortized bond premiums					31,876	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(11,327)	
Current portion of long-term debt					<u>(76,565)</u>	
					<u>\$ 779,674</u>	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(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, 2005 (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 and leases payable:						
MWPAT note payable	4.25-5.75%	\$ 8,418	—	884	7,534	448
Notes payable – Section 108	5.44-7.18%	46,258	1,381	1,570	46,069	2,808
Bond Anticipation Notes dated 2/02, due 2/06	3.5%	62,000	—	—	62,000	62,000
Bond Anticipation Notes dated 2/03, due 2/06	2.125%	34,000	—	—	34,000	34,000
Leases		12,600	8,228	7,415	13,413	5,073
		<u>163,276</u>	<u>9,609</u>	<u>9,869</u>	<u>163,016</u>	<u>104,329</u>
Total notes and leases payable						
Other long-term obligations:						
Judgments and claims		1,762	7,306	6,620	2,448	910
Workers' compensation		23,706	37,596	18,002	43,300	—
Compensated absences		168,154	57,151	50,641	174,664	39,889
Landfill postclosure care costs		14,547	—	58	14,489	—
		<u>208,169</u>	<u>102,053</u>	<u>75,321</u>	<u>234,901</u>	<u>40,799</u>
Total other long-term obligations						
Total notes, leases, and other long-term obligations		<u>\$ 371,445</u>	<u>111,662</u>	<u>85,190</u>	<u>397,917</u>	<u>145,128</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, 2005

(c) ***Business Type Activity Obligations***

Following is a summary of the business type long-term obligations of the City as of June 30, 2005 (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%	\$ 112,480	—	2,780	109,700	2,915
Hospital Bond fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0-5.0%	<u>120,415</u>	<u>—</u>	<u>6,125</u>	<u>114,290</u>	<u>6,305</u>
Total business type obligations		<u>\$ 232,895</u>	<u>—</u>	<u>8,905</u>	<u>223,990</u>	<u>9,220</u>
Add (deduct):						
Unamortized bond premiums					3,355	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(442)	
Current portion of long-term debt					<u>(9,220)</u>	
					<u>\$ 217,683</u>	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

A. General Obligation Bonds

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2005, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ 76,565	37,466	114,031
2007	76,045	34,851	110,896
2008	71,205	31,577	102,782
2009	69,080	28,234	97,314
2010	65,435	25,297	90,732
2011-2015	263,295	84,283	347,578
2016-2020	158,425	32,570	190,995
2021-2025	55,640	5,507	61,147
	<u>\$ 835,690</u>	<u>279,785</u>	<u>1,115,475</u>

On February 1, 2005, the City issued \$127.8 million of general obligation and refunding bonds, \$75.0 million for various municipal purposes, and \$52.8 million for the purpose of refunding certain outstanding general obligation bonds of the City. The proceeds of \$52.8 million were used to refund \$56.9 million of the City's general obligation bonds outstanding. Interest on the bond is payable semiannually each January 1, and July 1, until maturity in fiscal 2025 and 2018, respectively. The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding were \$4.0 million and \$3.1 million, respectively.

No Obligation Debt

The City has outstanding industrial, commercial, and housing development bonds payable solely from revenues of the respective enterprises that do not constitute an indebtedness of the City and are not 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 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's 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, 2005, the City may issue \$2.8 billion of additional general obligation debt under the debt limit. General obligation debt of \$419.8 million, subject to the debt limit, and \$165.2 million, exempt from the debt limit, is authorized but unissued as of June 30, 2005.

B. Notes Payable and Other Long-Term Obligations

At June 30, 2005, the City had bond anticipation notes (BANs) and various other notes outstanding totaling \$149.6 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

The annual debt of the City's notes payable as of June 30, 2005, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ 99,256	5,414	104,670
2007	2,296	2,447	4,743
2008	3,799	2,355	6,154
2009	2,809	2,207	5,016
2010	2,676	2,088	4,764
2011-2015	28,518	7,559	36,077
2016-2020	8,345	1,664	10,009
2021-2025	1,904	250	2,154
	<u>\$ 149,603</u>	<u>23,984</u>	<u>173,587</u>

In prior years, the City issued two BANs totaling \$96 million to fund various school projects that are due in fiscal 2006. The City is expected to receive a lump-sum payment from the MSBA to pay down the BANs in fiscal year 2006; accordingly, they have been classified as current long-term obligations.

In fiscal year 2005, the Massachusetts Water Pollution Abatement Trust (MWPAT) refinanced its outstanding debt, which resulted in debt service savings passed through to the City via the MWPAT note. The loan provides funding for the closure and postclosure 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, 2005 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2006	\$ 9,220	10,188	19,408
2007	9,565	9,843	19,408
2008	9,920	9,451	19,371
2009	10,360	9,009	19,369
2010	10,815	8,546	19,361
2011-2015	60,975	35,698	96,673
2016-2020	65,285	20,009	85,294
2021-2025	32,475	8,874	41,349
2026-2030	15,375	1,163	16,538
	<u>\$ 223,990</u>	<u>112,781</u>	<u>336,771</u>

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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 \$9.9 million at June 30, 2005.

Defeased Debt

The following 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.
- In August 2002, \$127.8 million of bonds were issued to refund the Boston City Hospital, Series B Bonds dated June 1, 1993.
- On November 15, 2002, the City issued \$43.1 million of general obligation refunding bonds for the purpose of refunding \$45.1 million of outstanding general obligation bonds of the City, 2002 Series C.
- In February 2004, the City issued \$100.9 million of general obligation refunding bonds, of which \$65.0 million were general obligation and \$35.9 million was used to advance refund \$37.7 million of 1994, 1995, 1996, and 1998 Series Bonds.
- In February 2005, the City issued \$127.8 million of general obligation refunding bonds, of which \$75.0 million were general obligation and \$52.8 million was used to advance refund \$56.9 million of 1996, 1998, and 2000 Series Bonds.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2005 was approximately \$160.0 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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 2005 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>
July 21, 2002	\$ 695	—	695	—
December 20, 2002	7,119	—	3,626	3,493
April 21, 2004	4,786	—	2,182	2,604
November 5, 2004	—	7,178	912	6,266
March 11, 2005	—	1,050	—	1,050
	<u>\$ 12,600</u>	<u>8,228</u>	<u>7,415</u>	<u>13,413</u>

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

Future minimum payments under capital leases and installment sales as of June 30, 2005 are as follows (in thousands):

2006	\$ 5,398
2007	4,736
2008	2,237
2009	936
2010	416
2011	243
2012	120
Total minimum lease payments	<u>14,086</u>
Less amount representing interest	<u>673</u>
Total minimum principal lease payments	13,413
Less current portion	<u>5,073</u>
Long-term portion	<u>\$ 8,340</u>

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(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) Boston Public Health Commission
- (6) Sheriff of Suffolk County

Chapter 32 of the 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 \$6.3 million for the year ended June 30, 2005. 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.

(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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(c) Membership

Membership in the System consisted of the following at December 31, 2004, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,878
Terminated plan members entitled to but not receiving benefits	10,542
Active plan members	20,882
Total membership	<u>45,302</u>
Total number of participating employers	6

(d) Contributions

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% - 9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The 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, 2005, 2004 and 2003 were \$147 million, \$137 million, and \$134 million, or \$71 million, \$78 million, and \$86 million, net of teachers' retirement, respectively.

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 year 2002 and fiscal year 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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(e) ***Legally Required Reserve Accounts***

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2004 are as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,104,962	Active members' contribution balance
Annuity reserve fund	370,986	Retired members' contribution account
Military service credit	48	Members' contribution account while on military leave
Pension reserve fund	1,433,298	Amounts appropriated to fund future retirement benefits
Pension fund	<u>638,546</u>	Remaining net assets
	<u>\$ 3,547,840</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, 2004 and 2003. 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, 2004 and 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, 2004 and 2003 were \$2.7 million and \$2.2 million, respectively.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

At December 31, 2004 and 2003, the fair value of securities loaned by the System amounted to \$215.1 million and \$217.2 million, respectively, against which was held collateral of \$222.7 million and \$233.9 million, respectively, as follows (in thousands):

	December 31	
	2004	2003
Short-term collateral investment pool	\$ 219,129	205,489
Noncash collateral	3,539	18,387
Total	\$ 222,668	223,876

(g) Commitments

At December 31, 2004, the System had contractual commitments to provide approximately \$270 million 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 participating retirees. Approximately 12,600 retirees meet the eligibility requirements as put forth in Chapter 32B of MGL. 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 \$76.6 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal year 2005.

(13) Transfers

Transfers and their purposes during the year ended June 30, 2005 were as follows (in thousands):

	Governmental funds			Proprietary fund
	General	Special revenue	Other governmental	Convention center
Primary government:				
Excess hotel/motel excise taxes	\$ 18,000	—	—	(18,000)
Cemetery fees/fund appropriation	2,029	—	(2,029)	—
Parking meter fees/fund appropriation	3,500	(3,500)	—	—
Total	\$ 23,529	(3,500)	(2,029)	(18,000)

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2005 in the following categories (in thousands):

Public safety:		
Police Department	\$	9,679
Fire Department		11,162
Public works:		
Snow removal		14,270
Judgments and claims:		
Execution of courts		7,384
Other employee benefits:		
Worker's compensation fund		1,716
State and district assessments:		
School choice		25
	\$	<u>44,236</u>

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

(15) Public Health System

Effective July 1, 1996, the City's Department of Health and Hospitals and Trustees of Health and Hospitals, were abolished. Substantially all their assets and liabilities, including title to the City's two hospitals, 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 year 2005, the City appropriated \$60.6 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$61.3 million for the PHC for fiscal year 2006.

Due from PHC/BMC

On July 1, 1996, in connection with the consolidation transaction described above, the PHC assumed a liability of \$149.8 million for a mortgage note due to the City. In August 2002, this note was refinanced such that the stream of payments made by the PHC on the new note will be used to pay the outstanding balance of \$122.9 million of the City's Special Obligation Refunding Bonds dated August 2002. The PHC receives funding for the note payments from the BMC under a lease agreement whereby the BMC leases portions of the former BCH for an initial period of 50 years. Rental payments received under this lease are equal to the debt service costs on the new note and on all City general obligation bonds allocable to BCH.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$9.9 million at June 30, 2005. These bonds pertain to the property and operations of the BCH Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations, and the Long Island Campus.

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

Payments to BMC

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

(16) Risk Management

The 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 MGL. Except for certain health care costs described below, judgments and claims are charged to the general fund.

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 \$10 million balance available for future losses. The City has also improved systems for maximizing the receipt of Federal disaster funds. On August 28, 2004, the City's property insurance policy went into effect – a one-year, all-risk catastrophic policy covering all City property assets up to \$50 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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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, 2005 and 2004 are as follows (in thousands):

	Internal service fund	
	2005	2004
Health and life claims, beginning of year	\$ 6,114	7,325
Incurred claims	83,035	74,515
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(82,684)	(75,726)
Health and life claims, end of year	<u>\$ 6,465</u>	<u>6,114</u>
	Government-wide statements	
	2005	2004
Judgments and claims, beginning of year	\$ 25,468	30,616
Incurred claims	48,777	21,273
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(18,708)	(16,646)
Unemployment compensation	(3,164)	(6,605)
Court judgments	(6,625)	(3,170)
Judgments and claims, end of year	<u>\$ 45,748</u>	<u>25,468</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.

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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

(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, 2005					
(In thousands)					
	PHC	BRA	TPL	EDIC	Total
Assets:					
Current assets:					
Cash and investments	\$ 38,475	40,942	56,546	8,808	144,771
Cash and investments held by trustee	—	—	—	17,946	17,946
Receivables, net:					
Other	4,437	1,500	4,132	17,974	28,043
Other assets	8,384	—	2,025	5,910	16,319
Due from BMC	1,302	—	—	—	1,302
Due from primary government	84	—	—	—	84
Total current assets	52,682	42,442	62,703	50,638	208,465
Noncurrent assets:					
Notes receivable	4,167	79,790	—	—	83,957
Other assets	109,203	32,647	73	—	141,923
Capital assets:					
Nondepreciable	16,290	3,476	—	1,420	21,186
Depreciable	7,856	1,573	1,527	25,610	36,566
Total noncurrent assets	137,516	117,486	1,600	27,030	283,632
Total assets	190,198	159,928	64,303	77,668	492,097
Liabilities:					
Current liabilities:					
Warrants and accounts payable	9,539	1,648	1,490	4,943	17,620
Accrued liabilities:					
Other	—	—	162	2,503	2,665
Current portion of long-term debt and leases	218	—	—	12,274	12,492
Due to BMC	16,268	—	—	—	16,268
Due to primary government	120,417	—	18	—	120,435
Deferred revenue	3,354	33,902	349	7,111	44,716
Total current liabilities	149,796	35,550	2,019	26,831	214,196
Noncurrent liabilities:					
Due in more than one year	—	115,329	439	21,243	137,011
Other noncurrent liabilities	4,005	—	—	1,104	5,109
Total noncurrent liabilities	4,005	115,329	439	22,347	142,120
Total liabilities	153,801	150,879	2,458	49,178	356,316
Net assets:					
Invested in capital assets, net of related debt	21,308	3,574	1,088	12,602	38,572
Restricted	—	—	58,269	—	58,269
Unrestricted	15,089	5,475	2,488	15,888	38,940
Total net assets	\$ 36,397	9,049	61,845	28,490	135,781

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2005

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

Year ended June 30, 2005

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Expenses	\$ 114,915	19,918	13,865	34,177	182,875
Program revenues:					
Charges for services	—	11,246	970	14,354	26,570
Operating grants and contributions	102,909	4,085	11,051	17,316	135,361
Capital grants and contributions	1,289	—	—	—	1,289
Total program revenues	104,198	15,331	12,021	31,670	163,220
Net (expenses) revenues	(10,717)	(4,587)	(1,844)	(2,507)	(19,655)
General revenues:					
Investment income	2,482	248	3,544	975	7,249
Miscellaneous income	12,089	4,583	—	1,785	18,457
Total general revenues	14,571	4,831	3,544	2,760	25,706
Change in net assets	3,854	244	1,700	253	6,051
Net assets – beginning of year	32,543	8,805	60,111	28,237	129,696
Prior period adjustment	—	—	34	—	34
Net assets – end of year	\$ 36,397	9,049	61,845	28,490	135,781

(18) Special Items

(a) Change in Legislation

In July 2004, a change in State legislation, outside of the City's control, resulted in the recognition of a receivable from the Massachusetts School Building Authority (MSBA) related to the school building assistance program. Although the receivable of \$258.8 million at June 30, 2005 increases unrestricted net assets, amounts to be received represent reimbursements for prior school construction costs and coincide with the City's future debt service payments. In fiscal 2006, the City expects to receive \$112.3 million which will be used to repay related debt service.

(b) Changes in Accounting Estimates

In fiscal 2005, the City's estimate of the collectibility of certain construction, developer, and other loans receivables, totaling \$269 million, changed, resulting in an increase in net assets of the governmental activities at June 30, 2005 of approximately \$75.4 million. At June 30, 2005, a portion of this increase (\$29.4 million) is included in restricted net assets as it will be used for program purposes, while the remainder is expected to be used to repay outstanding debt of \$46.1 million.

CITY OF BOSTON, MASSACHUSETTS

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)
01/01/05	\$ 3,587,118	5,664,288	2,077,170	63.3%	\$ 1,115,529	186.2%
01/01/04	3,384,814	5,420,842	2,036,028	62.4	1,067,492	190.7
01/01/03	3,204,893	5,121,319	1,916,426	62.6	1,099,779	174.3
01/01/02	3,371,716	4,796,130	1,424,414	70.3	1,052,420	135.3
01/01/01	3,211,692	4,256,714	1,045,022	75.5	990,325	105.5
01/01/00	2,979,953	4,101,383	1,121,430	72.7	943,107	118.9

Schedule of Employers' Contributions

Year ended December 31:	Annual required contribution	Percentage contributed
2004	\$ 164,069	100%
2003	157,064	100
2002	152,882	100
2001	146,882	100
2000	145,541	100
1999	142,502	100

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2005
Actuarial cost method	Entry age normal cost
Amortization method	Payment increase at 4.5% per year
Remaining amortization period	19 years remaining as of January 1, 2004
Asset valuation method	Sum of actuarial value at the beginning of the year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of market value at the end of the year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value. A similar formula used for negative adjustment toward market value if actuarial value exceeds market value.

Actuarial assumptions:

Investment rate of return	8.0%
Projected salary increases	5.0%
Inflation rate	4.5%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income

See accompanying independent auditors' report.

Schedules of Comparative Financial Statements for Fiscal Years 2005 – 2001

The following schedules of Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Fund Equity for the fiscal years ended June 30, 2005, 2004, 2003, 2002 and 2001 have been prepared by the City of Boston Auditing Department based on information taken from the City's audited financial statements.

CITY OF BOSTON, MASSACHUSETTS

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City of Boston
General Fund
BALANCE SHEETS
June 30, 2005, 2004, 2003, 2002 and 2001
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002⁽¹⁾</u>	<u>2001</u>
ASSETS					
Cash and investments	\$ 692,679	\$ 609,638	\$ 529,315	\$ 482,419	\$ 415,294
Cash and investments held by trustee	-	-	-	16,008	16,280
Receivables :					
Property taxes.....	32,666	40,600	41,175	37,555	78,421
Motor vehicle excise.....	73,855	65,370	58,263	56,456	9,498
Intergovernmental.....	343,686	77,414	79,528	78,215	70,253
Departmental and other.....	31,742	34,361	43,726	34,849	2,621
Tax title and possession.....	75,379	79,641	82,925	86,241	-
Total receivables.....	<u>557,328</u>	<u>297,386</u>	<u>305,617</u>	<u>293,316</u>	<u>160,793</u>
Allowance:					
Abatement res/property tax allow.....	(16,950)	(28,001)	-	-	-
Tax title and possession.....	(75,379)	(79,641)	(82,925)	(86,241)	-
Motor vehicle excise.....	(56,179)	(54,611)	(58,263)	(56,456)	-
Other.....	(20,336)	(23,371)	(23,340)	(23,233)	-
Total allowances.....	<u>(168,844)</u>	<u>(185,624)</u>	<u>(164,528)</u>	<u>(165,930)</u>	<u>-</u>
Net receivable.....	388,484	111,762	141,089	127,386	-
Due from other funds.....	20,690	25,201	18,000	-	60,628
Due from component units.....	10,065	12,285	15,679	19,250	157,200
Other assets.....	-	333	-	-	-
Total assets.....	<u>\$1,111,918</u>	<u>\$ 759,219</u>	<u>\$ 704,083</u>	<u>\$ 645,063</u>	<u>\$ 810,195</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 94,107	\$ 52,187	\$ 33,603	\$ 41,940	\$ 107,471
Accrued liabilities:					
Tax abatement refunds.....	-	-	-	25,022	90,600
Judgements and claims.....	-	-	-	10,000	-
Compensated absences.....	-	-	10,259	20,000	17,000
Payroll and related costs ⁽²⁾	100,798	94,784	104,670	81,454	-
Other.....	4,508	4,596	4,174	5,045	69,660
Due to other funds.....	1,945	2,144	1,765	727	4,420
Due to component units.....	84	180	-	108	-
Matured interest and bonds payable.....	-	-	306	421	438
Deferred revenue.....	<u>297,452</u>	<u>32,108</u>	<u>57,952</u>	<u>58,237</u>	<u>254,146</u>
Total liabilities.....	<u>\$ 498,894</u>	<u>\$ 185,999</u>	<u>\$ 212,729</u>	<u>\$ 242,954</u>	<u>\$ 543,735</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances.....	33,155	56,132	20,787	20,262	38,169
Debt Service.....	-	-	-	-	16,280
Unreserved:					
Designated for subsequent year expenditures.....	164,621	139,986	139,028	36,000	30,000
Undesignated.....	<u>415,248</u>	<u>377,102</u>	<u>331,539</u>	<u>345,847</u>	<u>182,011</u>
Total fund balance.....	<u>613,024</u>	<u>573,220</u>	<u>491,354</u>	<u>402,109</u>	<u>266,460</u>
Total liabilities and fund balance.....	<u>\$1,111,918</u>	<u>\$ 759,219</u>	<u>\$ 704,083</u>	<u>\$ 645,063</u>	<u>\$ 810,195</u>

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

(2) 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, 2005, 2004, 2003, 2002 and 2001
Partially Restated for Comparative Purposes
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
REVENUES:					
Local:					
Real and personal property taxes, net	\$1,138,254	\$1,082,574	\$1,053,945	\$ 990,848	\$ 874,868
Excises	93,906	85,354	94,133	111,114	72,645
Payments in lieu of taxes	42,218	42,373	40,910	36,332	72,720
Fines	65,280	66,342	59,187	60,601	57,840
Investment income	17,970	8,253	8,951	14,596	26,289
Licenses and permits	33,491	33,900	30,217	33,325	36,795
Departmental and other revenue	<u>60,704</u>	<u>45,556</u>	<u>62,373</u>	<u>62,200</u>	<u>58,306</u>
Total local revenues	<u>1,451,823</u>	<u>1,364,352</u>	<u>1,349,716</u>	<u>1,309,016</u>	<u>1,199,463</u>
Intergovernmental:					
Intergovernmental	<u>460,898</u>	<u>459,836</u>	<u>444,751</u>	<u>492,299</u>	<u>493,278</u>
Total intergovernmental revenues	<u>460,898</u>	<u>459,836</u>	<u>444,751</u>	<u>492,299</u>	<u>493,278</u>
Total revenues	<u>1,912,721</u>	<u>1,824,188</u>	<u>1,794,467</u>	<u>1,801,315</u>	<u>1,692,741</u>
EXPENDITURES:					
Current:					
General government	57,471	30,061	53,343	77,019	67,913
Human services	23,821	22,642	24,738	6,434	5,464
Public safety	457,541	390,854	394,692	405,844	373,362
Public works	106,749	87,045	86,819	74,651	77,241
Property and development	29,836	31,088	29,260	48,774	41,300
Parks and recreation	15,708	11,260	14,622	16,230	15,547
Library	27,594	24,089	27,715	28,695	30,360
Schools	673,009	656,291	654,958	627,653	611,368
Public Health Programs(1)	60,586	58,762	63,897	64,537	—
County	—	—	4,539	4,537	6,030
Judgments and claims	6,620	(3,544)	2,880	2,724	5,011
Retirement costs	59,419	87,934	74,720	82,034	84,970
Other employee benefits	142,721	129,937	114,512	107,701	90,501
State and district assessments	115,894	111,061	69,009	67,769	66,788
Capital outlays	2,683	393	2,971	5,177	4,057
Debt Service	<u>115,769</u>	<u>120,938</u>	<u>121,184</u>	<u>115,366</u>	<u>123,977</u>
Total expenditures	<u>1,895,421</u>	<u>1,758,811</u>	<u>1,739,859</u>	<u>1,735,145</u>	<u>1,603,889</u>
Excess of revenues over expenditures	<u>17,300</u>	<u>65,377</u>	<u>54,608</u>	<u>66,170</u>	<u>88,852</u>
OTHER FINANCING SOURCES (USES):					
Payments to escrow agent to refund debt	(1,025)	(511)	—	—	—
Transfers in	23,529	17,000	34,637	1,778	19,384
Transfers out	—	—	—	—	(62,476)
Total other financing uses, net	<u>22,504</u>	<u>16,489</u>	<u>34,637</u>	<u>1,778</u>	<u>(43,092)</u>
Net change in fund balances	<u>39,804</u>	<u>81,866</u>	<u>89,245</u>	<u>67,948</u>	<u>45,760</u>
Fund balance, beginning of year, as previously reported	573,220	491,354	402,109	266,460	220,700
Cumulative change in accounting principle	—	—	—	67,701	—
Fund balance, beginning of year	<u>573,220</u>	<u>491,354</u>	<u>402,109</u>	<u>334,161</u>	<u>220,700</u>
Fund balance, end of year	<u>\$ 613,024</u>	<u>\$ 573,220</u>	<u>\$ 491,354</u>	<u>\$ 402,109</u>	<u>\$ 266,460</u>

(1)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 to Revenues, Transfers, Available Funds, Expenditures,
Encumbrances and Prior Years' Deficit Raised–Budget to Actual
Fiscal Years Ending June 30, 2005, 2004, 2003, 2002 and 2001
Partially Restated for Comparative Purposes
(in thousands)

	<u>2005</u>		<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</u>	
	Actual	Variance Fav. (Unfav.)	Actual	Variance Fav. (Unfav.)	Actual	Variance Fav. (Unfav.)	Actual	Variance Fav. (Unfav.)	Actual	Variance Fav. (Unfav.)
Revenues, Transfers and Other Available Funds:										
Real and personal property taxes, net	\$1,106,336	\$1,307	\$1,052,067	\$205	\$996,030	\$577	\$926,336	\$399	\$874,013	\$169
Motor vehicle excise	44,763	12,713	33,207	(647)	45,611	7,605	42,776	551	41,822	4,802
Other excises	73,894	6,994	61,062	1,312	72,794	7,794	69,528	4,133	63,651	(9,421)
Commonwealth of Massachusetts	537,655	14,313	521,231	16,612	498,217	(23,520)	541,456	(8,996)	525,169	952
Departmental and other revenue	53,142	14,660	50,960	13,766	54,720	7,999	62,193	13,862	53,100	7,210
Fines	65,280	3,436	66,342	6,392	58,985	(2,512)	60,659	1,649	59,769	1,337
Payments in lieu of taxes	42,218	2,219	42,373	4,763	40,910	6,786	36,332	7,245	39,994	8,848
Investment income	17,787	10,487	7,792	3,412	8,552	(2,198)	14,801	(749)	26,084	6,084
Licenses and permits	33,821	8,471	34,821	13,791	30,146	4,928	29,651	5,836	37,824	13,459
Transfers from other available funds	5,529	(23,376)	22,932	(18,876)	24,849	(1,876)	4,568	(9,086)	8,355	(17,323)
Sale of property	—	—	—	—	—	—	—	—	—	—
Total revenues, transfers and other available funds	<u>1,980,425</u>	<u>51,224</u>	<u>1,892,787</u>	<u>40,730</u>	<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>
Expenditures and Encumbrances:										
General government	59,837	598	75,925	(13,317)	65,401	3,833	70,702	(4,649)	73,696	(3,864)
Human services	23,853	133	22,945	173	24,936	893	6,398	18	5,598	109
Public safety	429,376	(20,714)	393,826	(5,025)	408,849	(4,933)	405,150	(2,388)	381,275	1,123
Public works	106,699	(14,247)	87,639	(2,330)	86,599	(4,058)	74,833	151	78,044	(6,086)
Property and development	25,425	55	26,400	114	34,744	318	41,630	(994)	53,523	246
Parks and recreation	15,179	292	13,437	270	14,680	105	16,071	103	15,262	122
Library	26,600	1	24,086	—	27,726	282	28,813	—	29,981	—
Schools	680,181	26	656,539	8	650,600	17	639,710	19	611,925	18
Boston Public Health Commission	60,568	—	58,762	—	63,897	—	64,005	—	62,141	—
County	—	—	4,553	—	4,737	—	4,537	—	6,030	—
Judgments and claims	10,884	(7,384)	18,842	(15,342)	2,166	—	5,000	(900)	2,008	—
Other employee benefits	147,803	(1,648)	133,206	(830)	115,164	259	107,473	(787)	95,132	508
Retirement costs	151,463	—	141,867	—	139,325	—	135,710	—	133,775	—
State and district assessments	115,894	(25)	106,509	(66)	69,009	(510)	67,769	(258)	66,788	332
Debt requirements	<u>118,330</u>	<u>22</u>	<u>123,866</u>	<u>—</u>	<u>121,184</u>	<u>8</u>	<u>115,332</u>	<u>8</u>	<u>105,978</u>	<u>—</u>
Total expenditures	<u>1,972,092</u>	<u>(42,891)</u>	<u>1,888,402</u>	<u>(36,345)</u>	<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>
Excess of revenues available for appropriation over expenditures	<u>\$ 8,333</u>	<u>\$ 8,333</u>	<u>\$ 4,385</u>	<u>\$ 4,385</u>	<u>\$ 1,797</u>	<u>\$ 1,797</u>	<u>\$ 5,167</u>	<u>\$ 5,167</u>	<u>\$ 8,625</u>	<u>\$ 8,625</u>

City of Boston
Special Revenue Fund
BALANCE SHEETS
June 30, 2005, 2004, 2003, 2002 and 2001
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
ASSETS					
Cash and investments.....	\$123,608	\$116,283	\$67,535	\$106,093	\$103,877
Restricted cash and investments	-	-	-	-	-
Receivables (net, where applicable, of allow- ances for estimated uncollectible amounts):.....					
Intergovernmental.....	103,493	116,216	83,769	56,301	27,147
Departmental and other.....	<u>75,439</u>	<u>-</u>	<u>165</u>	<u>195</u>	<u>13,146</u>
Total receivables	<u>178,932</u>	<u>116,216</u>	<u>83,934</u>	<u>56,496</u>	<u>40,293</u>
Due from other funds.....	1,363	1,499	1,044	-	4,291
Other assets	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets.....	<u>\$303,903</u>	<u>\$233,999</u>	<u>\$152,513</u>	<u>\$162,589</u>	<u>\$148,461</u>
LIABILITIES					
Warrants and accounts payable.....	\$14,752	\$32,532	\$9,230	\$14,597	\$10,199
Accrued liabilities:.....					
Payroll and related costs.....	1,534	-	-	-	-
Other.....	28,162	34,401	31,557	27,281	21,296
Due to component units.....	-	-	214	-	-
Deferred revenue.....	75,439	-	-	-	-
Due to other funds.....	<u>2,690</u>	<u>8,201</u>	<u>-</u>	<u>-</u>	<u>3,724</u>
Total liabilities	<u>122,577</u>	<u>75,134</u>	<u>41,001</u>	<u>41,878</u>	<u>35,219</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:.....					
Encumbrances and other.....	51,090	34,738	49,019	44,111	60,231
Unreserved:					
Designated.....	-	-	-	-	-
Undesignated.....	<u>130,236</u>	<u>124,127</u>	<u>62,493</u>	<u>76,600</u>	<u>53,011</u>
Total fund balance.....	<u>181,326</u>	<u>158,865</u>	<u>111,512</u>	<u>120,711</u>	<u>113,242</u>
Total liabilities and fund balance	<u>\$303,903</u>	<u>\$233,999</u>	<u>\$152,513</u>	<u>\$162,589</u>	<u>\$148,461</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, 2005, 2004, 2003, 2002 and 2001
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
REVENUES:					
Local:					
Fines.....	\$17	\$19	\$19	\$44	\$ -
Investment income.....	282	175	479	159	-
Licenses and permits.....	74	70	57	252	-
Departmental and other revenue.....	<u>52,882</u>	<u>26,374</u>	<u>13,170</u>	<u>10,478</u>	<u>80,467</u>
Total local revenues.....	<u>53,255</u>	<u>26,638</u>	<u>13,725</u>	<u>10,933</u>	<u>80,467</u>
Intergovernmental:					
Intergovernmental.....	<u>332,331</u>	<u>356,555</u>	<u>311,347</u>	<u>334,961</u>	<u>280,282</u>
Total intergovernmental revenues.....	<u>332,331</u>	<u>356,555</u>	<u>311,347</u>	<u>334,961</u>	<u>280,282</u>
Total revenues.....	<u>385,586</u>	<u>383,193</u>	<u>325,072</u>	<u>345,894</u>	<u>360,749</u>
EXPENDITURES:					
Current operations:					
General government.....	22,548	3,175	8,385	7,131	9,312
Human services.....	8,678	9,337	7,231	5,290	4,956
Public safety.....	24,338	21,052	23,119	21,888	20,556
Public works.....	2,719	286	186	407	589
Parks and recreation.....	1,001	1,230	831	396	665
Libraries.....	5,579	5,409	5,186	5,261	1,238
Schools.....	134,992	124,356	131,383	130,162	115,580
County.....	101,832	102,044	96,452	104,754	87,462
Public health.....	1,710	86	-	-	-
Property & development.....	57,154	86,599	63,851	63,081	69,026
Capital outlays.....	805	1,891	-	-	3,999
Debt service.....	<u>3,879</u>	<u>3,054</u>	<u>13,841</u>	<u>3,894</u>	<u>4,321</u>
Total expenditures.....	<u>365,235</u>	<u>358,519</u>	<u>350,465</u>	<u>342,264</u>	<u>317,704</u>
Excess (deficiency) of revenues over expenditures.....	<u>20,351</u>	<u>24,674</u>	<u>(25,393)</u>	<u>3,630</u>	<u>43,045</u>
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	1,381	15,000	4,094	-	-
Premiums on long-term debt issued.....	10,409	11,775	12,100	3,839	-
Payments to escrow agents.....	(6,180)	(4,096)	-	-	-
Transfers out, net.....	<u>(3,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses), net.....	<u>2,110</u>	<u>22,679</u>	<u>16,194</u>	<u>3,839</u>	<u>-</u>
Net change in fund balances.....	22,461	47,353	(9,199)	7,469	43,045
Fund balance, beginning of year.....	<u>158,865</u>	<u>111,512</u>	<u>120,711</u>	<u>113,242</u>	<u>70,197</u>
Fund balance, end of year.....	<u>\$181,326</u>	<u>\$158,865</u>	<u>\$111,512</u>	<u>\$120,711</u>	<u>\$113,242</u>

City of Boston
Capital Projects Fund
BALANCE SHEETS
June 30, 2005, 2004, 2003, 2002 and 2001
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
ASSETS					
Cash and investments.....	31,910	\$82,694	\$62,761	\$80,537	\$90,976
Cash and investments held by trustees.....	2,429	3,094	3,788	3,745	-
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	3,005	-	-	-	-
Departmental and other.....	-	-	-	-	-
Total receivables	<u>3,005</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Due from other funds.....	-	-	101	-	388
Other assets	-	-	-	-	-
Total assets.....	<u>\$ 37,344</u>	<u>\$ 85,788</u>	<u>\$ 66,650</u>	<u>\$ 84,282</u>	<u>\$ 91,364</u>
LIABILITIES					
Warrants and accounts payable.....	3,493	\$4,560	\$9,845	\$9,593	\$5,732
Other accrued liabilities.....	15,219	25,951	-	-	-
Other liabilities.....	-	-	35	35	1,788
Due to other funds.....	-	-	-	-	58,026
Due to other governments.....	-	-	-	-	732
Total liabilities	<u>18,712</u>	<u>30,511</u>	<u>9,880</u>	<u>9,628</u>	<u>66,278</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances and other.....	84,471	50,821	84,184	112,020	176,212
Future appropriations	43,724	50,374	42,875	55,874	-
Unreserved:					
Undesignated (deficit).....	<u>(109,563)</u>	<u>(45,918)</u>	<u>(70,289)</u>	<u>(93,240)</u>	<u>(151,126)</u>
Total fund balance.....	<u>18,632</u>	<u>55,277</u>	<u>5 6,770</u>	<u>74,654</u>	<u>25,086</u>
Total liabilities and fund balance	<u>\$ 37,344</u>	<u>\$ 85,788</u>	<u>\$ 66,650</u>	<u>\$ 84,282</u>	<u>\$ 91,364</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, 2005, 2004, 2003, 2002 and 2001
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
REVENUES:					
Local:					
Investment income	\$ -	\$ -	\$ -	\$ -	\$ -
Departmental and other revenue	<u>3,065</u>	<u>7,985</u>	<u>-</u>	<u>8,649</u>	<u>23,444</u>
Total local revenues	<u>3,065</u>	<u>7,985</u>	<u>-</u>	<u>8,649</u>	<u>23,444</u>
Intergovernmental:					
Intergovernmental	<u>8,800</u>	<u>10,917</u>	<u>13,095</u>	<u>13,609</u>	<u>51,632</u>
Total intergovernmental revenues	<u>8,800</u>	<u>10,917</u>	<u>13,095</u>	<u>13,609</u>	<u>51,632</u>
Total revenues	<u>11,865</u>	<u>18,902</u>	<u>13,095</u>	<u>22,258</u>	<u>75,076</u>
EXPENDITURES:					
Capital outlays	87,974	132,562	164,891	139,593	185,475
Debt Service	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>87,974</u>	<u>132,562</u>	<u>189,891</u>	<u>139,593</u>	<u>185,475</u>
Excess (deficiency) of revenues over expenditures	<u>(76,109)</u>	<u>(113,660)</u>	<u>(176,796)</u>	<u>(117,335)</u>	<u>(110,399)</u>
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued	136,003	147,986	304,440	170,915	209,719
Payments to escrow agent to refund debt	(96,539)	(35,819)	(130,740)	-	(52,025)
Transfers out	<u>-</u>	<u>-</u>	<u>(14,788)</u>	<u>-</u>	<u>-</u>
Total other financing sources, net	<u>39,464</u>	<u>112,167</u>	<u>158,912</u>	<u>170,915</u>	<u>157,694</u>
SPECIAL ITEM:					
Proceeds from sale of capital assets	-	-	-	13,300	-
Net change in fund balances	<u>(36,645)</u>	<u>(1,493)</u>	<u>(17,884)</u>	<u>66,880</u>	<u>47,295</u>
Fund balance, beginning of year	<u>55,277</u>	<u>56,770</u>	<u>74,654</u>	<u>7,774</u>	<u>(22,209)</u>
Fund balance, end of year	<u>\$18,632</u>	<u>\$55,277</u>	<u>\$56,770</u>	<u>\$74,654</u>	<u>\$25,086</u>

City of Boston
Internal Service Fund
BALANCE SHEETS
June 30, 2005, 2004, 2003, 2002 and 2001
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
ASSETS					
Cash and cash equivalents	\$30,555	\$19,702	\$14,133	\$12,052	\$7,714
Receivables:					
Departmental and other receivables.....	154	295	279	151	49
Due from other funds and sources	582	645	620	727	791
Due from component units.....	-	41	-	-	-
Other assets	<u>1,873</u>	<u>1,980</u>	<u>240</u>	<u>1,606</u>	<u>1,776</u>
Total assets	<u>\$33,164</u>	<u>\$22,663</u>	<u>\$15,272</u>	<u>\$14,536</u>	<u>\$10,330</u>
LIABILITIES					
Accrued Liabilities:					
Warrants and accounts payable	\$39	\$17	\$17	\$25	\$22
Judgments and claims(1).....	<u>6,465</u>	<u>6,114</u>	<u>7,325</u>	<u>7,051</u>	<u>10,000</u>
Total liabilities	<u>6,504</u>	<u>6,131</u>	<u>7,342</u>	<u>7,076</u>	<u>10,022</u>
FUND EQUITY					
Unrestricted.....	<u>26,660</u>	<u>16,532</u>	<u>7,930</u>	<u>7,460</u>	<u>308</u>
Total fund equity	<u>26,660</u>	<u>16,532</u>	<u>7,930</u>	<u>7,460</u>	<u>308</u>
Total liabilities and fund equity	<u>\$33,164</u>	<u>\$22,663</u>	<u>\$15,272</u>	<u>\$14,536</u>	<u>\$10,330</u>

(1) 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, 2005, 2004, 2003, 2002 and 2001
(in thousands)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
REVENUES					
Employer contributions.....	\$68,861	\$61,406	\$53,853	\$53,042	\$47,660
Employee contributions	23,951	22,886	18,773	18,367	16,744
Miscellaneous	<u>—</u>	<u>36</u>	<u>167</u>	<u>510</u>	<u>1,807</u>
Total operating revenues.....	<u>92,812</u>	<u>84,328</u>	<u>72,793</u>	<u>71,919</u>	<u>66,211</u>
EXPENDITURES					
Administrative and general.....	—	—	—	—	546
Benefits (1)	82,684	75,726	72,323	64,767	60,254
Total operating expenditures.....	<u>82,684</u>	<u>75,726</u>	<u>72,323</u>	<u>64,767</u>	<u>60,800</u>
Changes in net assets	<u>10,128</u>	<u>8,602</u>	<u>470</u>	<u>7,152</u>	<u>5,411</u>
Net assets (deficit), beginning of year.....	<u>16,532</u>	<u>7,930</u>	<u>7,460</u>	<u>308</u>	<u>(5,103)</u>
Net assets, end of year	<u>\$26,660</u>	<u>\$16,532</u>	<u>\$ 7,930</u>	<u>\$ 7,460</u>	<u>\$ 308</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, 2005, 2004, 2003 and 2002
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS				
Current assets:				
Cash and investments.....	\$ -	\$525	\$841	\$702
Cash and investments held by trustees.....	50,010	45,985	56,286	64,777
Receivables, net	-	-	1,140	-
Due from component units.....	110,370	116,739	122,869	129,103
Due from other governments	-	-	-	2,600
Other assets	<u>2,987</u>	<u>3,174</u>	<u>3,360</u>	<u>1,555</u>
Total current assets.....	<u>163,367</u>	<u>166,423</u>	<u>184,496</u>	<u>198,737</u>
Total assets	<u>\$163,367</u>	<u>\$166,423</u>	<u>\$184,496</u>	<u>\$198,737</u>
 LIABILITIES				
Current liabilities:				
Warrants and accounts payable	\$ -	\$ -	\$ -	\$269.00
Accrued liabilities	-	-	3,127	-
Due to other funds.....	18,000	17,000	18,000	-
Other liabilities.....	2,946	3,046	-	-
Current portion of long-term debt.....	<u>9,220</u>	<u>8,905</u>	<u>9,695</u>	<u>6,835</u>
Total current liabilities	<u>30,166</u>	<u>28,951</u>	<u>30,822</u>	<u>7,104</u>
Noncurrent liabilities:				
Special obligation bonds	106,785	109,700	112,480	114,790
Revenue bonds	<u>110,898</u>	<u>117,426</u>	<u>123,776</u>	<u>136,360</u>
Total noncurrent liabilities	<u>217,683</u>	<u>227,126</u>	<u>236,256</u>	<u>251,150</u>
Total liabilities	<u>247,849</u>	<u>256,077</u>	<u>267,078</u>	<u>258,254</u>
 NET ASSETS				
Unrestricted.....	<u>(84,482)</u>	<u>(89,654)</u>	<u>(82,582)</u>	<u>(59,517)</u>
Total net assets	<u>\$(84,482)</u>	<u>\$(89,654)</u>	<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, 2005, 2004, 2003 and 2002

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:				
Excise taxes - pledged for debt service.....	\$28,028	\$23,845	\$23,348	\$5,079
Departmental and other - pledged for debt service	—	3,326	—	7,303
Total operating revenues	<u>28,028</u>	<u>27,171</u>	<u>23,348</u>	<u>12,382</u>
Operating expenditures:				
Contributions to State	84	32,890	33,845	19,035
Total operating expenses.....	<u>84</u>	<u>32,890</u>	<u>33,845</u>	<u>19,035</u>
Operating (loss) income.....	<u>27,944</u>	<u>(5,719)</u>	<u>(10,497)</u>	<u>(6,653)</u>
Nonoperating revenue (expenditure):				
Intergovernmental - state grants.....	297	20,930	12,877	38,695
Investment earnings - pledged for debt service	5,293	5,595	7,725	8,579
Investment earnings - other.....	823	58	652	15
Interest expense.....	<u>(11,185)</u>	<u>(10,936)</u>	<u>(15,822)</u>	<u>(8,232)</u>
Total nonoperating revenue (expense)	<u>(4,772)</u>	<u>15,647</u>	<u>5,432</u>	<u>39,057</u>
Income before transfers.....	23,172	9,928	(5,065)	32,404
Transfer to general fund.....	<u>(18,000)</u>	<u>(17,000)</u>	<u>(18,000)</u>	—
Change in net assets	<u>5,172</u>	<u>(7,072)</u>	<u>(23,065)</u>	<u>32,404</u>
Total net assets - beginning.....	<u>(89,654)</u>	<u>(82,582)</u>	<u>(59,517)</u>	<u>(91,921)</u>
Total net assets - ending.....	<u>\$(84,482)</u>	<u>\$(89,654)</u>	<u>\$(82,582)</u>	<u>\$(59,517)</u>

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SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION

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

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

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

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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 for transportation, communications, export, cultural and entertainment activities. As a government center, the City is the capital of the Commonwealth and is host to several federal regional offices. High technology, research and development, 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 680,174 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 Recent Economic Conditions

This report presents the major economic, demographic, and market indicators for the Boston economy. For the most part, these indicators demonstrate that the City’s economy was very strong through the 1990s and into 2000. By early 2001, however, an economic slowdown was moving toward a national recession. The events of September 11th compounded matters. Recent economic data, through November, 2005, indicate an improving, and in most cases, growing economy.

The Boston economy peaked most recently during 1999-2000, as Boston’s office, hotel, and housing markets were among the strongest in the nation by mid-year 2000 and into early 2001. Signs of economic slowing in the national and state economies first became notable commencing in January 2001. Boston’s slowing economic growth in 2001 was clear given 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. Unemployment rates, which had declined to a low of 2.5%, 2.7%, and 3.0% in the Boston metropolitan area, the Commonwealth, and in the City, respectively, by the end of 2000, rose to levels of 4.9%, 5.1% and 5.5%, respectively for full-year 2004. Boston’s office market weakened with rising vacancy rates (over 12%), rising availability rates (16%) and negative absorption for three consecutive years, as has been the case for most other major office markets in the country, before strengthening again in 2005. Hotel occupancy fell to 70% in 2001 and has risen slightly to 71% in 2003 and 75% in 2004 after being 78% in the year 2000. The total number of residential home sales, however, has been strong, with steady volume through year-end 2004 and the first two quarters of 2005, due to low interest rates, while sales prices are still holding firm and even rising in most cases. Evidence of a turnaround in the U.S. and Massachusetts economies first became apparent in late 2003 and persisted through 2005.

In Boston, as of the end of the first eleven months of 2005, signs of an improving economy in Massachusetts, metropolitan Boston and the City remained evident. The latest data, shows a vastly improved labor market, with falling initial and continuing unemployment claims and a stabilized to slowly falling unemployment rate, as shown by data from the state, Boston metropolitan area, and City of Boston.

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 City 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. All data from the 2000 Decennial Census of Population and Housing are now available. In addition, some monthly and quarterly data are available through September 2005 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 2004 are the most recent annual data available; the most recent monthly data are for November 2005.

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, and Massachusetts are for 2004. The most recent annual data for the county and the metropolitan area are for 2003. The most recent quarterly statistics are for the first quarter of 2005. 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 from both the public and private sectors 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 14.2 million persons and 8.8 million jobs in 2003 according to the Bureau of Economic Analysis annual data. Total personal income in New England grew at an annual average compound rate of 5.7% from 1990 through 2003, just below the 6.3% national rate for the same period. In the most recent period for which data are available, from second quarter 2004 through second quarter 2005, personal income in New England grew at a rate of 6.0%, which was below the national rate of 6.5%. Employment in New England grew by 832,780 jobs from 1990 through 2003, an annual average of 0.7%.

The Massachusetts economy, with 6.4 million people and 4.0 million jobs in 2003, showed substantial growth in the 1990s. Total personal income in Massachusetts grew at a 5.9% annual average rate from 1990 through 2003, slightly higher than the 5.7% rate of increase for New England, but still below the national rate of 6.3%. From second quarter 2004 through second quarter 2005, personal income grew by 5.3%, a bit lower than the 6.5% national average for the same period. Massachusetts also gained 381,504 jobs between 1990 and 2003, an annual average of 0.7%.

The Boston-Cambridge-Quincy metropolitan area, as defined by the BEA (consisting of Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties in Massachusetts, and Rockingham and Strafford counties in New Hampshire) had 4.4 million people and 3.0 million jobs in 2003, and has shown economic trends similar to those for the Commonwealth. Total personal income from 1990 through 2003 grew at an annual average rate of 6.5%, just above the national mark of 6.3%. The most recent employment data show a gain of 282,615 jobs for the 1990-2003 period, an annual gain of 1.0%. The following table shows the 1990 and 1999-2003 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 1999-2003
(Income in current year dollars)**

	<u>1990</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
United States						
Total Personal Income (\$000)	\$4,861,963,000	\$7,796,137,000	\$8,422,074,000	\$8,716,992,000	\$8,869,809,000	\$9,151,694,000
Per Capita Income (\$)	\$19,477	\$27,939	\$29,847	\$30,575	\$30,804	\$31,472
Population	249,622,814	279,040,168	282,177,754	285,102,075	287,941,220	290,788,976
Employment	139,380,900	162,955,300	166,758,800	167,014,700	166,699,000	167,174,400
New England						
Total Personal Income (\$000)	\$300,473,808	\$458,386,577	\$503,960,765	\$524,401,681	\$529,215,743	\$540,548,544
Per Capita Income (\$)	\$22,712	\$33,126	\$36,121	\$37,334	\$37,453	\$38,065
Population	13,229,502	13,837,653	13,952,174	14,046,041	14,130,314	14,200,654
Employment	7,918,098	8,562,455	8,775,891	8,835,470	8,781,497	8,750,878
Massachusetts						
Total Personal Income (\$000)	\$138,781,619	\$216,220,842	\$240,208,628	\$249,094,962	\$249,918,793	\$253,632,340
Per Capita Income (\$)	\$23,043	\$34,227	\$37,756	\$38,949	\$38,973	\$39,504
Population	6,022,639	6,317,345	6,362,076	6,395,414	6,412,554	6,420,357
Employment	3,646,584	3,988,554	4,096,551	4,125,438	4,069,520	4,028,088
Metropolitan Boston ⁽¹⁾						
Total Personal Income (\$000)	\$102,200,006	\$162,637,319	\$182,380,414	\$188,442,089	\$188,595,475	\$191,107,288
Per Capita Income (\$)	\$24,702	\$37,219	\$41,435	\$42,552	\$42,546	\$43,135
Population	4,137,302	4,369,743	4,401,595	4,428,542	4,432,698	4,430,430
Employment	2,689,049	2,960,960	3,046,389	3,070,248	3,014,706	2,971,664

(1) This metropolitan area includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprises the Boston-Cambridge-Quincy MA-NH MSA.
Source: U.S. Department of Commerce, Bureau of Economic Analysis, August 2005. 2000 population figures for all of the above are from the U.S. Census Bureau, except for Metropolitan Boston, which is from the BEA.

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 61,000 jobs with an increase of 10%. 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 42% in 1990 to 46% in 2000. The share of total employment in manufacturing and trade declined, however, 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>Employment</u>		<u>Change</u>	<u>Percent Change</u>
			<u>2000</u>	<u>Share</u>		
Fishing/Mining/Agriculture.....	1,317	0.2	1,790	0.3	473	36
Construction	13,837	2	19,316	3	5,479	40
Manufacturing	32,281	5	28,005	4	-4,276	-13
Transportation/Communication/Utilities	36,741	6	37,832	6	1,091	3
Wholesale Trade.....	19,396	3	16,875	2	-2,521	-13
Retail Trade	61,492	10	66,101	10	4,609	8
Finance/Insurance/Real Estate	93,369	15	106,343	16	12,974	14
Banking	24,750	4	24,179	4	-571	-2
Securities	27,929	4	47,526	7	19,597	70
Insurance	30,677	5	21,416	3	-9,261	-30
Real Estate and Other.....	12,013	2	13,222	2	1,209	10
Services	261,931	42	311,448	46	49,517	19
Hotel.....	12,527	2	12,057	2	-470	-4
Health	71,887	12	87,370	13	15,548	22
Educational	41,354	7	42,779	6	1,425	3
Cultural	8,783	1	9,580	2	797	9
Social and Non-profit.....	27,643	4	29,907	4	2,264	9
Professional	59,338	10	75,937	12	16,599	28
Non-Professional Business	26,283	5	39,093	6	12,810	49
Personal and Repair.....	14,115	2	14,724	2	609	4
Government	98,914	16	93,209	14	-5,705	-6
Total.....	619,277	100	680,918	100	61,641	10

Source: 1990-2000 figures are mathematically derived from U.S. Bureau of Economic Analysis Series for Suffolk County ("BEA Regional Economic Information System 1969-2003, May 2005") 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 2002, 2003, and 2004. 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 2004 (a preliminary estimate) an estimated 48,863 jobs have been lost, representing about 7.2% of total employment. Employment for 2004 in the following table is based upon four quarters of data from the Division of Unemployment Assistance and final 2003 data from BEA, projected for 2004.

City of Boston Employment 2002 – 2004
NAICS (North American Industry Classification System)

<u>Industry</u>	<u>2002</u>	<u>2003</u>	<u>2004</u> ⁽¹⁾	<u>Absolute Change</u>	<u>Percent Change</u>
Fishing/Mining/Agriculture	225	217	202	-23	11.0
Utilities	2,403	2,179	2,155	-248	-11.3
Construction	18,663	17,286	15,871	-2,792	-15.1
Manufacturing	16,199	14,296	13,806	-2,393	-14.3
Wholesale Trade.....	10,438	9,579	9,323	-1,115	-10.5
Retail Trade (excludes food service)	30,779	31,264	31,622	843	-2.5
Transportation and Warehousing.....	22,272	21,374	19,563	-2,709	-11.9
Transportation	20,753	19,699	17,924	-2,829	-13.7
Information.....	20,826	17,646	16,292	-4,534	-22.0
Finance and Insurance.....	82,794	77,115	75,592	-7,202	-8.7
Banking	19,251	19,720	20,402	1,151	6.0
Securities and other Financial Investment Activities	44,813	39,405	37,546	-7,267	-16.3
Insurance Carriers and Related Activities	18,730	17,990	17,644	-1,086	-5.8
Real Estate and Rental and Leasing	18,454	17,795	18,169	-285	-1.6
Professional, Scientific, and Technical Services	70,382	68,083	67,857	-2,525	-3.6
Legal Services.....	20,980	20,384	20,099	-881	-4.2
Accounting, Tax Preparation, Bookkeeping.....	9,363	8,459	8,593	-770	-8.2
Architectural, Engineering, Design, and Related	11,465	10,504	9,745	-1,720	-15.0
Computer Systems Design and Related Services	5,162	5,214	5,111	-51	-1.0
Management, Scientific, and Technical.....	10,509	10,930	11,295	786	7.5
Scientific Research and Development Services	6,723	6,654	6,873	150	2.2
Other Professional, Scientific and Technical Services	6,178	5,939	6,137	-41	-0.7
Management of Companies and Enterprises	9,737	8,999	7,821	-1,916	-19.7
Admin. & Support and Waste Mgmt and Remediation Services...	37,677	38,411	40,446	2,769	7.3
Educational Services	45,908	47,216	47,424	1,516	3.3
Colleges and Universities.....	39,516	40,535	40,585	1,069	2.7
Health Care and Social Assistance	102,114	103,899	106,630	4,516	4.4
Hospitals.....	68,880	70,021	72,136	3,256	4.7
Arts, Entertainment, and Recreation.....	13,076	13,195	13,031	-45	-0.3
Accommodation and Food Services	42,781	42,550	43,208	427	1.0
Accommodation.....	9,515	9,646	9,849	334	3.5
Food Service and Drinking Places.....	33,266	32,742	33,359	93	-0.3
Other Services (except public administration) ⁽²⁾	26,872	26,986	26,432	-440	1.6
Government	<u>84,784</u>	<u>78,499</u>	<u>76,405</u>	<u>-8,379</u>	<u>-9.9</u>
Total.....	656,350	636,590	631,851	-24,499	-3.7%

(1) 2004 employment is an estimate based upon four quarters of data from the Commonwealth's Division of unemployment Assistance (DUA) and an estimate for BEA.

(2) Other Services includes repair and maintenance, personal and laundry services, and religious, grant-making, civic, professional, and similar organizations.

Source: 2002-2004 figures are mathematically derived from U.S. Bureau of Economic Analysis Series for Suffolk County, 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.

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 August these data were available through the month of June 2005, and are presented in the following tables for the Boston-Cambridge-Quincy metropolitan area.

Data from the two following tables show that employment was lower than the mark for the same month of the previous year in the Boston metropolitan area from January 2003 through August 2004. Every month since September 2004 has shown an increase in employment. As of November (a preliminary figure) a total increase of 16,900 jobs in the metropolitan area was now evident over the previous year. From January 2004, the month where employment reached its low point, there has been an increase of 99,700 jobs in the metro area. From the peak metro employment of 2,605,000 in December 2000 to the latest month available, November 2005, the total job loss has been reduced to 155,700 or -6.0%.

**Boston-Cambridge-Quincy , MA-NH NECTA
Total Non-Agricultural Employment
Monthly, 2003-2005
(not seasonally adjusted, employment in 000's)**

<u>Month</u>	2003		2004		2005	
	<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	2,390.6	-2.3%	2,349.9	-1.7%	2,373.8	1.0%
February	2,380.0	-2.5	2,354.6	-1.1	2,379.1	1.0
March	2,388.1	-2.7	2,369.0	-0.8	2,388.0	0.8
April	2,409.2	-2.4	2,397.0	-0.5	2,414.7	0.7
May	2,419.3	-2.3	2,408.2	-0.5	2,425.8	0.7
June	2,427.8	-1.6	2,421.2	-0.3	2,439.1	0.7
July	2,398.8	-2.0	2,394.9	-0.2	2,415.7	0.9
August	2,388.4	-2.2	2,384.4	-0.2	2,404.6	0.8
September	2,410.0	-2.1	2,412.8	0.1	2,431.7	0.8
October	2,415.4	-2.1	2,425.1	0.4	2,441.1	0.7
November.....	2,425.1	-2.0	2,432.4	0.3	2,449.3 ⁽¹⁾	0.7 ⁽¹⁾
December	2,422.2	-2.3	2,437.7	0.6	NA	NA
ANNUAL.....	2,406.2	-2.3	2,398.9	-0.3	NA	NA

(1) Preliminary

Source: U.S. Department of Labor, bureau of Labor Statistics, 790 series of non-agricultural employment, December 2005.

The industry composition of employment comparing November 2004 with November 2005 shows that most job losses occurred in Information, Transportation/Warehousing/Utilities, Other Services, and Natural Economic Resources. Gains were evident in Construction, Wholesale Trade, Professional and Business Services, Education and Health Services, and Leisure and Hospitality. Very small gains were apparent in Finance, Government, and Retail Trade.

**Non-Agricultural Wage and Salary Employment by Industry
November 2004 and November 2005
Boston-Cambridge-Quincy, MA-NH NECTA
(seasonally unadjusted, employment in 000's)**

<u>Industry</u>	<u>2004</u>	<u>2005</u>	<u>Change</u>	<u>Percent</u>
Non-Agricultural Total	2,432.4	2,449.3	16.9	0.7
Natural Economic Resources.....	1.2	1.1	-0.1	-8.3
Construction	104.0	104.8	0.8	0.8
Manufacturing	231.6	232.9	1.3	0.6
Durable Goods	164.2	165.7	1.5	0.9
Non-Durable Goods	67.4	67.2	-0.2	-0.3
Trade, Transportation & Utilities	433.7	433.9	0.2	0.0
Wholesale Trade	104.0	105.2	1.2	1.2
Retail Trade.....	266.0	266.7	0.7	0.3
Transport., Warehousing & Utilities	63.7	62.0	-1.7	-2.7
Information.....	71.8	70.9	-0.9	-1.3
Financial Activities	181.3	182.2	0.9	0.5
Professional and Business Services.....	380.9	387.4	6.5	1.7
Education and Health Services	443.3	447.2	3.9	0.9
Leisure & Hospitality.....	207.1	211.4	4.3	2.1
Other Services	85.6	85.0	-0.6	-0.7
Government.....	291.9	292.5	0.6	0.2

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, December 2005.

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>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</u>	<u>Number</u>	<u>%</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

Percentages may not add due to rounding.

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

Unemployment

In 2004 the annual average unemployment rate for the City equaled the national rate of 5.5%, which was slightly above that of Massachusetts at 5.1% and also above that for the metropolitan (Boston NECTA) rate of 4.9%. All of these rates were above the rates reached in the year 2000, a historic low point. The average annual number of people unemployed in the City during 2004 equaled 16,410, a decrease from the 18,715 annual average for 2003 and above the 8,994 unemployed in 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 equaled 7.2%, the rate for whites equaled 5.1%, the rate for all minority groups combined equaled 10.2%. This pattern is typical of many of the nation's urban centers.

Annual Unemployment Rates, 1996-2004

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
City of Boston	4.7%	4.3%	3.5%	3.4%	3.0%	4.1%	5.9%	6.4%	5.5%
Boston NECTA ⁽¹⁾	4.1	3.7	3.1	3.0	2.5	3.6	5.3	5.7	4.9
Massachusetts	4.6	4.1	3.4	3.3	2.7	3.7	5.3	5.8	5.1
New England	4.8	4.4	3.5	3.2	2.8	3.6	4.8	5.4	4.8
<u>United States</u>	5.4	4.9	4.5	4.2	4.0	4.7	5.8	6.0	5.5

(1) New England City and Town Area, as defined by the U.S. Office of Management and Budget in 2003.

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 2005, through October, show an improvement since 2003. In October 2005, Boston's unemployment rate registered 4.9% compared with the same mark one year earlier in October 2004 and the 6.1% rate two years earlier in October 2003. The number of unemployed in October 2005 equaled 14,458, about the same as the 14,469 unemployed in October 2004.

**Monthly Unemployment Rates for Boston, Boston NECTA, Massachusetts,
New England and the United States for 2003, 2004 and 2005⁽¹⁾**

	City of Boston			Boston NECTA ⁽²⁾			Massachusetts			New England			United States		
	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005	2003	2004	2005
Jan.	6.4%	6.2%	5.3%	6.0%	5.8%	4.9%	6.3%	6.2%	5.4%	5.9%	5.9%	5.2%	6.5	6.3%	5.7%
Feb.	6.2	5.8	5.2	5.8	5.5	4.9	6.1	5.8	5.4	5.8	5.6	5.2	6.4	6.0	5.8
Mar.	6.4	5.9	5.2	5.9	5.5	4.9	6.1	5.9	5.3	5.8	5.6	5.1	6.2	6.0	5.4
Apr.	6.1	5.4	4.7	5.5	4.9	4.2	5.6	5.1	4.5	5.4	4.9	4.5	5.8	5.4	4.9
May.....	6.5	5.7	5.0	5.6	5.0	4.3	5.7	5.1	4.5	5.3	4.8	4.5	5.8	5.3	4.9
Jun.	7.2	6.2	5.5	6.2	5.3	4.6	6.2	5.4	4.8	5.8	5.1	4.7	6.5	5.8	5.2
Jul.	7.1	6.2	5.6	6.0	5.2	4.6	6.1	5.3	4.9	5.6	5.0	4.8	6.3	5.7	5.2
Aug.....	7.0	5.7	4.7	5.9	4.8	4.0	5.9	4.9	4.1	5.4	4.6	4.4	6.0	5.4	4.9
Sep.....	6.9	5.4	5.4	5.9	4.6	4.6	5.9	4.8	4.8	5.3	4.3	4.7	5.8	5.1	4.8
Oct.....	6.1	4.9	4.9	5.4	4.2	4.2	5.4	4.3	4.3	5.0	4.1	4.4	5.6	5.1	4.6
Nov.....	5.9	4.7	NA	5.2	4.1	NA	5.3	4.3	NA	5.1	4.1	4.4	5.6	5.2	4.8
Dec.....	5.5	4.4	NA	5.0	4.0	NA	5.2	4.2	NA	4.9	4.0	NA	5.4	5.1	NA

(1) Unemployment rates are not seasonally adjusted. Most recent data are preliminary and subject to revision.

(2) New England City and Town Area, as defined by the U.S. Office of Management and Budget in 2003.

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 NECTA (December 2005).

The following table lists the fifty-two 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 2004.

**Largest Private Employers in Boston, January 1, 2005
(with 1,000+ employees, listed alphabetically)**

Adecco Staffing	John Hancock
American Cleaning Company, Inc.	KPMG, LLP
American Employers Insurance Co.	Liberty Mutual
Arnold Advertising	McDonalds Restaurants
Bain and Co., Inc.	Massachusetts Electric Construction Co.
Beth Israel Deaconess Medical Cent	Massachusetts Eye and Ear Infirmary
Blue Cross Blue Shield of Massachusetts	Massachusetts Financial Services Co.
Boston College	Massachusetts General Hospital
Boston Company, Inc	New England Baptist Hospital
Boston Globe Newspaper	New England Financial
Boston Medical Center	New England Medical Center
Boston Safe Deposit and Trust Co., Inc	Northeastern University
Boston University	PricewaterhouseCoopers, LLP
Brigham and Women's Hospital	Putnam Investments
Carney Hospital	Scudder Investments
Children's Hospital	Shaws Supermarkets
CVS Pharmacies	Spaulding Rehabilitation Hospital
Dana-Farber Cancer Institute	St. Elizabeth's Medical Center
Dunkin Donuts	State Street Bank and Trust Co.
Faulkner Hospital	Stop and Shop Supermarkets
Fidelity Investments	Suffolk University
Gillette Company	Teradyne, Inc
Harvard University (graduate schools)	Thomson Corporation
Harvard Vanguard Medical Association	Tufts University
Hebrew Rehabilitation Center for the Aged	Verizon Communications
Investors Financial Services Corp	WGBH

Note: This list does not include large public sector agencies or non-profit firms except for some hospitals, colleges, and media companies.

Source: Dun and Bradstreet, InfoUSA, and BRA.

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 75,730 federal state and local government workers in Boston in 2004, a reduction of 22,509, or -22.8% 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

	1970		1980		1990		2000	
	<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 \$42,215 in 2003, 34% above the national per capita personal income of \$31,487, 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 1990-2004

(in current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metro Boston⁽¹⁾</u>	<u>Suffolk County⁽²⁾</u>
1970.....	\$ 4,095	\$ 4,453	\$ 4,486	\$ 4,515	\$ 4,652
1980.....	10,183	10,701	10,673	10,806	10,477
1990.....	19,447	22,712	23,043	24,702	24,641
1991.....	19,892	22,969	23,423	25,142	24,983
1992.....	20,854	24,172	24,538	26,451	25,936
1993.....	21,346	24,752	25,176	27,138	26,415
1994.....	22,172	25,687	26,303	28,336	27,648
1995.....	23,076	26,832	27,457	29,621	28,232
1996.....	24,175	28,194	28,933	31,280	29,810
1997.....	25,334	29,687	30,498	32,877	30,990
1998.....	26,883	31,677	32,524	35,211	33,529
1999.....	27,939	33,126	34,227	37,219	35,030
2000.....	29,845	36,118	37,756	41,435	38,134
2001.....	30,575	37,334	38,949	42,501	40,644
2002.....	30,814	37,379	38,975	42,436	41,227
2003.....	31,487	38,026	39,776	43,135	42,215
2004.....	33,041	40,269	42,102	NA	NA

(1) Metropolitan Boston denotes the Boston-Cambridge-Quincy, MA-NH (MSA). The Boston-Cambridge-Quincy, MA-NH (MSA) consists of five Massachusetts counties and Rockingham and Strafford County in New Hampshire.

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

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, December 2004 for Metro and Suffolk. Same source but December 2005 for United States, New England, and Massachusetts.

Data from the U.S. Bureau of Economic Analysis indicate that the average annual wage per job for 1970 through 2003 by place of work, have been consistently higher over time in Suffolk County than in the Boston metropolitan area and the Commonwealth. In 2003, Suffolk County's average wage per job (\$58,476) was 20% greater than that in the Boston metropolitan area (\$48,808) and 29% greater than the average state earnings level (\$45,257). 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, 2000-2004

(in current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metro Boston⁽¹⁾</u>	<u>Suffolk County⁽²⁾</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.....	34,718	39,918	43,218	47,042	55,522
2001.....	35,582	40,827	43,842	47,646	57,602
2002.....	36,150	41,059	43,888	47,361	56,887
2003.....	37,176	42,357	45,257	48,808	58,476
2004.....	38,793	44,589	47,873	NA	NA

(1) Metropolitan Boston denotes the Boston-Cambridge-Quincy, MA-NH (MSA). The Boston-Cambridge-Quincy, MA-NH (MSA) consists of five Massachusetts counties and Rockingham and Strafford County in New Hampshire.

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

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, December 2004 for Metro and Suffolk. Same source but December 2005 for United States, New England and Massachusetts.

During the years 1991-2004, based on the U.S. Bureau of Labor Statistics Consumer Price Index, the cost of living index rose at an annual average rate of 2.89% in the Boston metropolitan area, while the national index increased at a 2.56% annual rate. In 2004 the index for Boston and the U.S. both rose at 2.7%. From November 2004 to November 2005, the cost of living in the Boston metropolitan (Boston PMSA) area rose 3.3%, compared to a 3.5% rate rise for the nation.

**Consumer Price Index for All Urban Consumers
For 1991 through 2005
(CPI-U)**

	United States	Percent	Metro Boston	Percent
	Index	Change	Index	Change
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
2003.....	184.0	2.3	203.9	3.8
2004.....	188.9	2.7	209.5	2.7
2004 (November).....	191.0	-	211.7	-
2005 (November).....	197.6	3.5	218.6	3.3

Note: Index based upon 1982-1984=100.0. Monthly data not seasonally adjusted. Change for monthly data is based on the index from the same month as the previous year.

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 2004 have been released for states. The population estimate for Massachusetts as of July 1, 2004 was 6,416,505, a gain of 1.1% over that for April 2000. The latest estimates for cities are for 2003. The population estimate for Boston as of July 1, 2004 was 569,165, a 3.4% drop from the population total in April 2000..

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

	1970	1980	1990	2000	1970-80		1980-90		1990-00	
					Population	Percent	Population	Percent	Population	Percent
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 ⁽¹⁾	2,899,101	3,149,000	3,227,707	3,398,051	-	(2)	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.

Changes in racial patterns from the 2000 Census showed that Boston's racial composition was: White, Non-Hispanic 49.5%; Black, Non-Hispanic 23.8%; Hispanic 14.4%; Asian/Pacific Islander 7.5%; Multi-racial 3.1%; other single race 1.4%; and Native American 0.3%. 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 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 5,909 beds in 2004. In 2004 the hospitals admitted 238,711 in-patients, and had nearly 5.1 million outpatient visits, 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 2004, there were an estimated 106,620 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 one out of every six 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 2000 and 2004 grew from 61,956 to 72,136.

In 2003 and 2004 several large medical buildings were completed. In 2003, 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. Also in 2003, Children’s Hospital finished the Karp Research Laboratory a medical research building with 295,000 square feet and Tufts University completed its biomedical research and nutrition complex. In 2004 Emmanuel College finished a 300,000 square-foot medical research building for Merck pharmaceutical company. 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 was completed. In October 2004, Massachusetts General Hospital opened a new \$125 million 440,000 square-foot Yawkey Center for Outpatient Care. In early 2005 the Children’s Hospital Clinical Building expansion project was done.

As of October 2005, there were four hospital or medical research building projects approved or in construction for completion between 2006 and 2008: the 105,000 square-foot Boston University Medical Center’s Moakley Cancer Care Center; Spaulding and Slye’s new \$80 million sciences building with 160,000 square-feet of medical research space ongoing at BioSquare, Parcel D, in the South End; the Lyme Properties’ 575,000 square-foot Blackfan Research Center in the Longwood Medical area; the Brigham and Women’s 350,000 square-foot Center for Advanced Medicine. The BRA Board has also approved several other hospital or medical projects; among them are the Joslin Diabetes Center’s proposed 490,000 square-foot expansion project, Boston University’s BioSquare phase two in the South End, and the 440,000 square-foot Longwood North medical research building in the Longwood section.

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.

Greater Boston has the nation's largest cluster of life sciences industries including medical science, pharmaceuticals, medical devices and biotechnology (chemical, biochemical, material research, and production). According to a June 2004 report by the Milken Institute, entitled "America's Biotech and Life Sciences Clusters," Boston ranks first among the top 12 metropolitan regions in those specialties with 42,855 jobs (18,741 in bio-tech, 18,901 in medical devices, and 5,214 in pharmaceuticals). While Cambridge is the center for those industries in Greater Boston, the city itself is seeing significant industry growth in these fields with real estate development such as the Bio-Square project and the Bio-Safety Level 4 Research Facility both in the South End.

As of academic year 2003-2004, the New England Board of Higher Education reported 127 colleges and universities in the Commonwealth of Massachusetts, at which over 435,996 students were enrolled. The City's 35 universities, colleges, and community colleges had a combined enrollment in fall 2003 of 137,190, a 7.7% gain from fall of 1990. These numbers include some of the professional and graduate schools of Harvard and Tufts Universities, whose principal campuses are in Cambridge and Medford, respectively. Based on total graduate and undergraduate enrollment, Boston University was the largest university in Boston in fall of 2003, with 29,049 students. Boston, with only 10% of the state's population, has 31% of the statewide college student enrollment.

In 2003 and 2004 three higher education building projects were completed. Boston College added a Faculty Administration building with 156,000 square feet of space. Emerson College has completed 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, and the Baker Library at Harvard Business School was expanded. A new and expanded library is now underway at Simmons College. Boston College High School is completing a 60,000 square-foot addition. Harvard University continues to plan for future academic uses in the Allston neighborhood on land it owns near its Business School Campus and athletic fields.

Between 1990 and 1998, Boston's colleges and universities added 10,511 undergraduate dormitory beds. Since 1998 another 5,093 dormitory beds have opened to Boston's undergraduate students: Boston College opened one dorm with 322 beds; Boston University opened two dorms with 1,018 beds; Emmanuel College added one dorm with 225 beds; Massachusetts College of Art finished one dorm with 310 beds; Massachusetts College of Pharmacy completed one dorm with 270 beds; Northeastern University opened five dorms with 2,017 beds; Suffolk University built one dormitory with 368 beds; and Wentworth Institute added one dorm with 563 beds. The total of 15,604 new beds since 1990 in undergraduate dorms plus three graduate dorms with 720 beds totals 16,324 total new dormitory beds is the equivalent of nearly 4,100 new housing units. The recent addition means that Boston's colleges and universities now accommodate 33,475 students with on-campus housing. The only two undergraduate dormitories under construction as of October 2005 are the 230-bed dorm at Northeastern University's West Student Village Building F, and a new \$60 million, 540-bed dormitory for Emerson College on Boylston Street. In addition, graduate housing recently has been constructed for 720 students at Boston University and Harvard University. While college enrollment remains stable, new student housing is pulling students out of the neighborhood housing stock, easing housing prices and ameliorating tight vacancies.

Tourism

According to the Greater Boston Convention and Visitors Bureau ("CVB"), an estimated 16.3 million people visited the Boston metropolitan area in 2004, up by 2.5% from the 15.9 million visitors in 2003. 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 greater Boston, visitors spent an estimated \$7.89 billion for hotel accommodations, meals, entertainment, shopping, transportation and other services during 2004. The latest data for Suffolk County indicates that in the county alone the total domestic direct traveler impact in 2002 was \$4.4 billion, supporting

41,050 jobs and a payroll of \$1.1 billion, while generating \$123 million in state tax receipts and \$78 million of local tax receipts.

Boston continues to be the venue for large tourist events. In 2000, the City held a large celebration, Millennium 2000, lasting several days, and Sail Boston 2000, which attracted over four 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 2004, Boston's 107th Marathon drew an estimated 1 million visitors and the Head of the Charles Regatta drew an estimated half-million attendees. Also, in the summer of 2004, Boston hosted two successful national events: the annual MacWorld convention (after a five year hiatus in New York City) and the 2004 Democratic Party's political nominating convention (for the first time ever). In addition to such special events, there are a wide variety of regular events in Boston every year 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 world champion New England Patriots (professional football) play in Gillette Stadium in nearby Foxboro, Massachusetts. The City also provides venues for concerts, ice shows, circuses, theater, and other entertainment performances and amateur 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. The current owners of the Boston Red Sox baseball franchise have canceled the previous owner's plans for a new ballpark. The new owners have undertaken renovations of the existing Fenway Park instead, including the addition of new seating and modernized facilities, and have also proposed additional changes to the existing structure and the surrounding neighborhood.

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 have completed a new 1.6 million square-foot convention and exhibition center in Boston that can host large national conventions. In 2004 Boston was projected to host over 350 total events—meetings, conventions and expositions—which included 100 large events and a total of 17 "citywide" conventions; defined as events that would each use over 2,000 hotel rooms on the peak night, which usually requires at least three hotels.

Since 2000 several new cultural facilities have opened. The New England Aquarium completed an expansion plan including opening the new Simons IMAX Theater. The Boston Center for the Arts and the Huntington Theatre combined to complete joint development of two new theaters next to the Boston Center for the Arts in the South End in the fall of 2004 – the first new live stage theaters in Boston in 75 years. Downtown, Clear Channel, Inc. completed its \$37 million renovation of The Boston Opera House on Washington Street in the summer of 2004 and embarked on a very successful engagement of "The Lion King."

Several cultural institutions are pursuing development plans that are either currently proposed, approved, or under construction. The Museum of Fine Arts is planning a 462,400 square-foot expansion, and this is now underway. An Islamic Cultural Center in the Roxbury neighborhood is currently under construction. As part of the Rose Kennedy Greenway (which is the largely parks-related project on top of the Central Artery project in downtown Boston there will be a Boston Cultural Museum and possibly a greenhouse/botanical garden (the Darwin Project) or a Boston History Museum see "Large Public Sector Projects," below. The Institute for Contemporary Art (the "ICA") is completing its designs for a new facility on the South 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, completed 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.

Hotel Market

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%. Boston’s favorable hotel market over the 1992-1997 period and the decision to build the new Boston Convention and Exposition Center (BCEC) stimulated considerable new development. From the beginning of 2003 through 2005 the following hotels were completed: Embassy Suites, a 273-room hotel in East Boston near Logan International Airport; Commonwealth Hotel, a 149-room new hotel in Kenmore Square; the Marriott Residence Inn at Tudor Wharf, a 168-room new hotel in Charlestown; an 81-room Courtyard by Marriott at 88 Exeter Street in the Back Bay; the Hotel Onyx, a 112-room Kimpton new hotel near North Station; the Hampton Inn at Crosstown, a 175-room new hotel that is part of a mixed-use development of office, hotel, and retail space in Roxbury; Jurys Boston, a 220-room Jurys Doyle establishment in the Back Bay created through the adaptive re-use of a former police headquarters building; the Bulfinch Clarion Hotel, an 80-room adaptive reuse development near North Station; the 40 room ”Hotel 140” created through the adaptive re-use of a former YWCA in the Back Bay; and a 164-room Courtyard by Marriott in the South Bay/Roxbury district. Between July 1997 and September 2005, twenty-five new hotels and five expansion projects were completed, adding a total of 4,423 rooms. As of September 2005 there were a total of 15,910 hotel rooms in Boston in major hotels of at least 50 rooms.

Five other hotels with 2,110 rooms are now under construction in Boston. An Intercontinental Hotel is under construction in downtown Boston at 500 Atlantic Avenue (the Boston Edison site) that will contain 424 hotel rooms and 130 residential condominiums, and which is due to open in late Summer 2006. The 790-room Westin Headquarters hotel is under construction adjacent to the site of the new Boston Convention and Exhibition Center (BCEC). This phase of the Westin hotel is scheduled to open in 2006; a second phase of 320 additional rooms has been approved but not scheduled for development. The old Charles Street Jail is undergoing significant renovation that will create 308 hotel rooms. The Mandarin Oriental, which is a large mixed-use project, is currently under construction and will contain 150 luxury hotel rooms. The Marriott Renaissance in the South Boston Seaport district will provide 471 new rooms near the BCEC. Eight more hotels have BRA Board approvals but have not yet started.

Hotel Room Supply, Occupancy, Room Rate, and Revenue per Available Room 1996-2005

<u>Year</u>	<u>Room Supply</u>	<u>Occupancy Rate</u>	<u>Average Daily Rate</u>	<u>Percent Change</u>	<u>Revenue Per Available Room</u>	<u>Percent Change</u>
1996	12,136	79.0%	\$147.95	9.1	\$116.88	9.6
1997	12,446	79.0	161.63	9.2	127.69	9.2
1998	12,974	79.0	176.59	9.3	139.51	9.3
1999	13,673	75.0	188.82	6.9	141.62	1.5
2000	14,150	78.4	198.00	4.9	155.33	9.7
2001	14,298	69.6	180.58	-7.8	126.48	-18.3
2002	14,488	72.2	164.39	-9.0	118.71	-6.1
2003	15,078	71.1	155.52	-5.4	110.52	-6.9
2004	15,746	74.4	167.49	7.7	125.17	13.3
2005	15,910	74.4	174.70	7.5	130.80	6.2

Source: Boston Redevelopment Authority, Research Division and Pinnacle Advisory Group (2005 preliminary).

In the late 1990s, average annual occupancy rates were strong even with additions to supply and average daily room rates rose to \$198.00 by the year 2000. 2001 brought a more challenging environment for the hospitality industry as a slowing economy and the events of September 11th combined to dampen hotel market performance nationally and in Boston. In 2001 the occupancy rate fell to 69.6% and the room rate to \$180.58. For 2002, Boston’s hotel occupancy, according to Pinnacle Advisory Group, an independent hospitality industry consultant, stood at 72.2% and the average daily room rate registered \$164.39. Pinnacle reported a 4.2% increase in Boston hotel demand for the year 2003, but with room supply growing even more than demand, the annual occupancy rate slid to 71.1% and Average Daily room Rate declined further, to \$155.52. The combined effect was a 6.9% reduction in Revenue Per Available Room (“RevPAR”) in 2003 compared to 2002. Year end 2004 data showed a 6.4% increase in room demand over the year and an increase

in the occupancy rate to 74.4%. The 2004 Average Daily Room Rate reached \$167.49 a 7.7% gain over 2003 while RevPAR rose to \$125.17 or 13.3%. The latest data, for October 2005, continues to show an improving hotel market. The preliminary occupancy rate for the full year 2005, is 74.4%, the same as 2004. The average daily room rate for 2005 is expected to be \$174.70, an increase of 4.3% over that for 2004. Revenue per available room is also improved in 2005 to a projected \$130.80, an increase of 4.5% over that for 2004.

Office Market and New Development

The City and its neighborhoods currently have approximately 66.1 million square feet of office space. By the third quarter of 2005 (September 30th) Boston's overall vacancy rate according to CB Richard Ellis was 11.9% (14.3% availability when including space to sublet). Another realty firm, Spaulding & Slye, places the City's office vacancy rate at 10.8%. (availability 15.5%). 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 late-2004, but now have stabilized and even improved slightly. Absorption for the third quarter of 2005, according to CB Richard Ellis, was 776,918 square feet. In the third quarter of 2005, CB Richard Ellis ranked Boston's downtown office market with 5th lowest vacancy rate among the twenty largest downtown office markets in the U.S., with a rate of 11.9%.

Among the larger concerns in Boston's office market, in the third quarter of 2004, were the projected personnel downsizing and real estate consolidations surrounding the mergers of Manulife Financial and John Hancock and Bank of America and Fleet Boston. According to CB Richard Ellis, the above entities have contributed 720,000 square feet and 460,000 square feet of sublease space, respectively. Also, further inflating these availability statistics, according to CB Richard Ellis, were large concurrent contributions of space by Deutsche Bank (346,000 square feet at 2 International Place); State Street Bank (325,000 square feet at 1 Lincoln and One Federal Street); and Massachusetts Financial Services (135,000 square feet at 500 Washington Street). The overall result has been almost 2 million square feet of office space coming to the market, inflating sublease space by 25% of total availability: a gain of almost 1000 basis points over second quarter statistics.

In 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.

In 2004, four major downtown office projects with 1.5 million square feet of new office space were completed: 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 square feet of office space and a 880 car garage); 100 Cambridge Street (The former Saltonstall state office building), a 278,849 square-foot renovation of an existing building (half of which will be occupied by state offices, with 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 the Roxbury and Charlestown neighborhoods two large office projects with about 1.1 million square feet of new and renovated office space are under construction. These are the Crosstown Center in Roxbury with 282,000 square feet of office space, and Hood Business Park in Charlestown, a 775,000 square-foot renovation.

As of October 2005, only one major downtown office project is under construction; Lincoln Plaza, a large mixed use project with 119,000 square feet of office space. There are also several other downtown office developments approved by the BRA Board and/or are proposed.

Boston Office Market—September 30, 2005

<u>Market</u>	<u>Total (SF)</u>	<u>Available (%)</u>	<u>Vacancy (%)</u>	<u>Third Quarter Net Absorption*</u>	<u>Average Asking Rent</u>
Central Business District.....	34,702,907	16.0	13.1	594,957	\$34.49
Back Bay.....	13,020,270	13.8	10.2	-38,869	37.87
South Boston Seaport District.....	4,503,419	15.3	15.2	52,564	26.26
Charlestown/East Boston	2,833,332	11.1	10.1	192,629	20.61
North Station/Waterfront	2,774,930	16.1	15.8	15,018	24.71
Midtown.....	2,634,772	5.7	3.9	-21,078	23.20
South Station.....	1,240,839	14.9	11.2	-11,901	23.67
Dorchester/South Boston	860,987	10.7	10.7	-697	20.00
Allston/Brighton/Longwood Medical .	1,613,936	7.2	7.2	13,495	22.56
Fenway/Kenmore Square.....	1,934,639	6.3	6.3	-19,200	22.05
Total Boston Office Market	66,120,031	14.3	11.9	776,918	32.92

* Columns may not add due to rounding.

Source: CB Richard Ellis, Third Quarter 2005.

**Comparative Office Vacancy Rates
20 Largest Downtown Office Markets as of September 30, 2005**

<u>City</u>	<u>Vacancy Rate</u>	<u>City</u>	<u>Vacancy Rate</u>
Manhattan (Midtown).....	7.1%	Los Angeles	14.3%
Washington DC	8.0	Chicago	15.7
San Diego.	10.8	Phoenix	15.9
Manhattan (Downtown).....	11.5	Baltimore	17.5
Boston.....	11.9	Minneapolis-St. Paul.....	18.1
Philadelphia.....	12.0	Houston.....	20.0
Denver	12.3	Kansas City.....	20.0
San Francisco	12.5	Atlanta	20.2
Oakland	13.6	Dallas	20.5
Seattle.....	13.6	Detroit	24.5
National Average ⁽¹⁾ 13.0%			

(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 2005.

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, offering public transit alternatives to a population of 4.7 million people in an area of 3,200 square miles. The MBTA, the fifth largest mass transit system in the nation as determined by ridership, currently serves about 1.1 million persons per day.

The capital program of the MBTA (Capital Investment Program) totals approximately \$2.39 billion over fiscal years 2006-2010, averaging about \$478 million per year. Approximately \$1.42 billion of bonds will be issued to fund capital expenditures, approximately \$1.31 billion of capital expenditures will be funded through federal grants, and the balance 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 2006-2010 consists of four major programmatic areas: (i) reinvestment in the infrastructure (\$1.73 billion); (ii) accessibility improvements (\$124 million); (iii) enhancement of existing service (\$197 million); and (iv) system expansion efforts (\$343 million). Capital Investment Program spending by transportation mode is as follows: subway, \$935 million; commuter rail, \$406 million; Silver Line, \$118 million; bus, \$258 million; and systemwide, \$677 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 (\$580 million); station modernization (\$282 million); rail signaling systems (\$147 million); maintenance facilities, including rail car houses and bus garages (\$139 million); track/right-of-way (\$86 million); fare equipment (\$147 million), communications (25.9), power (\$32 million), and bridges (\$27 million).

Several specific system enhancement projects are underway. The most significant efforts in the City are devoted towards the North Station Superstation project and the Fairmount Corridor Improvements project. The North Station project will reconstruct and reconfigure the Green and Orange Line stations at North Station with underground access the commuter rail system that connects communities north of Boston with the city. The Fairmount Corridor Improvements project will improve and revitalize an underutilized route through the neighborhoods of Dorchester, Mattapan, and Hyde Park. To date, \$251.0 million has been spent on the North Station project (on phases one, two, and three) out of an authorized budget of \$262.1 million. The remaining amount will be spent on a portion of phase three and four, until project completion in fiscal year 2007. The Fairmount Corridor Improvement project is currently in phase one, which has a budget of \$37.3 million and is scheduled for completion in fiscal year 2008. Two other system enhancements anticipated for the future are the following: (i) an effort to restore light-rail vehicle service along the Arborway corridor, and (ii) adding auto vehicle identifier technology to green line vehicles to allow the Operation Control Center to have more control over the spacing, flow, and speed of green line trains. The current plan has also expended \$61.2 million on parking facilities. The most significant efforts are the planned expansion of the North Quincy Garage with 1,200 spaces for park-and-ride passengers on the Red Line subway, the Lawrence Station multi-modal facility improvements, which would provide 900 parking spaces, and a new 500 space parking garage at Woodland Station. 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 2006-2010 capital plan programs \$216.0 million toward the expansion of the commuter rail system, or 63% of expansion expenditures overall. The majority of the funding is devoted to the rehabilitation of the Old Colony Greenbush Branch with \$209.6 million planned for future expenditures over five years (\$269.5 million has already been spent on this project). The Greenbush project consists of the construction of 17.1 miles of track, seven 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. This project will proceed when all permits are issued, the necessary rights-of-way are purchased, and state funds are made available. Other efforts include the completion of three projects that include the Newburyport 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. The current 2006-2010 capital program includes \$118.3 million for the Silver Line project, or 35% of the MBTA's system-wide expansion effort. The MBTA is constructing the Silver Line in three phases to operate as part of its core downtown transit system. Phase I provides bus rapid transit services along Washington Street (through the Downtown, Chinatown, South End, and Roxbury neighborhoods). Phase II provides bus rapid transit services along the South Boston Piers Transitway, which is located on the South Boston waterfront. Phase III of the Silver Line project includes the planning, design and eventual construction that will lead to the connection of Washington Street to South Station and Logan Airport via a tunnel that will connect the Phase I and Phase II segments. In July 2002 Phase I of the Silver Line began servicing 14 new stations along Washington Street. Phase II was mostly completed in 2004, with the addition of three additional Silver Line stations opened in the South Boston Seaport District: South Station, Courthouse Station, and World Trade Center Station.

Currently, there are two major projects underway currently related to the Silver Line: the final completion of Phase II, and conceptual planning and design for Phase III.

Since 1991, Amtrak has spent \$1.8 billion on 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 of 20 new Acela Express high-speed trains, and 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 2004 Amtrak carried 827,000 passengers between New York and Boston—an increase of 20% over the pre-Acela year of 2001. The new Boston—Portland, Maine passenger rail service (the “Downeaster”) commenced December 15, 2001. The 200-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 Woburn and Haverhill (Massachusetts), Exeter, Durham, and Dover (New Hampshire), and Wells, Saco, and Old Orchard Beach (Maine). The roundtrip fare from Boston to Portland, Maine is \$44.

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 a financially independent political subdivision of the Commonwealth, 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 2004 exceeded \$3.18 billion, consisting of \$2.53 billion invested in airports and \$655 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 containerized 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 2004 the Port activity of 93,627 boxed containers increased 8.7% over fiscal 2003, primarily as a result of new far-east service provided by COSCO, while the 12,198 automobiles handled in fiscal 2004 decreased by 59% from fiscal 2003 (reflecting the relocation of Volkswagen’s importing business from Moran Terminal to Rhode Island) and the 144,304 tons (in bulk tonnage) for fiscal 2004 decreased by 11.4% from fiscal 2003’s bulk tonnage.

The Port of Boston is now a major cruise port. The total number of cruise passengers in fiscal 2004 (200,836) decreased by 3.1% compared to fiscal 2003, but grew 7.9% compared to fiscal 2002, reflecting a trend of continued growth in cruise traffic. The cruise port mainly operates in the months of 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 2004, Logan Airport served a total of 26.0 million passengers, a 14.0% increase from the 22.8 million passengers served in 2003. A report on calendar year 2003 prepared by Airports Council International (“ACI”) showed that Logan was the most active airport in New England, the 18th most active in the United States and the 35th 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 19th in the nation in total air cargo volume in 2003. In fiscal 2004 total combined cargo and mail volume was 809.2 million pounds: a 1.1% decrease from the 817.8 million pounds in fiscal 2003.

In January 2003, Massport projected that it would spend about \$1.14 billion during fiscal years 2004-2008 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 currently equals approximately \$240 million per year. The plan to add a new runway at Logan airport was approved by state and federal authorities and has cleared all challenges 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 1994-2005, 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 2005 indicated that the estimate of total potential construction activity was \$2.73 billion. Revenue from building permit fees increased in all but four of the fiscal years between 1994 and 2005. Between fiscal years 2004 and 2005, building permit revenue increased slightly, from \$22.72 million to \$23.21 million.

**Boston Building Permit Revenues and Estimated Potential Construction Activity
Ten Fiscal Years, 1996-2005**

	Building Permit Revenues⁽¹⁾	Estimated Potential Construction Activity⁽²⁾	Estimated Potential Construction Activity Adjusted For Inflation⁽³⁾
1996.....	\$11,777,653	\$1,385,606,235	\$1,833,237,350
1997.....	9,199,877	1,082,338,471	1,385,031,817
1998.....	14,757,703	1,736,200,395	2,176,335,309
1999.....	11,404,006	1,341,647,713	1,653,748,416
2000.....	17,922,648	2,108,546,846	2,511,066,333
2001.....	27,191,839	3,199,039,882	3,632,348,988
2002.....	19,055,144	2,241,781,647	2,493,967,556
2003.....	20,145,888	2,370,104,471	2,538,046,005
2004.....	22,724,810	2,673,507,019	2,778,375,817
2005.....	23,213,600	2,731,011,765	2,731,011,765
Total.....	<u>\$177,393,168</u>	<u>\$20,869,784,444</u>	<u>\$23,733,169,356</u>
Annual Average 1996-2005.....	\$17,739,318	\$2,086,978,444	\$2,373,316,936

(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 May, 2005 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 (August 2005).

Large Public Sector Projects

Through 2005 the Boston metropolitan area will continue to be the site of several major public sector projects. Two large projects that are mostly complete and operable are the Boston Convention and Exposition Center (“BCEC”) Project, and 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 (which together with the completed Ted Williams tunnel under Boston Harbor, are called the “Central Artery/Tunnel (CA/T) Project.” The CA/T Project, which is intended to improve traffic flow, is under the control of the Massachusetts Turnpike Authority, a state agency independent from the City.

The first major milestone achieved by the CA/T Project 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 98,000 vehicles per day in 2010. 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 2003. A fifth major milestone, the opening of the southbound side of the Central Artery has also been completed, marking the end of the majority of highway related construction. Demolition of the existing elevated structure is now complete and construction on the development parcels, including landscaping and parks, has begun. The CA/T Project, with an estimated total cost of \$14.63 billion, will be nearly half funded by the federal government while the remainder is the responsibility of the Commonwealth of Massachusetts.

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 has proposed the construction of 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 successfully sought the lifting of a previous court injunction prohibiting construction of the runway. There are no longer any pending state or federal court challenges to 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 \$3.2 billion (1999 dollars) and brought wastewater discharges in Boston Harbor into compliance with federal and state requirements.

The MWRA has also spent approximately \$756 million on 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-approved FY05 Capital Improvement Program anticipates the spending of 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 Boston Water and Sewer Commission (the "BWSC"), which pays approximately 32% 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"), an independent public agency that provides subsidized housing to low- and moderate-income individuals and families, 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. Currently owned by the BHA, the Maverick redevelopment will result in 396 new apartments, both affordable and market rate, along the East Boston waterfront. The new housing units will consist of townhouse style units and two midrise apartment buildings. Seventy-seven percent or 305 apartments will remain available for public housing residents. The remainder, 91 apartments, will be rented at market rate. The project also includes a Citywide Homeownership Initiative that will provide 50 homeownership opportunities for public housing residents and other eligible applicants. The project got its start with the award of a \$35 million HOPE VI grant from the federal government. Funding for the \$105 million project is also being provided by a number of public/private partners including the City of Boston (Neighborhood Housing Trust and Department of Neighborhood Development), state funded low-income tax credit equity, the Boston Housing Authority, the Massachusetts Housing Finance Authority, and the federal Department of Housing and Community Development. Developing the project with the BHA are Trinity East Boston Partners, which is a collaboration between Trinity Financial and the East Boston Community Development Corporation. The BHA chose Trinity East Boston Partners as its development team after a formal competitive process was initiated last year. Phase one and two of the project are expected to occur simultaneously and consist of a combined 230 apartments. Phase three will consist of 166 apartments and is expected to begin in early 2005 and be completed during the summer of 2006. The total unit mix will be 103 one-bedroom units, 147 two-bedroom units, 118 three-bedroom units and 28 four-bedroom units. While the footprint for phases one and three sits on the existing site, phase two of the project will be built on a vacant parcel of land across Sumner Street. The BHA is now commencing a HOPE VI process for the Franklin Hill site in Dorchester.

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, which is now complete, includes approximately 516,000 square feet of contiguous exhibition space on one level, approximately 160,000 square feet of meeting space and a 40,000 square-foot ballroom, as well as banquet and lecture halls. The BRA was authorized by the Convention Center Act to acquire and prepare the site for the BCEC Project and its role in the project is completed. The MCCA is the owner and operator of the BCEC. The construction of the BCEC was completed in June 2004 and the first convention was held on July 12-15, 2004.

As of January 2005, the BRA has been reimbursed \$174.1 million by the City and \$63.5 million by the Commonwealth for the site acquisition and preparation costs. Additional cost for site acquisition and preparation is dependent on the outcome of one remaining eminent domain court case. The City estimates that the final cost 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 was 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 was \$621.5 million plus \$30 million in transportation-related infrastructure improvements.

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 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, subsequently entered into an agreement with Starwood Hotels to join the development team. The development team was selected to receive a \$15 million HUD loan from the City of Boston. The hotel's financing was finalized and construction began in June 2004. Construction of the project is well underway.

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 opened in 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 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 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), and pre-Graduate Equivalency Diplomas (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 are 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 Section 108 guaranteed 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.

Retail Market

For 2004 it is estimated that there are about 64,681 employees in retail stores and food service and eating and drinking establishments, consisting of about 31,555 in retail and 32,286 in food service and eating and drinking. In 2002, according to the Census of Retail Trade, about 2,228 retail establishments were located in the City in and they had estimated total sales of \$5.4 billion. The food service and eating and drinking establishment industry in Boston (restaurants and bars) consists of an additional 1,858 establishments and \$1.7 billion in sales. In addition to these establishments there are about 14,000 employees in personal services businesses that range from repair and maintenance services, to hair and nail care, to laundry and drycleaning services, that handle retail customers.

Recent major retail projects in downtown Boston include: TJ Maxx and H&M in the first phase of 33 Arch Street; Eddie Bauer and Citizens 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 multiplex movie theater at the new Ritz Carlton Towers at Millennium Place. In the Back Bay, an addition to The Shops at Prudential Center mall (60,000 square feet) at the 111 Huntington Avenue building has been completed, and a major new retail development at 501 Boylston Street is under construction containing 97,464 square feet with H&M leasing 20,000 square feet of the total.

In the neighborhoods, the South Bay Center Mall was completed in the 1990s and includes The Home Depot, the first inner-city store for the company, as well as K-Mart, Toys-R-Us, a supermarket and other stores. Target, replacing the K-Mart store, opened a new store in the summer of 2004. In the Fenway district the new Landmark Center, containing roughly 200,000 square feet of retail and theater space, was completed in 2003. 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 have resulted in building activity with completion of a Super Stop & Shop supermarket. A major retail development just being completed is the Crosstown commercial complex in the South End, which has 60,000 square feet of retail space serving the neighborhoods. One Brigham Circle in the Mission Hill/Jamaica Plain neighborhoods has 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 retail store space. These are all solid signs of investment in the inner-city neighborhoods.

There are now 19 neighborhood business districts operating within The Main Streets Program. This program is a public-private initiative of the City established in 1995 to revitalize neighborhood commercial districts through locally established organizations. The program, from its inception through the end of 2004, has generated 540 net new and expanded businesses, created more than 3,643 net new jobs, assisted in 443 storefront improvement projects, and given design assistance to 591 businesses. Through December 2003, the Main Streets Program had leveraged more than \$9 million in private investment.

Also of importance are the supermarket developments that have taken place throughout Boston's neighborhoods. Twenty-three new or expanded supermarkets have opened in Boston's neighborhoods since 1992. Eight of these have opened in the past five years.

Massachusetts, Metropolitan Boston, and Boston Retail Sales, 1992-2002
(In thousands, not adjusted for inflation)

	<u>Massachusetts</u>	<u>Metropolitan Boston</u>	<u>City of Boston</u>
1992	\$47,663,248	\$33,798,207	\$4,180,888
1997	65,859,804	48,348,686	5,608,411
2002	83,220,180	59,918,502	7,163,717
<u>Annual rate.....</u>	6.88%	7.07%	6.64%

- (1) Metropolitan Boston in this usage is the Boston-Cambridge-Quincy MSA as defined in 2003.
 (2) Total retail sales includes the 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). 2002 data from the 2002 Economic Census for Retail trade for retail) and for the 2002 Census for Accommodations and Foodservices (for foodservices and drinking places).

Industrial Market and Recent Developments

According to surveys by the BRA, Boston has just over 25 million square feet of industrial space within the City limits. As of January 2000, 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 maintained by 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.

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 Boston Marine Industrial Park; 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.

In 2004 several significant industrial projects were completed in the neighborhoods. In East Boston, Belle Steel, a self-storage facility, was recently completed. Diamond Windows moved its facility from Allston to Dorchester and renovated a building. Food Pack Express finished a complete renovation of warehousing and refrigeration space on South Hampton Street. In Jamaica Plain a sound recording studio, Squid Hell, is underway. In the Newmarket district several projects were completed: R&R sales, a lumber company, expanded their Newmarket location; the Katsiroubas Brothers warehouse building (17,000 square feet); and The New Boston Foodmarket by B&B Trading completed a \$500,000 renovation of its facility on Food Mart Road. As of October 2005, the only industrial project under construction is the Nolan Brothers self-storage facility in Brighton.

Mayor Menino announced the Back Streets Initiative in November 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 2000. The total of 250,863 units increased 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, rising 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 2000 Census that the median value of an owner-occupied unit was \$190,603 in 2000, the median monthly mortgage payment was \$1,370, and the median gross rent in the City was \$802 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 April 2004 study done by the City's Department of Neighborhood Development showed that the median rent for an apartment in Boston in 2004 as advertised in the newspapers was \$1,450 per month for a two-bedroom apartment. Rents are down slightly city-wide from 2003, when the average was \$1,500. Median rents for a two-bedroom apartment ranged from a high of \$2,250 in the Back Bay to a low of \$1,100 in East Boston.

**Median Advertised Asking Monthly Rent in Boston Neighborhoods
and the Volume of Advertised Two-Bedroom Apartments
For 2003 and 2004**

<u>Neighborhood</u>	<u>Median Rent</u>			<u>Volume of Apartments</u>		
	<u>2003</u>	<u>2004</u>	<u>Percent</u>	<u>2003</u>	<u>2004</u>	<u>Percent</u>
Allston/Brighton	\$1,350	\$1,300	-4	463	257	-45
Back Bay/Beacon Hill	2,250	2,250	0	556	371	-33
Central	2,100	2,200	5	242	228	-6
Charlestown.....	1,700	1,650	-3	164	154	-6
Dorchester	1,250	1,300	4	115	153	33
East Boston.....	1,150	1,100	-4	43	28	-35
Fenway/Kenmore	1,650	1,498	-9	66	46	-30
Hyde Park.....	1,300	1,250	-4	53	43	-19
Jamaica Plain.....	1,400	1,325	-5	230	165	-28
Mattapan.....	1,350	1,200	-11	16	15	-6
Roslindale.....	1,250	1,225	-2	124	109	-12
Roxbury.....	1,350	1,250	-7	23	29	26
South Boston	1,400	1,400	0	245	163	-34
South End	1,900	1,950	3	148	115	-22
West Roxbury.....	1,300	1,225	-6	109	89	-18
<u>Citywide</u>	<u>1,500</u>	<u>1,450</u>	<u>-3</u>	<u>2,597</u>	<u>1,965</u>	<u>-24</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 2004." 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 (April 2005).

In recent years, home prices have risen at a fast pace. The National Association of Realtors reported that the median sale price of existing homes in the Boston metropolitan area was \$389,700 for 2004, a 16.2% increase over the 2002 median sales price. Data for 2005 is only available for the first three quarters, all of which are higher than the same quarters of the previous year. The median sale price of existing homes in the Boston metropolitan area in the third quarter of 2005 was \$430,900. The median price, not adjusted for inflation has more than doubled over the last decade.

**Greater Boston Annual Median Sales Prices for Existing Homes, 2002-2005
(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>
2002.....	\$296,100	\$335,700	\$353,500	\$342,400	\$335,400	NA
2003.....	337,600	359,100	366,900	361,600	358,500	6.9
2004.....	358,700	392,700	407,200	390,500	389,700	8.7
2005.....	396,200	418,500	430,900	NA	NA	NA

Note: The data series previously used in this table ended in the year 2000. The series beginning in 2003 uses different source data so medians from the two series are not comparable. A completely revised unified series that was made available in 2005 replaces this table from previous years' versions of the Boston Economy report.

Source: National Association of Realtors (December 2005).

Within the City, residential sales prices have been increasing steadily. The median sales price for a single-family home in Boston increased from \$319,500 in the first quarter of 2003 to \$370,000 in the fourth quarter of 2004, a 16% rise over a two year period. Condominium prices also increased from \$294,000 in the first quarter of 2003 to \$345,000 in the fourth quarter of 2004, a 17% rise.

**Median Residential Sales Prices for Boston
First Quarter 2003 Through Fourth Quarter 2004
(Current Year Dollars)**

<u>Year</u>	<u>Quarter</u>	<u>Single Family</u>	<u>Two Family</u>	<u>Three Family</u>	<u>Condominium</u>
2003	First	\$319,500	\$375,000	\$424,000	\$294,000
	Second	338,950	386,000	430,000	319,000
	Third	335,000	430,000	460,000	302,500
	Fourth	331,750	434,000	466,500	326,000
2004	First	\$340,000	\$420,000	\$500,000	\$339,500
	Second	377,500	458,500	516,220	350,000
	Third	375,000	460,000	518,000	354,950
	Fourth	370,000	469,500	515,000	345,000

Source: City of Boston, Department of Neighborhood Development using Banker & Tradesman data (June 2005).

Banker & Tradesman, a local trade journal, reported that during the full year 2004 there were 34% more total residential sales in the City than there were in the full year 2003 (11,994 versus 8,965). Sales of single-family homes rose 21% and sales of condominiums and multi-family non-condominiums rose by 39% and 29% respectively compared with 2003 sales. Through November of 2005 the number of total residential sales compared to the same time period in 2004 were just marginally lower but sales of single family homes were down by eight percent.

**Annual Residential and Condominium Sales in Boston
1991-2004**

<u>Year</u>	<u>Single Family Sales</u>	<u>Percent Change</u>	<u>Multi-Fam. Residential Sales⁽¹⁾</u>	<u>Percent Change</u>	<u>Total Condominium Sales</u>	<u>Percent Change</u>	<u>Residential and Condo Sales⁽²⁾</u>	<u>Percent Change</u>
1991	906	1	1,662	-15	2,028	-9	4,596	-10
1992	1,114	23	1,720	4	2,432	20	5,266	15
1993	1,264	13	2,059	20	2,827	16	6,150	17
1994	1,596	26	2,619	27	3,024	7	7,239	18
1995	1,564	-2	2,696	3	2,925	-3	7,185	-1
1996	1,578	1	2,743	2	3,566	22	7,887	10
1997	1,616	2	2,854	4	4,017	13	8,487	8
1998	1,505	-7	3,032	6	4,431	10	8,968	6
1999	1,569	4	3,242	8	5,089	15	9,901	10
2000	1,335	-15	2,919	-10	4,757	-7	9,011	-9
2001	1,281	-4	2,407	-18	4,266	-10	7,954	-12
2002	1,372	7	2,410	0	5,111	20	8,893	12
2003	1,423	4	2,276	-6	5,266	3	8,965	1
2004	1,718	21	2,934	29	7,342	39	11,994	34
2004 (Jan-Nov)	1,568	NA	2,641	NA	6,750	NA	10,959	NA
2005 (Jan-Nov)	1,440	-8	2,723	3	6,768	0	10,931	0

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

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

Note: Data for 2003 has been revised since the publication of last year's report.

Source: Banker and Tradesman (December 2005).

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, Hyde Park, Dorchester, and Roslindale. Single family prices ranged from \$280,000 in East Boston to \$1.8 million in the Back Bay with the city-wide median at \$370,000 and the typical house going for \$419,900 in West Roxbury, the most suburban-style single family neighborhood within the City limits. The median sales price was up 10% and the sales volume was up by 40% between 2003 and 2004.

Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Single Family Homes
In Boston's Neighborhoods, 2003 and 2004
(Not inflation adjusted)

<u>Neighborhood</u>	<u>2003 Single Family Price</u>	<u>2004 Single Family Price</u>	<u>Percent Change</u>	<u>2003 Sales Volume</u>	<u>2004 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton	\$380,000	\$439,000	13	73	90	23
Back Bay/Beacon Hill ...	2,262,500	1,837,500	-23	28	33	18
Central	**	**	***	4	5	***
Charlestown.....	463,000	546,500	15	60	67	12
Dorchester	315,000	350,000	10	186	233	25
East Boston.....	242,000	280,000	14	44	67	52
Fenway/Kenmore	**	**	***	1	6	***
Hyde Park.....	295,000	323,250	9	162	292	80
Jamaica Plain.....	510,000	520,000	2	63	103	64
Mattapan.....	255,000	295,000	14	83	103	24
Roslindale.....	333,000	370,000	10	163	203	25
Roxbury.....	300,000	301,250	0	43	64	49
South Boston	325,000	380,000	15	63	109	73
South End	1,025,000	1,043,750	2	20	24	20
West Roxbury.....	360,000	419,900	14	242	335	38
<u>Citywide</u>	<u>333,000</u>	<u>370,000</u>	<u>10</u>	<u>1,235</u>	<u>1,734</u>	<u>40</u>

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

*** Not meaningful.

- (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.
- (2) These are not "paired-sales" so the size, quality and type of houses sold vary from year-to-year.
- (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, April 2005, Real Estate Trends, Annual Report 2004".

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 South End ,the Back Bay/Beacon Hill, and Charlestown neighborhoods, which are the core residential pockets closest to downtown. Five neighborhoods still had condominiums with the median price of \$250,000 or below: Dorchester, East Boston, Mattapan, Roxbury, and West Roxbury. The median citywide condominium price as of year-end 2004 was \$349,025, up 12% from the \$312,500 price for year-end 2003. Sales volume was up by 61%.

**Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Condominiums
In Boston's Neighborhoods, 2003 and 2004
(Not inflation adjusted)**

<u>Neighborhood</u>	<u>2003 Condominium Price</u>	<u>2004 Condominium Price</u>	<u>Percent Change</u>	<u>2003 Sales Volume</u>	<u>2004 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton	\$236,000	\$253,000	7	602	878	46
Back Bay/Beacon Hill	435,000	480,000	9	682	979	44
Central	439,000	515,000	15	415	927	123
Charlestown.....	377,400	405,000	7	258	556	116
Dorchester	233,000	250,000	7	292	444	52
East Boston.....	173,875	219,000	21	52	85	64
Fenway/Kenmore	260,000	297,750	13	233	362	55
Hyde Park.....	231,750	256,000	10	64	60	-6
Jamaica Plain.....	290,000	323,000	10	315	424	35
Mattapan.....	266,000	220,000	-21	19	67	253
Roslindale.....	269,000	293,000	8	129	287	123
Roxbury.....	246,750	250,000	1	96	199	107
South Boston	305,000	346,000	12	442	920	108
South End	395,000	495,000	20	809	934	16
West Roxbury.....	218,000	238,500	9	141	214	52
Citywide	312,500	349,025	11	4,549	7,336	61

- (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.
- (2) These are not "paired-sales" so the size, quality and type of houses sold vary from year-to-year.
- (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, April 2005, "Real Estate Trends, Annual Report 2004."

The BHA administers two distinct housing programs. First, the BHA manages conventional public housing within the City of Boston. The BHA 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 BHA 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.

In 2000 Mayor Menino undertook a new initiative, "Leading the Way," to increase and protect the City's housing supply. Housing construction accelerated between 2000 and 2004 with Leading The Way I, the first phase of the initiative. The City has counted 7,900 housing units added from 2000 through 2002 including more than 2,200 affordable new units. Another 5,000 households were protected from displacement through City efforts to prevent their subsidized apartments from becoming market-rate. Virtually all of the BHA's vacant units are now being reclaimed to create new housing, particularly for the homeless.

The Leading the Way II housing initiative for 2004 through 2007 was released in May 2004. The plan of action calls for: renovation of 2,000 buildings in visible disrepair; produce 10,000 new units of housing of which 2,100 will be below-market affordable units; preservation of 3,000 units of affordable rental housing; conversion of 300 units of unregulated rental housing into new, long-term affordable housing; the launch of a \$10 million program to expand housing opportunities for the homeless; and the addition of \$25 million in new resources for the construction of affordable housing.

Downtown and the Back Bay experienced significant residential building in 2000-2004 with nine large developments completed, totaling 1,364 new housing units. Also in the Downtown and Back Bay, nine large housing developments are underway and thirteen more are approved for a total of 3,682 new units to be added.

**Downtown and Back Bay Housing
Completed 2000 – 2004**

<u>Project</u>	<u>Area</u>	<u>Total</u>	<u>Afford. Market</u>		<u>Status</u>
		<u>Units</u>	<u>Units</u>	<u>Units</u>	
The Belvedere	Back Bay	65	0	65	Complete
Strada 234 (226 Causeway Street)	North Station	108	20	88	Complete
Colonnade Residences	Back Bay	99	0	99	Complete
Millennium Place	Midtown	350	0	350	Complete
The Metropolitan/1 Nassau Street	Chinatown	251	115	136	Complete
One Charles (Park Plaza Parcel)	Park Plaza	225	0	225	Complete
Saltonstall/100 Cambridge St.	Beacon Hill	75	19	56	Complete
Tremont Towers Condominiums	Midtown	89	0	89	Complete
Trinity Place/25 Huntington Avenue	Back Bay	<u>102</u>	<u>0</u>	<u>102</u>	Complete
TOTAL		1,364	154	1,210	

Source: Boston Redevelopment Authority, January 20

**Downtown and Back Bay Housing
Under Construction or Approved as of August 2005**

<u>Project</u>	<u>Area</u>	<u>Total</u>	<u>Afford. Market</u>		<u>Status</u>
		<u>Units</u>	<u>Units</u>	<u>Units</u>	
44 Prince Street	North End	57	6	51	Underway
500 Atlantic Avenue	Waterfront	359	47	312	Underway
Battery Wharf	North End	100	0	100	Underway
140 Clarendon Street(YWCA)	Back Bay	188	82	106	Approved
Fan Pier	Waterfront	675	130	545	Approved
Kensington Place	Midtown	346	61	285	Approved
Liberty Place	Midtown	468	70	398	Underway
40-44 Harrison Avenue	Chinatown	32	3	29	Underway
80 Broad Street	Downtown	95	0	95	Underway
Boylston Street Mixed Use Project	Back Bay	105	10	95	Underway
LaFayette Lofts	Downtown	42	4	38	Underway
Lincoln Plaza	Leather District	85	11	74	Underway
111 Beach Street	Chinatown	36	3	33	Approved
296 Cambridge Street	West End	16	1	15	Approved
360 Newbury Street	Back Bay	54	5	49	Approved
99-105 Broad Street	Downtown	48	1	47	Approved
Copley Residences, 441 Stuart Street	Back Bay	111	7	104	Approved
Emerson Place, Charles River Park	West End	320	48	272	Approved
Purchase Street Residences	Downtown	18	0	18	Approved
Russia Wharf	Downtown	50	5	45	Approved
The Clarendon	Back Bay	400	54	346	Approved
Two Financial Center	Downtown	<u>162</u>	<u>11</u>	<u>151</u>	Approved
TOTAL		3,682	559	3,208	

Source: Boston Redevelopment Authority

In the neighborhoods a variety of projects are complete or under construction. Between 2000 and 2004 there were 20 large projects (comprising 10 or more units) completed, adding 962 units. There are also 50 additional developments that are currently underway or in pre-construction, representing 3,772 units.

**Neighborhood Housing
Completed 2000 – 2004
(only projects of 10 or more units, not including dormitories)
(listed alphabetically by neighborhoods)**

<u>Project</u>	<u>Area</u>	<u>Total</u>	<u>Afford. Market</u>		<u>Status</u>
		<u>Units</u>	<u>Units</u>	<u>Units</u>	
Nautica	Charlestown	117	12	105	Complete
Walter Baker Lofts	Dorchester	13	13	0	Complete
90 Westland Avenue	Fenway/Kenmore	20	2	18	Complete
183-185 Mass. Avenue	Fenway/Kenmore	31	2	29	Complete
23-25 & 33-35 Grantley Street	Hyde Park	16	2	14	Complete
NEBH Redevelopment	Jamaica Plain	79	15	64	Complete
Roslindale Commons Condos	Roslindale	12	1	11	Complete
80-82 A Street	South Boston	12	1	11	Complete
120 West 7 th Street	South Boston	24	1	23	Complete
Court Square Press	South Boston	132	0	132	Complete
St. Vincent DePaul rehabilitation	South End	13	0	13	Complete
Dover Lofts (SE-98B)	South End	16	2	14	Complete
Wareham Lofts	South End	28	3	25	Complete
Northampton Street	South End	32	6	26	Complete
Ming's Restaurant, 160 E. Berkeley	South End	38	1	37	Complete
Minot Hall	South End	44	3	41	Complete
10 Coventry Street	South End	63	0	63	Complete
Parcel 8/BCA Site	South End	103	0	103	Complete
Wilkes Passage	South End	152	19	133	Complete
Lamplighter	West Roxbury	<u>17</u>	<u>0</u>	<u>17</u>	Complete
TOTAL		962	83	879	

Source: Boston Redevelopment Authority, January 2005.

Neighborhood Housing
Underway or Pre-Construction as of August 2005
(only projects of 10 or more units, not including dormitories)
(listed alphabetically by neighborhoods)

<u>Project</u>	<u>Area</u>	<u>Total Units</u>	<u>Afford. Units</u>	<u>Market Units</u>	<u>Status</u>
163-165 Chestnut Hill Ave. (I)	Allston/Brighton	12	1	11	Underway
163-165 Chestnut Hill Ave. (II)	Allston/Brighton	24	3	21	Underway
Chestnut Hill Park	Allston/Brighton	47	2	45	Underway
Everett-Hano Street Project	Allston/Brighton	62	62	0	Underway
St. John of God	Allston/Brighton	200	58	142	Underway
35-45 Coffey Street	Dorchester	46	5	41	Underway
Mt. Vernon Street Project	Dorchester	333	34	299	Underway
Atrium Lofts	East Boston	217	32	185	Underway
Barnes School	East Boston	74	74	0	Underway
29 Peterborough Street	Fenway/Kenmore	11	1	10	Underway
Buckminster Hotel	Fenway/Kenmore	22	2	20	Underway
120 Mountfort Street	Fenway/Kenmore	37	4	33	Underway
645 Beacon Street	Fenway/Kenmore	22	2	20	Underway
Fenway Mixed Use	Fenway/Kenmore	540	54	486	Underway
Morville House	Fenway/Kenmore	30	30	0	Underway
Glenwood Avenue	Hyde Park	20	2	18	Underway
25 Alpine St. (residential conversion)	Hyde Park	44	5	39	Underway
Village at Cleary Square	Hyde Park	59	6	53	Underway
39 Maple Street	Hyde Park	122	NA	NA	Underway
Hillside Homes at Franklin Park	Jamaica Plain	12	2	10	Underway
JP Cohousing	Jamaica Plain	30	3	27	Underway
319-329 Centre Street	Jamaica Plain	18	1	17	Underway
Amory Street Residences	Jamaica Plain	64	64	0	Underway
Franklin Field South	Mattapan	23	23	0	Underway
Harvard Commons Phase I	Mattapan	45	45	0	Underway
Mission Hill Phase II	Mission Hill	34	34	0	Underway
Mission Hill Phase III	Mission Hill	24	24	0	Underway
4040 Washington Street	Roslindale	30	3	27	Underway
Dartmouth Hotel	Roxbury	65	65	0	Underway
Egleston Crossing	Roxbury	64	64	0	Underway
Kittredge Square	Roxbury	14	3	11	Underway
Washington Commons	Roxbury	49	28	21	Underway
525-527 East 2 nd Street	South Boston	13	1	12	Underway
Trolley House Condos	South Boston	24	2	22	Underway
St. Peter & Paul Church and Rectory	South Boston	44	8	36	Underway
Midway Phase 1	South Boston	44	6	38	Underway
3 Dorchester Street	South Boston	54	29	25	Underway
Channel Center (Midway) – Ph. 1 Pc. 6	South Boston	76	0	76	Underway
Channel Center – Phase 1	South Boston	89	36	53	Underway
Massport Parcels F2, G, and J	South Boston	465	15	450	Underway
Costello Homes	South Boston	15	8	7	Underway
422-424 Massachusetts Ave.	South End	10	2	8	Underway
601 Albany Street	South End	30	3	27	Pre-Construction
Gateway Terrace – Dover Residences	South End	133	13	120	Underway
Harrison Commons	South End	136	13	123	Underway
731 Harrison Avenue	South End	54	26	28	Underway
D-4 Police Station	South End	26	3	23	Underway
5168-5178 Washington Street	West Roxbury	48	5	43	Underway
Sophia Snow House	West Roxbury	102	102	0	Pre-Construction
1522 VFW Parkway	West Roxbury	15	1	14	Underway
TOTAL		3,772	640	1,289	

Source: Boston Redevelopment Authority, August 2005.

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 construction of affordable housing in its neighborhoods, through the Neighborhood Housing Trust (NHT), and job training for City residents through the Neighborhood Jobs Trust (NJT). Under the program, which was amended in 1986 and again in 2001, real estate developers seeking approval of large scale commercial or institutional developments are required to enter into agreements obligating them to pay exactions in the amount of \$8.62 per square-foot of construction over 100,000 square feet, of which \$1.44 per square-foot goes to the NJT and \$7.18 per square-foot goes to the NHT. The amount of these exactions last adjusted as of November 30, 2001.

Linkage payments to the NHT are amortized over a period of either seven or twelve years, depending on the date of the initial agreement. Under NHT policy, current agreements provide for a seven-year payment period. The seven-member NHT board holds public hearings and has the authority to approve linkage grants to selected projects, except for a separate “housing creation” option, which requires the additional approval by the BRA. Since the inception of the linkage program through January 22, 2004, the NHT has awarded \$80.7 million in grant funds to various affordable housing projects.

Based on data through 2004, NHT funding contributed to the construction or renovation of 7,604 housing units in 89 projects in the City’s neighborhoods. Affordable housing units for low and moderate-income residents comprise 81% (6,116 units) of this total. Of these 114 housing developments created, linkage funds, for the most part, accounted for fewer than 8.2% of the total development costs of the projects. NHT grant awards are allocated to fund low and moderate-income housing through the renovation of old buildings and schools, as well as to assist in the creation of new housing. Projects have included rental units; single room occupancy units, such as housing for pregnant, homeless women and alcohol recovery programs; condominiums; housing cooperatives; and home ownership.

Funds for the NJT come from the jobs exaction of \$1.44 for every square-foot that a development project exceeds 100,000 square-feet. The job training component of the linkage program was established by 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. Between fiscal years 1988 and 2004 \$15.1 million of funds had been committed, and nearly \$11 million of funds had been awarded, resulting in the creation of 116 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 nearly \$11 million awarded, approximately \$950,000 has been spent on administration, bringing total expenditures from the NJT to nearly \$12 million.

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
\$597,985.78	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 21, 1998
324,266.30	Remodeling & Extraordinary Repairs	C44 s7 (3A)	December 26, 1986 amended on November 28, 1989
39,529.77	Remodeling & Extraordinary Repairs	C44 s7 (3A)	March 13, 1987
81,904.85	Remodeling & Extraordinary Repairs	C44 s7 (3A)	January 21, 1988
437,740.97	Construction of Public Ways	C44 s7 (5)	May 30, 1989
308,578.56	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 30, 1989 amended on November 28, 1989
16,571.80	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 30, 1989 amended on November 28, 1989
35,044.10	Construction of Public Ways	C44 s7 (5)	June 27, 1990
605,505.32	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	June 27, 1990
97,582.97	Remodeling & Extraordinary Repairs	C44 s7 (3A)	April 24, 1991
3,670,575.30	Construction of Sidewalks	C44 s7 (6)	April 23, 1992 amended on May 25, 1994
20,368.85	Remodeling & Extraordinary Repairs	C44 s7 (3A)	April 23, 1992
482,281.79	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

Amount	Purpose Name	Statute	Effective Date
\$701.31	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 4, 1993
90,788.11	Construction of Bridges	C44 s7 (4)	June 4, 1993 amended on May 25, 1994, June 23, 1995, June 25, 1996
13,615.78	Construction of Buildings; Acquisition of Land	C44 s7 (3)	December 20, 1993
394,414.20	Capital Improvements - Act '91	C642 s7B Act 1991	May 4, 1994
1,493,675.24	Construction of Public Ways	C44 s7 (5)	May 25, 1994 amended on June 25, 1996
23,293.68	Departmental Equipment	C44 s7 (9)	May 25, 1994 amended on June 23, 1995, October 21, 1997
108,510.02	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	May 25, 1994 amended on June 23, 1995, June 25, 1996, October 21, 1997, July 21, 1998
14,186.60	Capital Improvements - Act '91	C642 s7B Act 1991	June 2, 1995
103,290.50	Urban Renewal - All Areas	C121B s20	June 2, 1995 amended on June 4, 1996, September 30, 1997
308,551.02	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995 amended on October 21, 1997
32,840.83	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995
70,916.43	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995
8,661.24	Construction of Buildings; Acquisition of Land	C44 s7 (3)	June 23, 1995

Amount	Purpose Name	Statute	Effective Date
\$2,942.15	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 23, 1995
620,766.83	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
35,633.06	Capital Improvements - Act '91	C642 s7B Act 1991	June 4, 1996
29,539.76	Capital Improvements - Act '96	C642 s7C Act 1996	June 4, 1996
1,832,696.52	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 25, 1996
35,972.69	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 25, 1996 amended on October 30, 1997
1,837,956.22	Capital Improvements - Act '96 School Dept.	C642 s7C Act 1996	July 9, 1996 amended on September 30, 1997, October 28, 1997, May 12, 1998
2,007,673.90	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	August 26, 1996 amended on October 21, 1997
121,883.44	Capital Improvements - Act '96	C642 s7C Act 1996	August 5, 1996 amended on September 30, 1997
34,261.24	Capital Improvements - Act '96	C642 s7C Act 1996	September 30, 1997
2,831,658.67	Construction of Buildings; Acquisition of Land	C44 s7 (3)	October 21, 1997
968,900.92	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
248,660.76	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
86,236.14	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
18,604.88	Acquisition of Fire Boats	C44 s7 (13)	July 21, 1998
168,869.19	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 21, 1998

Amount	Purpose Name	Statute	Effective Date
\$78,137.62	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 21, 1998
40,236.64	Urban Redevelopment and Renewal	C121B s20	August 24, 1998
141,931.43	Capital Improvements - Act '96	C642 s7C Act 1996	July 22, 1999
752,295.41	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 12, 1999
215,696.61	Construction of Buildings; Acquisition of Land	C44 s7 (3)	August 12, 1999
71,991.00	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	August 12, 1999
1,042,575.01	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 7, 2000
672,198.52	Construction of Public Ways	C44 s7 (5)	August 7, 2000
2,053.93	Departmental Equipment	C44 s7 (9)	August 7, 2000
370,167.30	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 7, 2000
53,550.04	Capital Improvements - Act '96	C642 s7C Act 1996	July 17, 2000
40,085.24	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 7, 2000
5,764.01	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 28, 2000
177,771.74	Traffic Signal and Public Lighting Installation	C44 s7 (14)	May 1, 2001
2,564,379.75	Remodeling & Extraordinary Repairs	C44 s7 (3A)	September 7, 2001
342,826.18	Construction of Bridges	C44 s7 (4)	August 16, 2001
1,999,074.90	Construction of Public Ways	C44 s7 (5)	September 7, 2001
202,965.56	Departmental Equipment	C44 s7 (9)	September 7, 2001
20,245.53	Traffic Signal and Public Lighting Installation	C44 s7 (14)	September 7, 2001

Amount	Purpose Name	Statute	Effective Date
\$1,234,730.67	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	September 7, 2001
75,698.07	Capital Improvements - Act '91	C642 s7B Act 1991	August 17, 2001
410,220.94	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 5, 2002
1,031,531.81	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 5, 2002
201,044.53	Construction of Bridges	C44 s7 (4)	August 5, 2002
1,860,489.46	Construction of Public Ways	C44 s7 (5)	August 5, 2002
993,542.07	Traffic Signal and Public Lighting Installation	C44 s7 (14)	August 5, 2002
92,365.06	Acquisition of Land; Cemeteries	C44 s7 (20)	August 5, 2002
669,979.01	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 5, 2002
232,734.17	Capital Improvements - Act '96	C642 s7C Act 1996	July 15, 2002
3,311,241.28	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 28, 2003
4,766,949.07	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 28, 2003
7,053.22	Traffic Signal and Public Lighting Installation	C44 s7 (14)	July 28, 2003
364,505.46	Acquisition of Land; Parks & Playgrounds Outdoor Facilities/Planning	C44 s7 (22), (25)	July 28, 2003
67,123.75	Construction of Buildings; Acquisition of Land	C44 s7 (3)	July 29, 2004
1,095,481.88	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 29, 2004
4,414,679.45	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 29, 2004
1,001,878.52	Construction/Re-Construction of Surface Drains, Sewers, Sewerage Systems, etc.	C44 s7 (1)	July 29, 2004
130,965.56	Reservoir Construction/Enlargement; Water Treatment Buildings	C44 s8 (4)	July 29, 2004

Amount	Purpose Name	Statute	Effective Date
\$1,457,109.48	Construction of Bridges	C44 s7 (4)	July 29, 2004
553,025.70	Construction of Public Ways	C44 s7 (5)	July 29, 2004
1,802,647.40	Departmental Equipment	C44 s7 (9)	July 29, 2004
241,874.31	Traffic Signal and Public Lighting Installation	C44 s7 (14)	July 29, 2004
254,696.85	Acquisition of Land; Cemeteries	C44 s7 (20)	July 29, 2004
5,395,952.95	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 29, 2004
1,376,855.71	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 26, 2005
12,836,249.16	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	July 26, 2005
4,213,557.77	Construction of Public Ways	C44 s7 (5), (6)	July 26, 2005
500,939.26	Computer Hardware School Dept.	C44 s7 (28)	July 26, 2005
306,772.66	Street Lighting Installation	C44 s7 (14)	July 26, 2005
40,520.66	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 26, 2005
<u>\$80,000,000.00</u>			

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

[Date of Delivery]

Lisa C. Signori
Collector-Treasurer and Chief Financial Officer
City of Boston
Boston, Massachusetts

Re: \$80,000,000
City of Boston, Massachusetts
General Obligation Bonds, 2006 Series A
dated January __, 2006

We have acted as Bond Counsel to the City of Boston, Massachusetts (the “City”), in connection with the issuance by the City of the above-referenced bonds (the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the City contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on this examination, we are of the opinion, under existing law, as follows:

(1) The Bonds are valid and binding general obligations of the City and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied without limitation as to rate or amount upon all taxable property in the City.

(2) Interest on the Bonds is excluded from gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the City with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure by the City to comply with certain of such requirements may cause the interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

(3) The interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Edwards Angell Palmer & Dodge LLP

BOS111 10165771.1

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 \$80,000,000 General Obligation Bonds, 2006 Series A, dated January __, 2006 (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.

"Dissemination Agent" means Digital Assurance Certification, L.L.C., acting in its capacity as dissemination agent for the City pursuant to the Disclosure Dissemination Agent Agreement dated as of September 1, 2005, between the City and Digital Assurance Certification, L.L.C., or any successor thereto designated by the City as its agent for purposes of satisfying the filing and notice requirements assumed by the City under 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).

“Transmission Agent” shall mean any central filing office, conduit or similar entity which undertakes responsibility for accepting filings under the Rule for submission to each Repository. The current Transmission Agent is listed on Exhibit A attached hereto.

SECTION 3. Provision of Annual Reports.

(a) The City shall, not later than 365 days after the end of each fiscal year, provide, or cause the Dissemination Agent to 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 January 18, 2006 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.

If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year.

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, or shall cause the Dissemination Agent to clearly identify, each such other document so incorporated by reference.

SECTION 5. Reporting of Material Events.

(a) The City shall give notice, or shall cause the Dissemination Agent to 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 of the Bonds or any portion thereof.
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, or cause the Dissemination Agent to file a notice, of such occurrence with the Municipal Securities Rulemaking Board and the State Depository, if any.

SECTION 6. Alternative Methods for Reporting. The City may satisfy, or may cause the Dissemination Agent to satisfy, its obligations to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the SEC, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

SECTION 7. 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 8. 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. The City will give notice, or will cause the Dissemination Agent to give notice, of the change in the accounting principles to each Repository.

SECTION 9. 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 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: _____, 2006

CITY OF BOSTON, MASSACHUSETTS

By _____
Collector-Treasurer and Chief Financial Officer

Mayor

City Auditor

[EXHIBIT A – LIST OF NATIONAL REPOSITORIES AND TRANSMISSION AGENT]

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

BOS111 10164982.2