

**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**

**\$100,000,000  
GENERAL OBLIGATION BONDS  
2007 SERIES A**

**Dated: Date of Delivery**  
**Due: March 1, as shown on the inside cover hereof**

**\$85,425,000  
GENERAL OBLIGATION BONDS  
2007 SERIES B**

**Dated: Date of Delivery**  
**Due: March 1, as shown on the inside cover hereof**

The City of Boston, Massachusetts \$100,000,000 General Obligation Bonds, 2007 Series A (the "Series A Bonds") and the \$85,425,000 General Obligation Bonds, 2007 Series B (the "Series B Bonds," and, together with the Series A Bonds, the "Bonds") will be issued by means of a book entry system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company and its participants. Details of payment of the Bonds are set forth in this Official Statement and the Official Notice of Sale for the Bonds dated March 1, 2007 (the "Official Notice of Sale"). Interest on the Bonds will be payable on September 1, 2007 and semiannually on each March 1 and September 1 thereafter until maturity or redemption prior to maturity. The Bonds will be subject to redemption as more fully described herein under "The Bonds—Redemption Prior to Maturity."

**The Series A Bonds will be issued for the purpose of funding various capital projects, as more fully described in Appendix B hereto. The Series B Bonds will be issued for the purpose of advance refunding certain outstanding general obligation bonds of the City as more fully described herein under "Plan of Refunding." The Bonds will be valid general obligations of the City for the payment of the principal of and interest on which all taxable property in the City is subject to the levy of ad valorem taxes without limit as to rate or amount as more fully described herein under "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. The Bank of New York Trust Company, N.A., 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 March 22, 2007.

March 7, 2007

† See "Credit Ratings."

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# CITY OF BOSTON, MASSACHUSETTS

## \$100,000,000 GENERAL OBLIGATION BONDS 2007 SERIES A

Dated: Date of Delivery

Due: March 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>
2008	\$5,625,000	4.000%	3.549%	100853BW9	2018	\$3,835,000	5.000%	3.740%	100853CG3*
2009	5,585,000	4.500	3.500	100853BX7	2019	4,030,000	5.000	3.760	100853CH1*
2010	5,835,000	5.000	3.560	100853BY5	2020	4,230,000	5.000	3.780	100853CJ7*
2011	6,130,000	4.000	3.490	100853BZ2	2021	4,440,000	5.000	3.800	100853CK4*
2012	6,375,000	4.000	3.510	100853CA6	2022	4,665,000	5.000	3.830	100853CL2*
2013	5,030,000	4.250	3.570	100853CB4	2023	3,985,000	5.000	3.840	100853CM0*
2014	5,245,000	4.250	3.610	100853CC2	2024	4,180,000	4.000	4.160	100853CN8
2015	5,470,000	5.000	3.690	100853CD0	2025	4,350,000	4.125	4.180	100853CP3
2016	5,740,000	5.000	3.730	100853CE8	2026	4,530,000	3.500	4.270	100853CQ1†
2017	6,030,000	5.000	3.710	100853CF5	2027	4,690,000	3.500	4.290	100853CR9†

\* Priced to the March 1, 2017 optional redemption date. See “The Bonds—Redemption Prior to Maturity—Optional Redemption.”

† The scheduled payment of the principal of and interest on the Series A Bonds maturing in the years 2026 and 2027, when due, will be insured by Financial Guaranty Insurance Company, as more fully described under “Bond Insurance.”

## \$85,425,000 GENERAL OBLIGATION BONDS 2007 SERIES B

Dated: Date of Delivery

Due: March 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>
2008	\$395,000	3.500%	3.490%	100853CS7	2016	\$ 7,295,000	5.000%	3.690%	100853DA5
2009	310,000	3.500	3.490	100853CT5	2017	15,500,000	5.000	3.740	100853DB3
2010	320,000	3.500	3.490	100853CU2	2018	10,545,000	5.000	3.790	100853DC1**
2011	330,000	3.500	3.490	100853CV0	2019	8,135,000	5.000	3.830	100853DD9**
2012	340,000	3.500	3.510	100853CW8	2020	8,150,000	5.000	3.850	100853DE7**
2013	355,000	4.000	3.560	100853CX6	2021	14,730,000	5.000	3.880	100853DF4**
2014	365,000	4.000	3.590	100853CY4	2022	11,105,000	0.125	4.250	100853DG2††
2015	385,000	4.000	3.630	100853CZ1	2023	7,165,000	3.000	4.240	100853DH0††

\*\* Priced to the March 1, 2017 optional redemption date. See “The Bonds—Redemption Prior to Maturity—Optional Redemption.”

†† The scheduled payment of the principal of and interest on the Series B Bonds maturing in the years 2022 and 2023, when due, will be insured by MBIA Insurance Corporation, as more fully described under “Bond Insurance.”

No dealer, broker, salesperson or other person has been authorized by the City of Boston or the underwriter 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 underwriter 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.

**Table of Contents**

<b>INTRODUCTION.....</b>	<b>1</b>	<b>APPENDIX A—INFORMATION STATEMENT OF THE</b>	
<b>THE CITY.....</b>	<b>1</b>	CITY OF BOSTON .....	A-1
<b>AUTHORIZATIONS AND PURPOSES.....</b>	<b>1</b>	EXHIBIT I—REPORT OF CERTIFIED PUBLIC	
<b>SECURITY FOR THE BONDS .....</b>	<b>2</b>	ACCOUNTANTS: AUDITED FINANCIAL	
<b>THE BONDS.....</b>	<b>3</b>	STATEMENTS FOR THE YEAR ENDED JUNE 30,	
DESCRIPTION .....	3	2006 .....	A-I
REDEMPTION PRIOR TO MATURITY .....	3	EXHIBIT II—COMPARATIVE BALANCE SHEETS AND	
BOOK-ENTRY-ONLY SYSTEM .....	4	STATEMENTS OF REVENUES,EXPENDITURES,	
<b>BOND INSURANCE .....</b>	<b>5</b>	OPERATING TRANSFERS AND FUND EQUITY FOR	
FINANCIAL GUARANTY INSURANCE COMPANY.....	5	FISCAL YEARS ENDED JUNE 30, 2006, 2005,	
MBIA INSURANCE CORPORATION .....	5	2004, 2003, AND 2002 .....	A-II
<b>PLAN OF REFUNDING .....</b>	<b>6</b>	EXHIBIT III— CITY OF BOSTON—SELECTED DEMO-	
VERIFICATION OF MATHEMATICAL ACCURACY .....	6	GRAPHIC AND ECONOMIC INFORMATION .....	A-III
<b>SCHEDULE OF DEBT SERVICE PAYMENTS.....</b>	<b>7</b>	<b>APPENDIX B—AUTHORIZATIONS AND PURPOSES .....</b>	<b>B-1</b>
RATE OF PRINCIPAL RETIREMENT .....	7	<b>APPENDIX C—PROPOSED FORM OF OPINION OF</b>	
<b>LITIGATION .....</b>	<b>8</b>	BOND COUNSEL .....	C-1
<b>TAX EXEMPTION.....</b>	<b>8</b>	<b>APPENDIX D—PROPOSED FORM OF CONTINUING</b>	
<b>CREDIT RATINGS.....</b>	<b>9</b>	DISCLOSURE CERTIFICATE.....	D-1
<b>COMPETITIVE SALE OF BONDS.....</b>	<b>9</b>	<b>APPENDIX E—BOND INSURANCE—SERIES A</b>	
<b>LEGAL MATTERS.....</b>	<b>9</b>	INSURED BONDS.....	E-1
<b>INDEPENDENT AUDITORS .....</b>	<b>10</b>	<b>APPENDIX F—SPECIMEN FORM OF FGIC BOND</b>	
<b>FINANCIAL ADVISOR.....</b>	<b>10</b>	INSURANCE POLICY.....	F-1
<b>CONTINUING DISCLOSURE .....</b>	<b>10</b>	<b>APPENDIX G— BOND INSURANCE—SERIES B</b>	
<b>MISCELLANEOUS.....</b>	<b>10</b>	INSURED BONDS .....	G-1
		<b>APPENDIX H—SPECIMEN FORM OF MBIA BOND</b>	
		INSURANCE POLICY.....	H-1

**New Hampshire Residents:**

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

**OFFICIAL STATEMENT**  
*of the*  
**CITY OF BOSTON, MASSACHUSETTS**  
*relating to*  
**\$100,000,000**  
**GENERAL OBLIGATION BONDS, 2007 SERIES A**  
*and*  
**\$85,425,000**  
**GENERAL OBLIGATION BONDS, 2007 SERIES B**

**INTRODUCTION**

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the “City”), and the \$100,000,000 General Obligation Bonds, 2007 Series A (the “Series A Bonds”) and the \$85,425,000 General Obligation Bonds, 2007 Series B (the “Series B Bonds,” and, together with the Series A Bonds, the “Bonds”), to be issued by the City as described herein. Certain credit factors concerning the Bonds are described throughout this Official Statement, which should be read in its entirety. This Official Statement speaks only as of its date and the information contained herein is subject to change after this date.

The Bonds will be general obligations of the City, for the payment of the principal of and interest on which the full faith and credit of the City will be pledged. The Bonds are payable from ad valorem taxes which may be levied on all taxable property in the City without limit as to rate or amount as more fully described under “Security for the Bonds,” below. The proceeds of the Series A 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 proceeds of the Series B Bonds will be used for the purpose of advance refunding certain general obligation bonds of the City as more fully described under “Plan of Refunding,” 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 A—Exhibit III— City of Boston—Selected Demographic and Economic Information.”

**AUTHORIZATIONS AND PURPOSES**

The Series A 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 B—Authorizations and Purposes.” The proceeds of the Series B Bonds will be used for the purpose of advance refunding certain general obligation bonds of the City as more fully described under “Plan of Refunding,” below.

## 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 March 1, 2007 was \$106.8 million of the City’s Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A, and \$108.0 million of the City’s Special Obligation Refunding Bonds, Boston City Hospital Issue. 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 March 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 September 1, 2007 and semiannually thereafter on each March 1 and September 1, provided that if such day is not a business day, interest will be payable on the next business day.

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

The Bank of New York Trust Company, N.A., New York, New York, will act as paying agent for the Bonds (the "Paying Agent").

### **Redemption Prior To Maturity**

#### *Optional Redemption*

The Bonds of each series maturing on or before March 1, 2017 will not be subject to redemption prior to maturity. The Bonds of each series maturing on and after March 1, 2018 will be subject to redemption prior to maturity at the option of the City, on or after March 1, 2017, as a whole or in part at any time, in such order of maturity as the City may determine and by lot within each maturity as selected by DTC and its participants, at a redemption price equal to the principal amount of 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. If on the redemption date monies are available for the redemption of the Bonds or portions thereof to be redeemed, together with interest accrued to the redemption date, then interest on such Bonds or portions thereof shall thereafter cease to accrue.

### **Book-Entry-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 each series of the Bonds, each in the aggregate principal amount of that maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 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 such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

## **BOND INSURANCE**

### **Financial Guaranty Insurance Company**

The scheduled payment of principal of and interest on the Series A Bonds maturing in the years 2026 and 2027 (the "Series A Insured Bonds"), when due, will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the Series A Bonds by Financial Guaranty Insurance Company ("FGIC"). Information concerning FGIC and its policy has been furnished by FGIC and is included in Appendix E. The City has not made any independent investigation of FGIC or its policy, and reference should be made to Appendix E for a description thereof and to Appendix F for the specimen form of the policy. The original purchasers of the Series A Insured Bonds will pay the premium for the policy.

### **MBIA Insurance Corporation**

The scheduled payment of principal of and interest on the Series B Bonds maturing in the years 2022 and 2023 (the "Series B Insured Bonds"), when due, will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the Series B Bonds by MBIA Insurance Corporation ("MBIA"). Information concerning MBIA and its policy has been furnished by MBIA and is included in Appendix G. The City has not made any independent investigation of MBIA or its policy, and reference should be made to Appendix G for a description thereof and to Appendix H for the specimen form of the policy. The original purchasers of the Series B Insured Bonds will pay the premium for the policy.

## PLAN OF REFUNDING

The Series B Bonds are being issued to advance refund certain outstanding general obligation bonds of the City (collectively, the “Refunded Bonds”) at par, as described below:

<u>Bond Series</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount to be Refunded</u>	<u>Call Date</u>
1998 Series A	01/01/2016*	4.500%	\$2,605,000	01/01/2008
	01/01/2017*	4.500	2,605,000	01/01/2008
	01/01/2018*	4.500	2,610,000	01/01/2008
1998 Series C	11/01/2016	4.500	4,645,000	11/01/2008
2001 Series A	02/01/2016	4.800	4,655,000	02/01/2011
	02/01/2017	4.900	4,095,000	02/01/2011
	02/01/2018	5.000	4,095,000	02/01/2011
	02/01/2019	5.000	4,095,000	02/01/2011
	02/01/2020	5.000	4,095,000	02/01/2011
	02/01/2021	5.000	4,095,000	02/01/2011
2002 Series A	02/01/2017	5.000	4,500,000	02/01/2012
	02/01/2018	5.000	3,765,000	02/01/2012
	02/01/2019	5.000	3,765,000	02/01/2012
	02/01/2020	5.000	3,765,000	02/01/2012
	02/01/2021	5.000	3,765,000	02/01/2012
	02/01/2022	5.000	3,765,000	02/01/2012
2003 Series A	02/01/2021	5.000	6,560,000	02/01/2013
	02/01/2022	5.000	6,805,000	02/01/2013
	02/01/2023	5.000	7,070,000	02/01/2013

\* Sinking fund installments of term bond due January 1, 2018

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

### Verification of Mathematical Accuracy

Robert Thomas CPA, LLC, will verify from information provided to them the mathematical accuracy as of the date of the closing on the Series B Bonds of (i) the computation contained in the provided schedules to determine that the anticipated receipts from the Government Obligations and cash deposits, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium requirements, if any, of the Refunded Bonds, and (ii) the computation of yield on the Government Obligations contained in the provided schedules used by Bond Counsel in its determination that the interest on the Series B Bonds is excluded from gross income for federal income tax purposes. Robert Thomas CPA, LLC will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

## 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 March 1, 2007, the gross debt service requirements on the Series A and Series B Bonds, the portion of such gross debt service requirements related to the Refunded Bonds to be paid from the Refunding Escrow Fund, and the resulting net gross debt service requirements on the general obligation bonds of the City following the issuance of the Bonds of each series.

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

Fiscal	Bonds Outstanding As of March 1, 2007 <sup>(1)</sup>		The Series A Bonds		The Series B Bonds		The Refunded Bonds		Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
	\$	\$	\$	\$	\$	\$	\$	\$	
2007	5,135	1,559	—	—	—	—	—	(105)	6,589
2008	78,052	35,427	5,625	4,233	395	3,343	—	(3,992)	123,083
2009	75,943	31,788	5,585	4,271	310	3,536	—	(3,992)	117,441
2010	72,314	28,586	5,835	4,019	320	3,525	—	(3,992)	110,607
2011	67,120	25,251	6,130	3,727	330	3,514	—	(3,992)	102,080
2012	63,395	22,050	6,375	3,482	340	3,503	—	(3,992)	95,154
2013	58,895	19,038	5,030	3,227	355	3,491	—	(3,992)	86,044
2014	52,275	16,279	5,245	3,014	365	3,477	—	(3,992)	76,663
2015	47,795	13,733	5,470	2,791	385	3,462	—	(3,992)	69,644
2016	43,455	11,476	5,740	2,517	7,295	3,447	(7,260)	(3,992)	62,678
2017	39,215	9,360	6,030	2,230	15,500	3,082	(15,845)	(3,547)	56,025
2018	36,360	7,550	3,835	1,929	10,545	2,307	(10,470)	(2,899)	49,157
2019	32,490	5,872	4,030	1,737	8,135	1,779	(7,860)	(2,389)	43,794
2020	27,600	4,462	4,230	1,535	8,150	1,373	(7,860)	(1,996)	37,494
2021	22,780	3,208	4,440	1,324	14,730	965	(14,420)	(1,603)	31,424
2022	18,325	2,150	4,665	1,102	11,105	229	(10,570)	(882)	26,124
2023	14,825	1,308	3,985	869	7,165	215	(7,070)	(354)	20,943
2024	7,755	638	4,180	669	—	—	—	—	13,242
2025	5,185	318	4,350	502	—	—	—	—	10,355
2026	2,525	107	4,530	323	—	—	—	—	7,485
2027	—	—	4,690	164	—	—	—	—	4,854
Totals	<u>\$771,439</u>	<u>\$240,160</u>	<u>\$100,000</u>	<u>\$43,665</u>	<u>\$85,425</u>	<u>\$41,248</u>	<u>\$(81,355)</u>	<u>\$(49,703)</u>	<u>\$1,150,880</u>

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

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

Source: City of Boston Auditing Department

### Rate of Principal Retirement

The City will retire the following amounts of 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 of each series, and then subsequent to the issuance of the Bonds of each series:

Term of Retirement	Debt Outstanding as of March 1, 2007 to be retired (in thousands)	Percentage of Debt Outstanding as of March 1, 2007 to be retired	Debt Outstanding After Issuance of the Bonds to be retired (in thousands)	Percentage of Debt Outstanding After Issuance of the Bonds to be retired
Fiscal 2007-2012	\$361,959	46.9%	\$393,204	44.9%
Fiscal 2013-2017	241,635	31.3	269,945	30.8
Fiscal 2018-2022	137,555	17.9	160,240	18.3
Fiscal 2023-2027	<u>30,290</u>	<u>3.9</u>	<u>52,120</u>	<u>6.0</u>
Total	<u>\$771,439</u>	<u>100.0%</u>	<u>\$875,509</u>	<u>100.0%</u>

Source: City of Boston Auditing Department

## **LITIGATION**

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

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

## **TAX 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 are 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. Fitch, Moody's, and Standard & Poor's have also assigned ratings of "AAA," "Aaa," and "AAA," respectively, to the Insured Bonds, and have done so with the understanding that, upon delivery of such Insured Bonds, FGIC and MBIA will issue their financial guaranty insurance policies guaranteeing the regularly scheduled payments of principal and interest when due on the Insured Bonds. See "Bond Insurance" herein, and Appendices E and F with respect to the Series A Insured Bonds, and Appendices G and H with respect to the Series B Insured Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the Bonds.

### **COMPETITIVE SALE OF BONDS**

The Bonds were offered for sale by the City on March 7, 2007, in accordance with the Official Notice of Sale dated March 1, 2007 (the "Official Notice of Sale").

Morgan Stanley & Co. Inc. ("Morgan Stanley") was the successful bidder for the Series A Bonds. Information provided by Morgan Stanley regarding the interest rates and reoffering yields of the Series A Bonds is set forth on the inside cover of this Official Statement. The Series A Bonds are being purchased from the City by Morgan Stanley at an aggregate price of \$103,941,209, reflecting the principal amount of \$100,000,000, plus net original issue premium of \$4,123,921.50, less underwriters' discount of \$182,712.50.

Goldman, Sachs & Co. ("Goldman Sachs") was the successful bidder for the Series B Bonds. Information provided by Goldman Sachs regarding the interest rates and reoffering yields of the Series B Bonds is set forth on the inside cover of this Official Statement. The Series B Bonds are being purchased from the City by Goldman Sachs at an aggregate price of \$85,348,853.53, reflecting the principal amount of \$85,425,000, plus net original issue premium of \$254,059.85, less underwriters' discount of \$330,206.32.

Morgan Stanley and Goldman Sachs, and any of their respective associates underwriting the Bonds, may offer to sell the Bonds to certain dealers and others at prices other than the initial public offering prices, and the public offering prices may be changed from time to time by the underwriters.

### **LEGAL MATTERS**

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



CITY OF  
BOSTON, MASSACHUSETTS



INFORMATION STATEMENT  
Dated March 1, 2007

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.

#### TABLE OF CONTENTS

<b>THE CITY</b> .....	<b>1</b>	<b>CITY INDEBTEDNESS</b> .....	<b>28</b>
ORGANIZATION OF CITY GOVERNMENT .....	1	CLASSIFICATION OF CITY DEBT.....	28
PRINCIPAL GOVERNMENT SERVICES.....	7	GENERAL OBLIGATION DEBT .....	28
EMPLOYEE RELATIONS .....	9	DEBT SERVICE REQUIREMENTS .....	31
<b>FINANCIAL OPERATIONS</b> .....	<b>11</b>	SPECIAL OBLIGATION DEBT.....	32
BUDGET PROCESS.....	11	DEBT OF AGENCIES RELATED TO THE CITY .....	33
SUMMARY AND COMPARISON OF OPERATING RESULTS		MAJOR CONTRACTUAL OBLIGATIONS .....	35
(BUDGETARY BASIS)—FISCAL 2003-2007.....	12	CAPITAL PLANNING AND BORROWING PROGRAM .....	35
FISCAL 2003-2006 ACTUAL RESULTS .....	13	<b>EMPLOYEE BENEFITS</b> .....	<b>36</b>
FISCAL 2007 BUDGET.....	14	RETIREMENT SYSTEMS .....	36
FINANCIAL STATEMENTS .....	15	OTHER POST EMPLOYMENT BENEFITS .....	38
SUMMARY AND COMPARISON OF OPERATING RESULTS		<b>AVAILABILITY OF OTHER INFORMATION</b> .....	<b>38</b>
(GAAP BASIS)—FISCAL 2002-2006.....	15	<b>EXHIBIT I</b> —REPORT OF CERTIFIED PUBLIC	
CASH FLOWS .....	18	ACCOUNTANTS: AUDITED FINANCIAL	
FINANCIAL ADMINISTRATION .....	18	STATEMENTS FOR THE YEAR ENDED	
<b>CITY REVENUES</b> .....	<b>20</b>	JUNE 30, 2006 .....	A-I
PROPERTY TAXES .....	20	<b>EXHIBIT II</b> —COMPARATIVE BALANCE SHEETS AND	
STATE AID .....	25	STATEMENTS OF REVENUES, EXPENDITURES,	
EXCISE REVENUES.....	26	OPERATING TRANSFERS AND FUND EQUITY FOR	
DEPARTMENTAL REVENUES.....	27	FISCAL YEARS ENDED JUNE 30, 2006, 2005,	
OTHER.....	27	2004, 2003, AND 2002 .....	A-II
GRANTS .....	27	<b>EXHIBIT III</b> — CITY OF BOSTON—SELECTED DEMO-	
		GRAPHIC AND ECONOMIC INFORMATION .....	A-III

## 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. James M. Kelly, City Councilor for District 2, died on January 9, 2007. A preliminary vote to fill this vacancy on the City Council is scheduled for April 17, 2007. A final vote is scheduled for May 15, 2007.

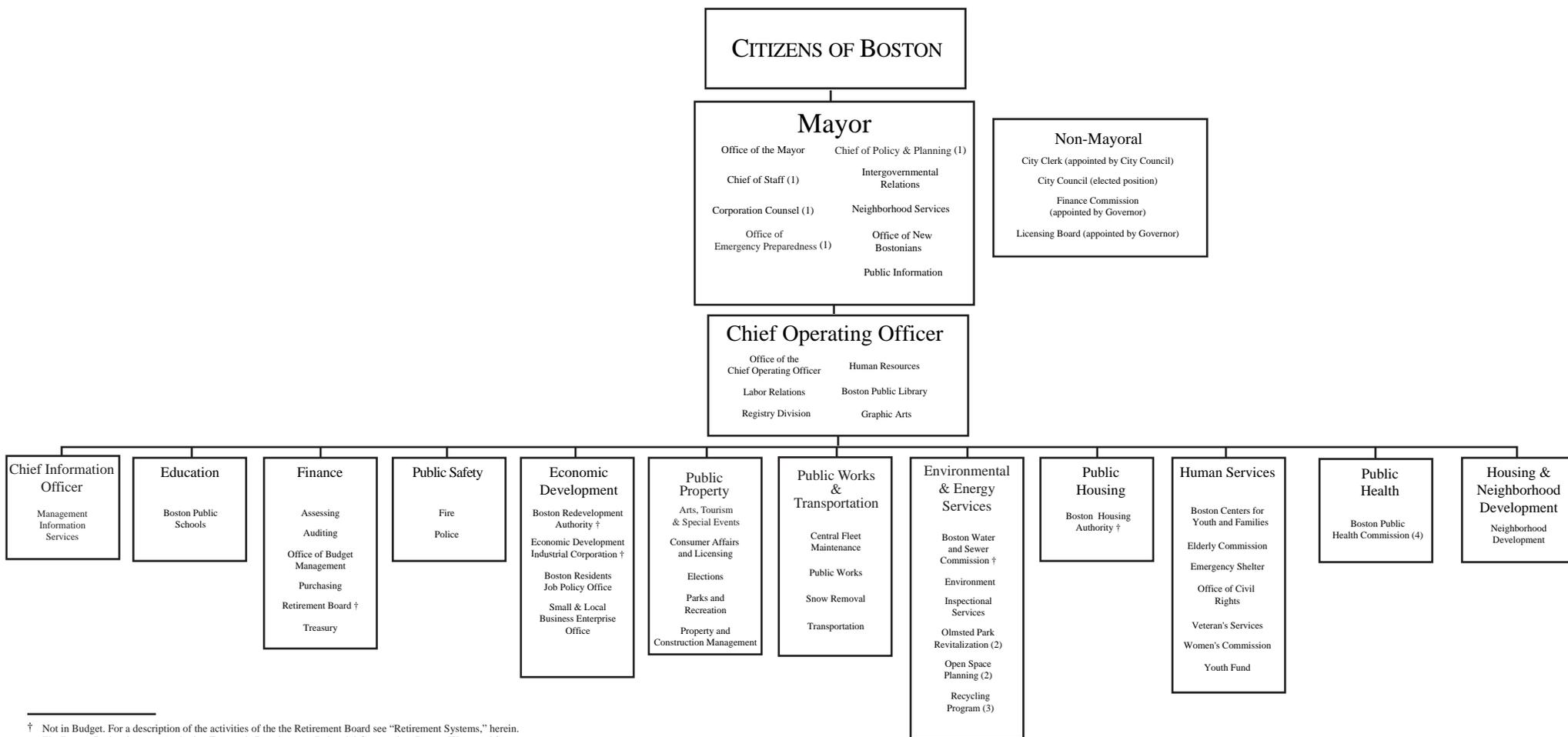
Maureen E. Feeney (President) .....	District 3
Felix D. Arroyo .....	At Large
Michael F. Flaherty, Jr. ....	At Large
Stephen J. Murphy .....	At Large
S.H. Samuel Yoon.....	At Large
Salavatore J. LaMattina.....	District 1
(Vacant).....	District 2
Charles C. Yancey.....	District 4
Robert J. Consalvo .....	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 "The City—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*

Judith Kurland was appointed Chief of Staff by Mayor Menino in September 2006. Prior to her appointment Ms. Kurland served as a Senior Consultant to DCABoston, a management consulting firm dedicated to social progress and community change. Previously, Ms. Kurland had served as Regional Director of the United States Department of Health and Human Services, and as Commissioner of the City's former Department of Health and Hospitals. 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.

#### *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. Mr. DiMarzio recently announced his retirement effective April 2007.

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 Registry Division, 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 Information Officer*

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

#### *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 retired as Chief Economic Development Officer and Director of the Boston Redevelopment Authority (the “BRA”) in January 2007. Assistant Director Paul L. McCann is currently serving as Acting Chief Economic Development Officer and Director of the BRA. A search is currently underway for Mr. Maloney’s successor. The Chief Economic Development Officer is responsible for planning, zoning, and economic development for the City. The Economic Development Cabinet is comprised of the BRA, the Economic Development and Industrial Corporation (“EDIC”), including the EDIC’s office of Jobs and Community Services, the Office of Small and Local Business Enterprises, and the Office of Boston Residents Job Policy.

### *Chief of Education*

Thomas W. Payzant, who served as Superintendent of the Boston Public Schools for eleven years, retired from the position in June 2006. Michael G. Contompasis, former Chief Operating Officer of the Boston Public Schools, has been appointed by the Boston School Committee to serve as Superintendent until the search for Dr. Payzant’s successor has been completed. The Education Cabinet is responsible for managing the Boston Public Schools. Among the Education Cabinet’s responsibilities is the development of a plan for schools and other City and non-City agencies to develop cooperative programs to guarantee that the best possible resources are available to Boston’s children. For a description of the student population, staffing, curricula, and governance of the Boston Public Schools, see “The City—Principal Government Services—Schools” below.

### *Chiefs of Public Safety*

Edward F. Davis, III, the City’s Police Commissioner, and Roderick J. Fraser, Jr., the City’s Fire Commissioner, are the Chiefs of the Public Safety Cabinet. Commissioner Davis, a veteran with more than 29 years of law enforcement experience, was appointed Police Commissioner by Mayor Menino in October 2006. Commissioner Fraser, a 20-year Navy veteran finishing as the Commanding Officer of the USS Underwood, and who had also served as Director of Engineering, Damage Control and Firefighting Training at the Surface Warfare Officers School Command in Newport, Rhode Island, was appointed Fire Commissioner by Mayor Menino in September 2006. The City’s Police and Fire Departments provide and promote public safety and protection services, firefighting and fire prevention services. For a description of Police and Fire Department resources and personnel see “The City—Principal Governmental Services—Public Safety” below.

### *Director of the Office of Emergency Preparedness*

Cynthia Chang was appointed Acting Director of the City's Office of Emergency Preparedness by Mayor Menino in October 2006. Prior to her appointment Ms. Chang served as Assistant Director. Previously Ms. Chang worked as a Research Associate at Harvard University's Global Equity Initiative and as a Program Associate at the Structured Employment Economic Development Corporation (SEEDCO). The Office of Emergency Preparedness is responsible for obtaining, allocating and managing state and federal funds designated for Emergency Preparedness initiatives, and to facilitate communication and cooperation across towns and cities in specific disciplines, such as law enforcement, fire service, emergency management, emergency medical services, public health, healthcare, and government administration.

### *Chief of 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 Public Property*

Michael Galvin was appointed Chief of Public Property 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 Public Property Cabinet consists of the Parks and Recreation Department, the Election Department, the Office of Arts, Tourism and Special Events, the Office of Consumer Affairs and Licensing, and the Property and Construction Management Department, of which Mr. Galvin is Commissioner and Director of Public Facilities, and which includes Capital Construction, the Animal Control Unit, and Building Maintenance and Systems. The Cabinet's charge includes investigating opportunities to apply technological innovations to reduce costs or improve the delivery of basic services.

### *Chief of Environmental and Energy Services*

James W. Hunt, III, was appointed Chief of Environmental and Energy Services in March 2005. Prior to his appointment, Mr. Hunt served as Assistant Secretary for the Commonwealth's Executive Office of Environmental Affairs and was responsible for administering the Massachusetts Environmental Policy Act. The Chief of Environmental and Energy Services is responsible for environmental and energy policies for the City and serves as chair of the City's Energy Management Board. The Environmental and Energy Services Cabinet is comprised of the Environment Department, Inspectional Services Department, the Park's Department Open Space Planning, Olmsted Park Revitalization, 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.

### *Corporation Counsel*

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

### *Chief of Public Works and Transportation*

Dennis Royer was appointed Chief of Public Works and Transportation in July 2006. Prior to his appointment Mr. Royer served as Deputy Manager of Operations for the Public Works Department of Denver, Colorado. The Public Works and Transportation Cabinet includes the Public Works Department, the Transportation Department, Central Fleet Maintenance and Snow Removal. 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 2007 appropriations and full-time equivalent City employees by primary government functions and departments.

**Purposes of City Appropriations—Fiscal 2007 <sup>(1)</sup>  
(Budgetary Accounting Basis) <sup>(2)</sup>  
(\$ in thousands)**

	<u>Amount</u>	<u>Percent of Total Appropriations</u>
General Government .....	\$ 64,506	3.0%
Public Safety <sup>(3)</sup> .....	453,568	21.1
Public Works .....	101,910	4.8
Property and Development <sup>(3)</sup> .....	31,476	1.5
Parks and Recreation .....	15,995	0.8
Library .....	28,448	1.3
Human Services .....	25,659	1.2
Schools .....	734,500	34.2
Boston Public Health Commission .....	63,571	3.0
Judgments and Claims .....	3,500	0.2
Employee Benefits .....	176,196	8.2
Current Period Retirement Contributions .....	197,626	9.2
Debt Requirements .....	119,341	5.5
State and District Assessments .....	<u>129,435</u>	<u>6.0</u>
<b>Total</b> .....	<b><u>\$2,145,731</u></b>	<b><u>100.0%</u></b>

- (1) Represents the fiscal 2007 Tax Rate budget as of December 2006.
  - (2) See “Financial Operations – Operating Budgets” for a definition of budgetary accounting basis.
  - (3) Includes Supplemental Appropriation of \$3.65 million approved after 2007 Tax Rate Budget.
- Source: City of Boston Auditing Department and Office of Budget Management.

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>
<i>City Funded:</i>			
Public Safety <sup>(2)</sup> .....	4,393	4,451	4,421
Public Works .....	409	424	415
Other City Departments <sup>(3)</sup> .....	2,762	2,739	2,772
Boston Public Health Commission <sup>(4)</sup> .....	<u>728</u>	<u>743</u>	<u>738</u>
Subtotal .....	<u>8,292</u>	<u>8,357</u>	<u>8,346</u>
Schools .....	<u>7,792</u>	<u>8,009</u>	<u>8,087</u>
Total City Funded .....	<u>16,084</u>	<u>16,366</u>	<u>16,433</u>
<i>Grant Funded:</i>			
Schools .....	866	924	954
All Others <sup>(5)</sup> .....	<u>1,468</u>	<u>1,449</u>	<u>1,491</u>
Total .....	<u>18,418</u>	<u>18,739</u>	<u>18,878</u>

- (1) All data are as of January 1 in the year stated. The methodology used in compiling these data was established jointly by the City and the Boston Municipal Research Bureau.
  - (2) Public Safety includes both the Police Department and the Fire Department.
  - (3) Includes State-Boston Retirement System employees.
  - (4) Boston Public Health Commission employees are funded by the City, but are not employees of the City.
  - (5) Does not include employees funded by 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 57,954 students for the 2005-2006 school year, a decrease of approximately 284 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 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. See "Director of the Office of Emergency Preparedness," above.

#### *Public Health*

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

#### *Public Works*

The Public Works Department constructs and maintains highways, sidewalks, street lighting and bridges, and oversees snow removal, street cleaning, refuse removal and recycling. The 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 \$41.5 million in fiscal 2006. The estimated cost of these contracts in fiscal 2007 equals approximately \$43.3 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 2007) of the state-approved operating budget for the Sheriff's Office. The City's fiscal 2007 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> <sup>(1)</sup>	<u>Contract Expiration Date</u>
Boston Patrolmen's Association	Police	1,454	6/30/06
Boston Police Superior Officers	Police	266	6/30/06
Boston Police Detectives Benevolent Society	Police	225	6/30/06
Superior Detective Benevolent Society	Police	100	6/30/06
Police Cadet Association	Police	31	9/30/06
School Traffic Supervisors Assoc.	Police	207	11/30/06
International Association of Firefighters, Local 718	Fire	1,529	6/30/06
Municipal Police Patrolmen's Association	Property & Construction Mgmt	103	6/30/07
Municipal Police Superior Officers Association	Property & Construction Mgmt	21	6/30/07
SEIU, Local 888	Citywide	1,159	9/30/06
SENA, Locals 9158 and 9158E	Citywide	654	6/30/06
AFSCME C93 (Citywide & various locals)	Citywide	1,190	6/30/06
AFSCME Local 1526	Library	279	9/30/06
Professional Staff Association (BPL)	Library	146	9/30/06
Graphic Arts Unions	Graphic Arts and Police	24	9/30/07
OPEIU AFL-CIO L16 (Housing Inspectors)	Inspectional Services	26	6/30/07
Other City Unions	Inspectional Services and Property & Construction Mgmt	18	6/30/06
Boston Teachers Union	School	7,591	8/31/06
BASAS (School Administrators & Supervisors)	School	291	8/31/06
SEIU Local 888	School	501	11/30/06
Boston School Police	School	55	8/31/06
School Police Superior Officers Assoc.	School	23	6/30/06
School Custodians Local 1952, Painters & Allied Trades District Council #35	School	513	8/31/08
Plant Administrators Association	School	13	8/31/08
School Bus Monitors USWA Local 8751	School	384	6/30/07
Lunch Hour Monitors Association	School	346	8/31/07
AFSCME C93, Local 230 Cafeteria Workers	School	427	8/31/06
AFSCME C93, Storekeepers & Deliverymen	School	<u>18</u>	8/31/06
		17,594	

(1) Number of members (not Full-Time Equivalents) as of January 1, 2006.

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

The majority of collective bargaining agreements between the City and the unions either expired on June 30, 2006 or during the first quarter of fiscal year 2007. The City offered a one-year contract to all unions in the fall of 2006 that included a 2% general wage increase and a lump sum payment. The City's intent was to have one-year contracts in place while it negotiated a multi-year agreement that included general wage increases as well as changes in employee health insurance premium contributions. Five small unions representing approximately 150 employees accepted the one-year proposal. Although the majority of the collective bargaining agreements have expired, all unionized employees continue to work under the preexisting contracts. As such, the City does not anticipate any disruption in municipal services. The City continues to meet with all of the unions in an effort to negotiate contracts.

## 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 2007 were approved by the City Council on June 28, 2006. See “Financial Operations—Fiscal 2007 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 2007 portion of the Five-Year Capital Plan were submitted to the City Council on April 12, 2006, and were approved by the City Council on June 28, 2006.

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 2006, Mayor Menino released the fiscal 2007-2011 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 2003-2007**

The table below shows the City's legally adopted General Fund budget for fiscal 2007, together with budgetary actual results for fiscal 2003 through 2006. 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 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 2007 Budget**  
**Compared to Fiscal 2003, Fiscal 2004, Fiscal 2005 and Fiscal 2006 Actual Results**  
**General Fund—Budgetary Basis**  
(\$ in millions)\*

	Fiscal 2003 Actual Results	Fiscal 2004 Actual Results	Fiscal 2005 Actual Results	Fiscal 2006 Actual Results	Fiscal 2007 Budget <sup>(1)</sup>
Revenues:					
Recurring Revenue					
Property Taxes	\$ 1,035.9	\$ 1,094.1	\$ 1,150.6	\$ 1,208.2	\$ 1,270.3
Overlay Reserve <sup>(2)</sup>	(39.8)	(42.1)	(44.3)	(40.8)	(46.6)
Excises	83.1	59.6	82.5	89.7	75.7
Fines	59.0	66.7	65.6	68.0	66.2
Interest on Investments	8.6	7.8	17.8	30.0	24.0
Payments in Lieu of Taxes	22.1	22.3	23.4	32.1	27.3
Urban Redevelopment					
Chapter 121A	54.1	54.8	54.9	65.1	54.6
Misc. Department Revenue	45.6	40.8	43.1	44.5	33.4
Licenses and Permits	30.1	34.8	33.8	38.8	31.3
Penalties & Interest	9.2	9.8	9.8	9.2	8.1
Available Funds	11.8	2.9	5.5	3.1	12.2
State Aid	476.6	459.8	461.1	464.6	487.2
Teachers' Pension					
Reimbursement	53.7	61.4	76.5	85.2	85.2
Total Recurring Revenue	\$ 1,849.9	\$ 1,872.8	\$ 1,980.4	\$ 2,097.6	\$ 2,128.8
Non-Recurring Revenue <sup>(3)</sup>	13.0	20.0	0.0	6.7	17.0
Total Revenues	\$ 1,862.9	\$ 1,892.8	\$ 1,980.4	\$ 2,104.3	\$ 2,145.7
Expenditures:					
Departmental Expenditures					
City Departments	\$ 776.5	\$ 779.4	\$ 849.4	\$ 891.9	\$ 905.5
Boston Public Health					
Commission	63.9	58.8	60.6	61.3	63.6
School Department	650.6	656.5	680.2	717.8	734.5
Collective Bargaining					
Reserve	8.4	21.3	-	-	-
Total Department Expenditures	\$ 1,499.4	\$ 1,516.0	\$ 1,590.1	\$ 1,671.0	\$ 1,703.5
Fixed Costs					
Pensions <sup>(4)</sup>	\$ 134.4	\$ 137.0	\$ 146.6	\$ 186.3	\$ 192.9
Debt Service <sup>(5)</sup>	121.3	123.9	118.4	112.8	119.8
State Assessments	101.1	106.5	111.7	114.3	125.0
Suffolk County Sheriff	4.7	4.6	4.2	4.5	4.4
Reserve	0.2	0.4	1.1	1.5	0.0
Total Fixed Costs	\$ 361.8	\$ 372.4	\$ 381.9	\$ 419.4	\$ 442.2
Total Recurring Expenditures	\$ 1,861.1	\$ 1,888.4	\$ 1,972.1	\$ 2,090.4	\$ 2,145.7
Excess of Revenues Over Expenditures	\$ 1.8	\$ 4.4	\$ 8.3	\$ 13.9	\$ 0.0

\* Columns may not add due to rounding.

- (1) Represents the budget at the time of the approval of the tax rate on December 20, 2006, plus any supplemental appropriations.
- (2) If the City's reserves for abatements prove at the end of the fiscal year to be insufficient to cover abatement liability, the City is required to raise in the following year's tax rate an amount sufficient to generate additional reserves to cover the shortfall. In fiscal 2007, the City has reserved 3.5% of the net levy for abatements.
- (3) Non-recurring revenue in fiscal 2003 and 2007 include proceeds from the Surplus Property Fund (\$13 million and \$5.3 million, respectively) and in 2004, 2006, and 2007 Budgetary Fund Balance (\$20 million, \$6.7 million, and \$11.7 million, respectively).
- (4) Excludes noncontributory pensions and annuities that are included in departmental expenditures. The amount of such non-contributory pensions and annuities equaled \$4.9 million, \$4.9 million, \$4.9 million, and \$4.6 million, respectively in fiscal 2003, 2004, 2005, and 2006. For fiscal 2007, the City of Boston budget includes \$4.7 million for these non-contributory pensions and annuities.
- (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 2002-2006." See "City Indebtedness-Debt Service Requirements."

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

**Fiscal 2003-2006 Actual Results**

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 and 2006, 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 and produce operating surpluses.

### **Fiscal 2007 Budget**

The following is a summary of the City's fiscal 2007 budget on a budgetary accounting basis. The figures cited are from the fiscal 2007 tax rate budget at the time of certification of both the aggregate amount of and the rates of tax for the City's fiscal 2007 property tax levy by the Massachusetts Department of Revenue, plus supplemental appropriations. This certification was completed on December 20, 2006.

#### *Expenditures*

In fiscal 2007, the City's budgeted expenditures total \$2.15 billion including direct expenditures for departmental services and fixed expenses, representing an increase of \$55.3 million or 2.6% from fiscal 2006 actual expenditures. Budgeted fiscal 2007 departmental expenditures compare with actual fiscal 2006 expenditures as follows: City Departments increased \$13.6 million or 4.5%; the Public Health Commission increased \$2.3 million or 3.8%; and the School Department increased \$16.7 million or 2.3%. Budgeted fixed expenses for fiscal 2007 compare with fiscal 2006 actual expenses as follows: Pensions increased \$6.6 million or 3.5%; Debt Service increased \$7.0 million or 6.2%; State Assessments increased \$10.7 million or 8.0%; and City costs for the Office of the Suffolk County Sheriff decreased \$.1 million or 2.2%. 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."

Factors contributing the cost increases in City Departments are salary increases scheduled for fiscal 2007 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 salary and health insurance increases. The increase in pension expenses is mandated by the City's pension funding schedule as approved by the state actuary and is a legal obligation of the City. The City's current pension schedule fully funds the system by the end of fiscal 2023—five years earlier than required by law. 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 2007 equal \$2.15 billion, an increase of \$41.5 million or 2.0% from fiscal 2006 actual revenues. Selected fiscal 2007 budgeted revenues compare with fiscal 2006 actual revenues as follows: the Gross Property Tax Levy (including new growth) increased \$62.1 million or 5.1%; Excises decreased \$14.0 million or 15.6%; Interest on Investments decreased \$6.0 million or 20.1%; Miscellaneous Department Revenue decreased \$11.1 million or 25.0%; Licenses and Permits decreased \$7.4 million or 19.1%; Available Funds from parking meter and cemetery fees increased \$9.1 million or 292.9%; State Aid increased \$22.6 million or 4.9%; and Non-Recurring Revenue increased by \$10.3 million or 153.4%.

The Property Tax, the City's largest source of revenue, has become increasingly important to the City's recent revenue growth given the minimal growth of the City's second largest source of revenue: State Aid. Property tax revenues are expected to increase \$62.1 million or 5.1% in fiscal 2007 after having increased by over \$55 million and more than 5.0% in each of fiscal years 2004, 2005 and 2006. The near-term outlook for the City's property tax levy is one of continued stable growth.

The decrease in Excises is the result of following a baseline projection of expected Motor Vehicle Excise receipts that reverses the fiscal 2006 increase due to the timing of bills combined with a projection

of decreasing Jet Fuel prices from their 2006 peak. The decrease in Fines is based on a reduced projection of parking ticket issuance experienced in the first half of fiscal 2007 after a redeployment of resources to assist with the temporary closing of the I-90 Central Artery Tunnel and other traffic-related concerns. The decrease in Miscellaneous Department Revenue is a conservative estimate based on the possible absence of various unpredictable departmental reimbursements present in fiscal 2006. The decrease in Licenses & Permits is due to expected lower building permit activity associated with a slowing residential real estate market and increasing interest rates. The increase in Available Funds is due to the low amount of Parking Meter receipts actually used in fiscal 2006. The increase in State Aid is due to increases in lottery and school aid.

The increase in Non-Recurring Revenue is due to the \$20 million in Budgetary Fund Balance and \$9.2 million in Surplus Property funds originally budgeted to support the fiscal 2006 budget ultimately not being necessary to fund fiscal 2006 actual expenditures. In addition, fiscal 2007 Budgetary Fund Balance includes a one-time expenditure in fiscal 2007 to support the Boston Housing Authority police. Budgetary Fund Balance is available for appropriation after certification of its value by the Massachusetts Department of Revenue. Fiscal 2007 becomes the third 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 2006 audited financial statements, see Note 2 of such audited financial statements, which are attached hereto as Exhibit I. The City's fiscal 2006 financial statements comply with all relevant GASB 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 2006 audited financial statements, attached hereto as Exhibit I.

Attached hereto as Exhibit II are Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Equity for the fiscal years ended June 30, 2006, 2005, 2004, 2003 and 2002 which have been prepared by the City's Auditing Department based on information taken from the City's audited financial statements for those fiscal years.

### **Summary and Comparison of Operating Results (GAAP Basis)—Fiscal 2002-2006**

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 2002 through 2006 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 2002-2006 (GAAP Basis)  
(\$ in millions)\***

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total revenues .....	\$1,801.3	\$1,794.5	\$1,824.2	\$1,912.7	\$2,108.3
Total expenditures .....	<u>1,735.1</u>	<u>1,739.9</u>	<u>1,758.8</u>	<u>1,895.4</u>	<u>1,987.3</u>
Excess of revenues over expenditures .....	66.2	54.6	65.4	17.3	121.0
Total other financing (uses) sources .....	<u>1.8</u>	<u>34.6</u>	<u>16.5</u>	<u>22.5</u>	<u>(72.6)</u>
Excess of revenues and other financing sources over expenditures and other financing uses.....	<u>67.9</u>	<u>89.2</u>	<u>81.9</u>	<u>39.8</u>	<u>48.4</u>
Fund balance, beginning of year as previously reported .....	<u>266.5</u>	<u>402.1</u>	<u>491.4</u>	<u>573.2</u>	<u>613.0</u>
Cumulative change in accounting principles <sup>(1)</sup>	67.7	-	-	-	-
Fund Balance, beginning of year as restated ..	<u>334.2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year <sup>(2)</sup> .....	<u>\$ 402.1</u>	<u>\$ 491.4</u>	<u>\$ 573.3</u>	<u>\$ 613.0</u>	<u>\$ 661.4</u>

\* Columns may not add due to rounding.

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

(2) The undesignated fund balances for the General Fund for fiscal 2002, 2003, 2004, 2005 and 2006 were \$345.8 million, \$331.5 million, \$377.1 million, \$415.2 million and \$438.7 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 2004 through fiscal 2006. 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 Exhibits I and II attached hereto for a detailed presentation of the City's financial operations.

*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 (\$6.0 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.

### *Fiscal 2006*

Revenues showed slight increases in fiscal year 2006 from fiscal year 2005. The most notable occurred in property taxes, excise taxes, payments in lieu of taxes, investment income and departmental and other revenues. Property taxes increased \$52.1 million, or 4.6%, reflecting continuing growth in the tax base, as well as a strong real estate market. Excise taxes increased \$13.4 million, or 14.3%, reflected by an increase in the number of motor vehicles excise taxes billed. Payments in lieu of taxes increased by \$18.4 million or 43.5%. This change is due to an increase in the number of miscellaneous properties added to this revenue base and a large one-time settlement payment made in fiscal 2006 for multiple fiscal years' back payments. An increase in investment income (\$14.4 million) was the result of still stronger market performance and rising interest rates, yielding positive returns on the City's cash balances. Departmental and other revenues decreased due solely to one-time revenue received in fiscal 2005. Licenses and Permits reported an increase in fees of \$6.9 million. This is primarily due to a sizable increase in Building Permits of \$3.3 million and a change in GAAP accruals that comprised the balance of the increases in this category as of June 30, 2006. Intergovernmental (State Aid) revenues increased by \$96.5 million or 21.0%, due to revenues received from the Massachusetts School Building Authority for three major school projects. The overall growth in revenues represents a \$195.6 million increase or 10.22% higher than fiscal 2005.

Overall, fiscal year 2006 expenditures increased over the previous year by 4.9% or \$92.0 million. The most notable increases occurred in Property and Development of \$3.5 million or 11.7% over fiscal 2005 expenditures, Schools by \$46.7 million or 6.9%, Judgments and Claims by \$5.0 million or 75.1%, due to a one-time large settlement of \$5.0 million, which was accrued for fiscal 2006, Retirement Costs by \$37.4 million or 63.0%, Other Employee Benefits by \$15.2 million or 10.6% over fiscal year 2005 costs. These increases are attributable to an expanding retirement base and increases in premiums by the Health Insurance providers. 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, 2006 was \$661.4 million, as compared to \$613.0 million in fiscal 2005. The increase of \$48.4 million or 7.9% 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 2004 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 2004-2007**  
**(\$ in thousands)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
July .....	\$581,902	\$683,229	\$714,211	\$872,949
August .....	652,157	723,471	788,747	860,760
September .....	657,697	786,818	755,123	823,615
October .....	682,418	771,963	788,120	868,799
November .....	653,917	761,412	735,438	947,222
December .....	596,227	636,217	629,052	855,483
January .....	567,665	693,799	806,564	882,717
February .....	614,063	727,636	804,065	
March .....	581,150	686,182	737,684	
April .....	633,748	686,583	786,062	
May .....	648,230	743,488	872,780	
June .....	718,903	788,497	838,120	

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 and has instituted a debt policy that direct the City’s approach toward its debt management activities, including rapid debt repayment, the use of a debt capacity model for establishing debt affordability, limitations on the level of variable rate debt the City will employ,

maintenance of the relationship between debt and repayment sources, target savings for refundings, and reporting and liaison with the financial community and the rating agencies.

#### *Financial Management*

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

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

#### *Investment Policy*

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

#### *Performance Management and Program Evaluation*

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

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

#### *Risk Management*

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

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

The City budgets 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 \$11.1 million at the end of fiscal 2006.

#### *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 Public Property, and Chief of Public Health.

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

Since March 2005, the City has independently contracted with third party electricity suppliers to meet all of the City's electricity supply requirements. To date, the supply 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 2007 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 2007 equals \$1.27 billion, or 59.3% of City General Fund revenues for such period. Approximately 52.0% 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 2007, the City will again levy taxes below the 2.5% ceiling on the overall effective tax rate. The recent 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 2007 equals \$1.27 billion. In fiscal 2007, the allowable 2.5% increase is \$30.2 million, and "new growth" is \$32.7 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 2003-2007<sup>(1)</sup>**  
 (\$ in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total Assessed Valuation	\$57,533,345	\$66,141,730	\$69,253,528	\$74,738,001	\$86,516,106
Growth Levy Limit	1,035,297	1,094,069	1,149,230	1,207,764	1,271,017
Levy Ceiling	1,438,334	1,653,543	1,731,338	1,868,450	2,162,903
Tax Levy <sup>(2)</sup>	1,035,271	1,093,937	1,148,742	1,207,620	1,270,260
Under Levy Ceiling	403,063	559,606	582,596	660,830	892,643

(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 ninth three-year revaluation in November 2006. The ninth revaluation reflected the continuing increase in residential real estate values in 2005 (although the residential real estate market has weakened since the January 1, 2006 assessment date). However, unlike 2004, when residential real estate values increased considerably while values for commercial properties decreased, residential and commercial values grew at a similar pace.

*Valuation of Wireless Telecommunications Personal Property*

Under Massachusetts law, valuation of certain personal property of telephone or telegraph companies is determined by the Commonwealth's Department of Revenue ("DOR") rather than the City. On May 15, 2006, the Appellate Tax Board ruled that a wireless telecommunications carrier would no longer be considered a telephone or telegraph company for such purposes. Pursuant to DOR Guidelines, the City issued personal property tax bills to wireless telecommunications carriers owning such property within City limits which were based on higher valuations than those previously determined by DOR. The total fiscal 2007 tax liability assessed to the wireless carriers is approximately \$4.7 million. While the Board has yet to issue a Findings of Fact or Report, it is presumed that the decision will be appealed by the companies.

**Certified Triennial Revaluations**

<u>Assessment Date</u>	<u>Real and Personal Property Value</u>	<u>Applicable Years</u>
January 1, 2006	\$86.52 billion	fiscal 2007 through 2009
January 1, 2003	66.14 billion	fiscal 2004 through 2006
January 1, 2000	50.49 billion	fiscal 2001 through 2003
January 1, 1997	33.76 billion	fiscal 1998 through 2000

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, 2006. The fiscal 2007 tax rates were applied to the January 1, 2006 valuation to determine levy and tax liability for fiscal 2007.

**Assessed Valuation of Taxable Real Property by  
Real Estate Classes, Assessment Dated January 1, 2006**

<u>Real Estate Classes</u>	<u>Land Area (Square feet)</u>	<u>Land Valuation</u>	<u>Building Valuation</u>	<u>Total Valuation</u>
Apartments	31,923,173	\$1,234,459,335	\$2,911,298,593	\$4,145,757,928
Agricultural	546,757	55,100	160,400	215,500
Commercial	76,211,060	5,142,208,421	13,683,815,341	18,826,023,762
Commercial Condominium	8,092,044	2,908,900	1,417,004,400	1,419,913,300
Residential Condominium	50,288,929	-	20,55,07,05,922	20,55,07,05,922
Commercial Land	28,377,298	547,896,395	371,163,115	919,059,510
Condominium Main <sup>(1)</sup>	45,341,062	-	-	-
Condominium Parking	254,889	1,199,900	34,842,100	36,042,000
Industrial	46,410,205	637,671,618	752,274,493	1,389,946,111
Residential & Commercial	16,451,324	1,119,716,822	2,694,229,092	3,813,945,914
Residential Land	33,315,431	289,241,731	4,796,564	294,038,295
1-Family	156,196,884	4,676,695,765	8,041,586,810	12,718,282,575
2-Family	87,933,296	2,693,025,385	6,119,130,029	8,812,155,414
3-Family	55,527,071	2,045,985,717	5,866,839,930	7,912,825,647
4-Family (4-6 units)	9,956,943	<u>540,657,031</u>	<u>1,620,888,420</u>	<u>2,161,545,451</u>
<b>TOTAL</b>		<b>\$18,931,722,120</b>	<b>\$64,068,735,209</b>	<b>\$83,000,457,329</b>

(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 2003-2007  
(per \$1,000 of assessed value)**

<u>Fiscal Year</u>	<u>Commercial, Industrial and Personal Property</u>		<u>Residential Property</u>
	2007.....	\$26.87	\$10.99
2006.....	30.70	11.12	
2005.....	32.68	10.73	
2004.....	33.08	10.15	
2003.....	31.49	11.29	

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 2007 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. 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 2007, qualifying residents who receive the residential exemption have their taxable assessed values reduced by \$138,767. 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 2003 through 2007.

#### Assessed Valuations—Fiscal Years 2003-2007 <sup>(1)</sup> (\$ in thousands)\*

<u>Fiscal Years</u>	<u>Value of Taxable Land</u>	<u>Value of Taxable Buildings</u>	<u>Total Value Taxable Land and Buildings</u>	<u>Value of Taxable Personal Property</u>	<u>Total Assessed Taxable Value</u>
2007.....	\$18,931,722	\$64,068,735	\$83,000,457	\$3,515,648	\$86,516,105
2006.....	12,513,403	58,897,095	71,410,498	3,327,508	74,738,006
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

\* Rows may not add due to rounding.

(1) Represents assessed values determined as of January 1 in the prior fiscal year. For example, fiscal 2007 assessed values are as of January 1, 2006.

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 2007. Assessed valuations and fiscal 2007 taxes reflect the valuation of property as of January 1, 2006 and the tax liability using applicable tax rates.

#### Largest Taxpayers: City of Boston, Fiscal 2007<sup>(1)</sup>

<u>Name</u>	<u>Personal Property <sup>(2)</sup></u>	<u>Real Property</u>	<u>Total Assessed Value</u>	<u>Fiscal 2007 Tax Liability</u>
Equity Office Properties	\$701,460	\$1,789,309,500	\$1,790,010,960	\$48,092,715
NSTAR / Boston Edison Company	1,357,584,490	68,315,900	1,425,900,390	38,313,943
Boston Properties	2,932,660	1,047,113,200	1,050,045,860	28,214,732
Tishman Speyer Properties	343,020	841,487,500	841,830,520	22,619,986
Fort Hill Associates	20,170	657,852,500	657,872,670	17,677,039
Brookfield Properties Corporation	67,900	637,936,000	638,003,900	17,143,165
Broadway Real Estate Partners	—	591,763,400	591,763,400	15,836,996
Beacon Properties	248,040	517,702,500	517,950,540	13,917,331
UIDC Of Massachusetts, Inc.	547,110	453,002,500	453,549,610	12,186,878
Manulife Financial	3,392,880	427,087,600	430,480,480	11,436,847
One Hundred Federal Street, LPS	—	390,784,000	390,784,000	10,500,366
Fortis Property Group	—	378,221,200	378,221,200	10,162,804
	\$1,365,837,730	\$7,800,575,800	\$9,166,413,530	\$246,102,802

(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, 2006 and the total amount (net of refunds) of taxes (current and all prior levies) collected during fiscal 2002 through 2006. Excluded from the following table are receipts from PILOTs and receipts on account of Chapter 121A corporations.

**Tax Collections In Relation To Property Tax Levies Fiscal 2002-2006**  
**(Statutory Accounting Basis)**  
**(\$ in millions)**

<u>Fiscal Year</u>	<u>Tax Levy</u>			<u>Tax Levy Collected Within Year of Levy</u>			<u>Tax Levy Net of Refunds Collected as of June 30, 2006</u>		
	<u>Gross</u> <sup>(1)</sup>	<u>Net</u>	<u>Net %</u>	<u>Gross Amount</u>	<u>% Gross Levy</u>	<u>% Net Levy</u>	<u>Net Amount</u>	<u>% Gross Levy</u>	<u>% Net Levy</u>
2006 .....	\$1,208.2	\$1,167.0	96.6%	\$1,202.2	99.5%	103.0%	\$1,192.5	98.7%	102.0%
2005 .....	1,150.1	1,105.2	96.1	1,142.1	99.3	103.3	1,136.1	98.8	102.8
2004 .....	1,094.2	1,052.0	96.2	1,083.9	99.1	103.0	1,079.0	98.6	102.6
2003 .....	1,035.9	993.0	95.9	1,019.7	98.4	102.7	1,016.2	98.1	102.3
2002 .....	972.7	932.4	95.9	963.7	99.1	103.4	958.9	98.6	102.8

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

Source: City of Boston Treasury Department.

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

*Delinquent Taxes and Tax Titles*

Real and personal property taxes (not including motor vehicle, the room occupancy and the aircraft fuel excises) are based on values established by the Assessing Department as of each January 1 and, beginning in fiscal 1992, are due in quarterly payments every August, November, February and May. Delinquent real estate and personal property taxes are subject to a 14% per annum interest charge. Subsequent to the end of the fiscal year in which real estate taxes become delinquent, the City secures its lien for such taxes by taking legal title to all delinquent properties, subject to the owners’ right of redemption. After this process, known as a “tax taking,” is complete, interest accrues on outstanding amounts of delinquent real estate taxes at the rate of 16% per annum. If the taxes remain unpaid for a period of six months from the tax taking, the City may petition the Land Court to foreclose the equity owner’s right of redemption. Upon foreclosure, the City may then sell the property in order to liquidate the tax liability. The City estimates that the value of the properties to which such tax titles are attached is substantially less than the amount of delinquent taxes, charges, and interest owed.

Tax title receipts were approximately \$16.0 million, \$15.8 million and \$13.7 million respectively, in fiscal 2004, 2005 and 2006.

*Revenues from Chapter 121A Corporations*

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

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

**Revenues To The City From Chapter 121A Corporations**  
**(\$ in thousands)**

<u>Fiscal Year Ended June 30</u>	<u>Excise Payments In Lieu of Taxes (Section 10)</u>	<u>Contracts Payments (Section 6A)</u> <sup>(1)</sup>	<u>Total</u>
2006.....	\$36,528	\$28,522	\$65,050
2005.....	36,142	18,770	54,912
2004.....	34,703	20,105	54,808

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

Source: Office of Budget Management

## State Aid

State aid is the second largest revenue source to the City's General Fund after property taxes. Between fiscal 2002 and 2004, mostly due to the national recession, the state developed a sizeable structural deficit between revenues and expenditures, some of which remains in fiscal 2007. Several billion dollars in cost reduction measures were undertaken in order to reduce this deficit including reductions in local aid to municipalities. Each of the City's major aid categories, Additional Assistance, Lottery, and Chapter 70 education aid were reduced during this period. Since fiscal 2004, both Chapter 70 education and Lottery aid have experienced some growth while Additional Assistance has remained level-funded.

Fiscal 2007 state aid to the City is expected to increase by \$22.6 million to \$487.2 million, a 4.9% increase over the \$464.6 million received in fiscal 2006. The City received \$461.1 million in state aid in fiscal 2005. The City's state aid remains \$35.5 million below its fiscal 2002 distribution.

Under the Massachusetts Constitution and state finance law, the State Treasurer has the authority to delay the allotment of state aid appropriations under certain circumstances. In addition, the statute governing the distribution of school aid provides that such payments are due only to the extent that sufficient funds are available. The State Treasurer is also empowered to deduct from state aid amounts appropriated to the City the amount of "charges" or "assessments." The largest of these assessments are those for the Massachusetts Bay Transportation Authority (MBTA) and Charter School Tuition. Assessments also include smaller charges for various state-provided services, and may include debt service paid by the Commonwealth on "qualified bonds" of the City and any sums allocable to the Boston Water and Sewer Commission or the City that are due and unpaid on debt issued to the Massachusetts Water Pollution Abatement Trust. The City has no "qualified bonds" outstanding and has never been assessed for unpaid amounts due the Trust.

Total fiscal 2007 state aid assessments are expected to amount to \$125.0 million. Total assessments amounted to \$111.7 million and \$114.3 million in fiscal years 2005 and 2006, respectively. State aid to the City in fiscal 2007 net of fiscal 2007 assessments is expected to increase \$11.8 million, or 3.3%, to \$362.1 million. Net state aid totaled \$349.4 million in fiscal 2005 and \$350.3 million in fiscal 2006. The City's net state aid remains \$66.2 million below its fiscal 2002 distribution.

In addition to direct state aid, the City also receives reimbursement for the cost of teachers' pensions. Teachers' pensions are paid directly by the State Teachers Retirement System for all teacher retirees in the state other than those who retire from the Boston school system. In their case, pensions are paid by the State-Boston Retirement System, funded by the City, and the City is reimbursed by the Commonwealth on an actual pension payout basis. The City received \$61.4 million, \$76.5 million, and \$85.2 million, respectively, in fiscal 2004, 2005 and 2006. The City expects to receive approximately \$85.2 million of reimbursement in fiscal 2007. As part of this reimbursement, the City also receives, subject to annual appropriation by the state legislature, cost of living adjustments approved prior to fiscal 1998 by the legislature for municipal employees. See "The City—Retirement Systems."

### *State School Building Assistance*

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

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

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. As of March 1, 2007, the City had approximately \$51.6 million of bonds outstanding for school projects approved for grants under the prior law at a reimbursement rate of 90% of approved project costs. The Authority has paid and is expected to continue to pay the remaining amounts of the grants for

such projects in annual installments to reimburse debt service on bonds issued by the City to finance such projects.

Projects on the State Board of Education's project priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. In 2005, the Authority approved grants at a reimbursement rate of 90% of approved project costs for three City projects on the priority waiting list which had been substantially completed. The grants for these projects were received by the City in a lump sum in January, 2006 and applied in part to retire bond anticipation notes issued by the City prior to July 1, 2004 to pay project costs.

Grants for any projects on the State Board of Education's project priority waiting list as of July 1, 2004 that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality. In most cases, the receipt of these progress payments from the Authority will eliminate the need for the municipality to borrow on a temporary basis to finance the Authority's share of the project costs. The City has one remaining project, the Burke High School, on the priority waiting list which is eligible for reimbursement at 90% of approved project costs. The expected cost of the project is \$42,625,000 and, although construction has started, a final project funding agreement between the City and the Authority is not yet in place. The City's project manager for the Burke High School is currently developing a new cash flow projection to be included in the City's final application package. Once the City submits the package, the Authority will determine the state's funding commitment and the elements of the project that are eligible for reimbursement and the City and the Authority will execute a project funding agreement.

Grant applications for new projects may not be submitted to the Authority until July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. The Authority recently promulgated new regulations with respect to the application and approval process for new projects. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

### **Excise Revenues**

In addition to the major sources of revenue described above, the City receives various other types of revenues. See "Financial Operations—Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2002-2006" above. The following is a description of significant excise revenue sources of the City.

#### *Room Occupancy Excise*

The City currently has in effect a 4% local room occupancy excise upon the transfer of occupancy of any room in a hotel, lodging house or motel. The Commonwealth collects this tax and distributes it to the City quarterly. The City's room occupancy excise receipts totaled \$23.8 million, \$28.0 million, and \$30.5 million, respectively, in fiscal 2004, 2005 and 2006.

Pursuant to Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), the City has established the City of Boston Room Occupancy Excise Fund (the "Excise Fund") to provide for the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the Boston Convention and Exhibition Center Project (the "BCEC Project"). See "City Indebtedness—Special Obligation Debt."

Of the \$30.5 million in room occupancy excise taxes collected in fiscal 2006, \$12.5 million was retained in the Excise Fund, and \$18.0 million was transferred into the General Fund as authorized by the Convention Center Act. In fiscal 2005, \$10.0 million of the \$28.0 million in room occupancy excise taxes collected was retained in the Excise Fund and \$18.0 million was transferred into the General Fund. In fiscal 2004, \$6.8 million of the \$23.8 million in room occupancy excise taxes collected was retained in the Excise Fund and \$17.0 million was transferred into the General Fund.

#### *Aircraft Fuel Excise*

The City also assesses an aircraft fuel excise upon the sale or use of jet fuel. The Commonwealth collects this tax and distributes it to the City quarterly; a change from semi-annually made to begin in fiscal

2004. The City's aircraft fuel excise receipts totaled \$8.5 million, \$18.4 million, and \$19.9 million respectively, in fiscal 2004, 2005 and 2006. It should be noted that in fiscal 2004 the City received three of four quarterly excise payments, and in fiscal 2005 the City received five quarterly excise payments. See "Summary and Comparison of Operating Budgets—Fiscal 2007—Revenues."

#### *Motor Vehicle Excise*

The Commonwealth assesses an excise on the registration of motor vehicles, the proceeds of which are received by the municipality of residence of the registered owner. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. The City's annual motor vehicle excise receipts totaled \$33.1 million, \$44.7 million, and \$50.1 million respectively, in fiscal 2004, 2005 and 2006. See "Summary and Comparison of Operating Budgets—Fiscal 2007—Revenues."

#### *Vehicular Rental Surcharge*

The Commonwealth imposes a \$10 surcharge on each vehicular rental transaction contract in the City. One dollar of each surcharge is paid to the City for deposit in the City's Excise Fund for application to the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the BCEC Project. The City's cumulative share of the surcharge as of June 30, 2006 was approximately \$9.1 million. See "City Indebtedness—Special Obligation Debt."

### **Departmental Revenues**

Several City departments generate significant revenues from fees and charges.

#### *Parking Fines*

The City's annual parking fine receipts totaled \$63.1 million, \$62.2 million, and \$64.0 million respectively, in fiscal 2004, 2005 and 2006.

#### *Building Permit Fees*

The Inspectional Services Department performs a variety of functions for which fees are imposed such as the granting of building permits. The City's annual building permit fees totaled \$22.7 million, \$23.2 million and \$26.3 million respectively, in fiscal 2004, 2005 and 2006.

#### *Municipal Medicaid Reimbursement*

The Office of Budget Management oversees a vendor contract to collect federal reimbursements for Medicaid eligible services provided through the Boston Public Schools. The City's annual municipal Medicaid reimbursement revenue totaled \$11.6 million, \$14.2 million, and \$13.5 million respectively, in fiscal 2004, 2005 and 2006.

### **Other**

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

Pursuant to lease agreements between the City and various private parking operators, the City receives rentals from leased parking facilities. Twenty percent of these receipts are designated by statute for maintenance and renovation of the parking facilities. The remaining amount goes into the City's General Fund. During fiscal 2004, 2005 and 2006, \$1.5 million, \$1.4 million, and \$0.8 million respectively, were deposited into the City's General Fund from this source.

Under state law, proceeds of the sale of City facilities must be applied to the Surplus Property Disposition Fund to be used to finance capital projects, unless the City Council, with the approval of the Mayor, votes to credit to the General Fund the difference between the sale proceeds and the amount of debt (both principal and interest) incurred in acquiring or improving the sold facility. As of June 30, 2006 there was \$43.8 million remaining in the Surplus Property Disposition Fund.

### **Grants**

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

### *Federal Grants*

Some major sources of federal grant funds in fiscal 2006 included: the Community Development Block Grant (CDBG) entitlement program award of \$20.9 million; the Home Investment Partnership Program (HOME) award of \$7.9 million; and the Housing Opportunities for Persons with AIDS Program (HOPWA) award of \$1.7 million. The Boston Public Schools major programs included: The Title I Elementary & Secondary Education Act of 1965 award of \$44.3 million; Special Education Entitlement Grant awards of \$19.4 million; and the School Lunch Program awards of \$22.5 million. The Boston Public Schools were also awarded \$25.7 million from a variety of other federal grants sources during the 2006 fiscal year. Homeland Security grant awards totaled \$15.2 million.

### *State Grants*

In addition to State Aid, the City receives state grants. The Commonwealth assumes 100% of the capital costs and funds 96% of the operating costs associated with the Office of the Sheriff of Suffolk County, an award totaling \$84.9 million in fiscal 2006. The Boston Public Schools were awarded approximately \$27.3 million. The three major programs supported by the state education grants are the Special Education Student 50/50 Program totaling \$12.8 million, the Community Partnership Grants totaling \$9.8 million and the Quality Full-Day Kindergarten Grant totaling \$2.3 million.

## **CITY INDEBTEDNESS**

### **Classification of City Debt**

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

### **General Obligation Debt**

On June 30, 2006, the City had outstanding approximately \$849.2 million of general obligation long-term bonds, all of which bear fixed rates of interest. On March 1, 2007, the City had approximately \$771.4 million of bonds outstanding.

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

### *Debt Limits*

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

The statutory debt limit for the City consists of a debt limit and a double debt limit. The debt limit is 5%, and the double debt limit is 10%, of the valuation of taxable property in the City as last equalized by the state Department of Revenue. The equalized valuation of taxable property in the City established by the Commissioner of Revenue in January 2007 for use until January 2009 equals \$87.75 billion. Based on the current equalized valuation, the City's debt limit equals approximately \$4.39 billion, and its double debt limit equals \$8.78 billion.

The City may authorize debt up to its debt limit without state approval. The City may authorize debt over the debt limit up to the double debt limit with the approval of the Municipal Finance Oversight Board, composed of the State Treasurer and Receiver General, the State Auditor, the Attorney General and the Director of Accounts. As of June 30, 2006, the City had outstanding debt of \$608.6 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$434.8 million. In addition, as of March 1, 2007, the City had outstanding debt of \$552.1 million subject to the debt limit, and authorized but

unissued debt subject to the debt limit of \$550.2 million. Based on the City's current debt limit of \$4.39 billion, the City had the capacity to authorize an additional \$3.29 billion of debt as of March 1, 2007.

**Debt Incurring Capacity  
As of March 1, 2007  
(\$ in thousands)**

	<u><b>Debt Limit</b></u>
Normal Debt Limit as of June 30, 2006 .....	\$3,814,054
Debt Outstanding as of June 30, 2006 .....	(608,644)
Debt Authorized but Unissued as of June 30, 2006 .....	<u>(434,775)</u>
Available Capacity under Debt Limit as of June 30, 2006 .....	<u>2,770,635</u>
Debt Adjustments and New Authorizations approved in fiscal year 2007 .....	(115,422)
Principal Paid through March 1, 2007 .....	56,586
Increase in Normal Debt Limit based on new Equalized Valuation effective January 31, 2007..	<u>573,412</u>
<u>Available Capacity under Debt Limit as of March 1, 2007.....</u>	<u><u>\$3,285,211</u></u>

Source: City of Boston Auditing Department.

There are many categories of general obligation debt, which are not subject to the debt limit and are therefore not included in the Debt Incurring Capacity table above. Some such debt is, however, subject to other debt limits, dollar limitations or state approval. As of March 1, 2007, the City had outstanding long-term debt exempt from the debt limit of \$219.4 million, and authorized but unissued long-term debt exempt from the debt limit of \$90.7 million. As of March 1, 2007, outstanding debt exempt from the normal debt limit included: the following: Gardner Street Landfill – \$9.9 million, Economic Development and Industrial Corporation of Boston – \$3.3 million, Boston Redevelopment Authority – \$20.5 million, Capital Improvements Act of 1966 – \$0.1 million, Capital Improvements Act of 1973 – \$5.7 million, Capital Improvements Act of 1991 – \$66.0 million, Capital Improvements Act of 1996 – \$62.2 million, and School Project Loan Act of 1948 – M.G.L. Ch. 70B – \$51.6 million.

*Authorized But Unissued Debt*

The size of the City's future bond issues will be consistent with the City's financial management policies regarding its level of debt and debt service. The following table sets forth the amounts and purposes of authorized but unissued general obligation debt of the City as of March 1, 2007:

**Authorized But Unissued Debt**  
**As of June 30, 2006 and March 1, 2007 <sup>(1)</sup>**

	<u>Statute</u>	<u>Authorized/ Unissued 6/30/06</u>	<u>New Authorizations &amp; Adjustments 7/1/06 to 3/1/07</u>	<u>Authorized/ Unissued 3/1/07</u>
<b>GENERAL PURPOSE:</b>				
Acquisition of Land: Outdoor Facilities	C44 s7 (25)	\$ 46,525,230	\$ 9,300,000	\$ 55,825,230
Acquisition of Land: Cemetery Improvements	C44 s7 (20)	942,076	—	942,076
Acquisition of Land: Landfill Area	C44 s8 (24)	3,815,893	—	3,815,893
Departmental Equipment	C44 s7 (9)	17,169,665	1,550,000	18,719,665
Rem, Recon, Rehab - Firefighting App	C44 s7 (9A)	203,029	15,000	218,029
Equipment - Fire Boat Acquisition	C44 s7 (13)	4,123,288	—	4,123,288
Computer Hardware	C44 s7 (28)	336,886	—	336,886
Computer Software	C44 s7 (29)	1,538,104	—	1,538,104
Construction/Re-Construction of Surface Drains, Sewers, etc.	C44 s7 (1)	1,015,402	—	1,015,402
Reservoir Constr/Enlargement:Water Treatment	C44 s8 (4)	619,280	—	619,280
Water Mains Laying &/Or Re-laying, Lining	C44 s8 (5)	6,102,473	252,500	6,354,973
Remodeling & Extraordinary Repairs	C44 s7 (3A)	203,272,641	61,308,392	264,581,033
Engineering & Architectural Services	C44 s7 (22)	4,371,267	380,600	4,751,867
Urban Redevelopment & Renewal	C121B s20	13,389,887	—	13,389,887
Economic Development & Industrial Corporation	C1097 s11 Acts'71	6,746,334	—	6,746,334
<b>SCHOOLHOUSES and SITES:</b>				
Construction of Buildings: Acquisition of Land	C44 s7 (3)	39,558,000	2,875,000	42,433,000
Capital Improvements: Act of 1973	C642 s7 Act'66 as am.	75,771	—	75,771
Capital Improvements: Act of 1991	C642 s7 Act'66 as am.	2,167,526	—	2,167,526
Capital Improvements: Act of 1996	C642 s7 Act'66 as am.	5,436,833	(22,600)	5,414,233
School Project Loan: Act of 1948	C70B	15,693,076	(3)	15,693,073
<b>PUBLIC BUILDINGS: Excluding Schools:</b>				
Capital Improvements: Act of 1973	C642 s7 Act'66 as am.	2,592,005	—	2,592,005
Capital Improvements: Act of 1991	C642 s7 Act'66 as am.	17,173,819	—	17,173,819
Capital Improvements: Act of 1996	C642 s7 Act'66 as am.	16,274,462	(266,505)	16,007,957
Construction of Buildings: Acquisition of Land	C44 s7 (3)	19,598,880	14,037,616	33,636,496
Convention & Exhibition Center	C152 Act'97	—	—	—
Boston City Hospital	C659 Acts of 1986	660,000	—	660,000
<b>PUBLIC WORKS:</b>				
Sidewalk Construction	C44 s7 (6)	6,323,652	4,545,000	10,868,652
Traffic Sig., Pub. Ltg. Fire Alarm Comm. Install.	C44 s7 (14)	10,190,782	7,372,000	17,562,782
Bridge Construction	C44 s7 (4)	27,211,944	1,010,000	28,221,944
Public Ways Construction	C44 s7 (5)	<u>52,394,611</u>	<u>13,028,000</u>	<u>65,422,611</u>
<b>TOTAL:</b>		<u>\$525,522,817</u>	<u>\$115,385,000</u>	<u>\$640,907,817</u>
"Within" Debt Limit =		\$434,775,458	\$115,421,608	\$550,197,066
"Outside" Debt Limit =		<u>\$ 90,747,359</u>	<u>\$ (36,608)</u>	<u>\$ 90,710,751</u>
<b>TOTAL:</b>		<u>\$525,522,817</u>	<u>\$115,385,000</u>	<u>\$640,907,817</u>

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

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

*Debt Statement*

The following table sets forth the City's general obligation debt as of March 1, 2007.

**Debt Statement as of March 1, 2007  
General Obligation Debt <sup>(1)</sup>**

<u>Purpose for Which Issued</u>	<u>Principal Outstanding June 30, 2006</u>	<u>Retired in Fiscal 2007 as of March 1, 2007</u>	<u>Principal Outstanding March 1, 2007</u>	<u>Deemed Payable from Related Revenues <sup>(2)</sup></u>	<u>Net Principal Amount</u>
General Purpose	\$398,911,086	\$(35,374,812)	\$363,536,274	\$(2,364,211)	\$361,172,063
MWPAT	10,053,954	(595,539)	9,458,415	(1,478,900)	7,979,515
Economic Development	3,879,355	(598,548)	3,280,806	-	3,280,806
State Urban Development Relocation	22,823,887	(2,315,429)	20,508,458	-	20,508,458
Schools	108,768,739	(9,053,074)	99,715,666	(59,829,399)	39,886,266
Public Buildings	208,685,638	(16,176,769)	192,508,869	-	192,508,869
Public Works	95,033,379	(13,393,956)	81,639,423	-	81,639,423
Cemeteries	1,022,916	(232,414)	790,502	-	790,502
<u>Totals</u>	<u>\$849,178,953</u>	<u>\$(77,740,539)</u>	<u>\$771,438,413</u>	<u>\$(63,672,511)</u>	<u>\$707,765,903</u>

(1) Columns may not add due to rounding.

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

- a. In General Purpose-related revenues include receipts from the Boston Public Health Commission for general obligation debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals, along with receipts from the Fund for Parks and Recreation;
- b. Debt service subsidies on City debt issued to the Massachusetts Water Pollution Abatement Trust; and
- c. Grants from the Massachusetts School Building Authority for school construction projects.

Source: City of Boston Auditing Department

**Debt Service Requirements**

The following table sets forth the City's debt service requirements for general obligation debt for each year from June 30, 2002 through 2006. The debt service requirements table shows the gross Debt Service Requirements, offset by revenues received from related sources.

**Debt Service Requirements—Fiscal 2002-2006 <sup>(1)</sup>**

	<u>Fiscal Year Ended June 30, 2002</u>	<u>Fiscal Year Ended June 30, 2003</u>	<u>Fiscal Year Ended June 30, 2004</u>	<u>Fiscal Year Ended June 30, 2005</u>	<u>Fiscal Year Ended June 30, 2006</u>
Gross Debt Service Requirements					
Bonded Debt:					
Principal.....	\$ 82,012,626	\$ 86,611,045	\$ 86,490,297	\$ 85,425,487	\$ 77,146,592
Interest.....	38,732,580	38,960,072	40,530,338	37,935,112	38,004,782
<u>Total.....</u>	<u>\$ 120,745,206</u>	<u>\$ 125,571,117</u>	<u>\$ 127,020,635</u>	<u>\$ 123,360,599</u>	<u>\$ 115,151,374</u>
Less Revenue Deemed Available From Related Sources: <sup>(2)</sup>					
Boston Public Health Commission Payments .....	\$4,813,385	\$4,598,341	\$4,010,292	\$2,923,781	\$1,650,625
Fund for Parks & Recreation.....	-	106,997	269,511	278,102	273,154
MWPAT Loan Subsidy					
Amounts.....	611,139	596,577	581,779	554,594	542,030
School Construction Assistance ..	17,128,745	17,232,498	17,555,199	16,144,882	15,463,685
<u>Total Net Debt Service Requirements.....</u>	<u>\$ 98,191,937</u>	<u>\$ 103,036,704</u>	<u>\$ 104,603,854</u>	<u>\$ 103,459,240</u>	<u>\$ 97,221,880</u>

(1) Columns may not add due to rounding.

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

- a. In General Purpose-related revenues include receipts from the Boston Public Health Commission for general obligation debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals, along with receipts from the Fund for Parks and Recreation, and Non-City Department rental income from 1010 Massachusetts Avenue Building;
- b. Debt service subsidies on City debt issued to the Massachusetts Water Pollution Abatement Trust; and
- c. Grants from the Massachusetts School Building Authority for school construction projects.

Source: City of Boston Auditing Department.

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

*Certain Debt Ratios*

The following table sets forth information as of March 1, 2007 with respect to the approximate ratio of the City’s long-term general obligation debt to certain economic factors.

**Debt Ratios  
As of March 1, 2007**

	<u>Amount</u>	<u>Per Capita</u> <sup>(1)</sup>	<u>Ratio to Assessed Property Value</u> <sup>(2)</sup>	<u>Debt Per Capita as a % of Personal Income Per Capita</u> <sup>(3)</sup>
Gross General Obligation Debt	\$771,438,413	\$1,292.98	0.89%	2.82%
<u>Net General Obligation Debt</u>	<u>707,765,903</u>	<u>1,186.26</u>	<u>0.82</u>	<u>2.59</u>

- (1) U.S. Census Bureau as of July 2005—Boston’s Estimated Population equaled 596,638.
- (2) Assessed Property Values equaled \$86.52 billion as of January 1, 2006. State law requires that property be assessed at fair cash value. See “City Revenues—Property Taxes—Revaluation.”
- (3) U.S. Department of Commerce, Bureau of Economic Analysis, December 2004, Revised Series-Suffolk County’s 2004 Per Capita Personal Income = \$45,830.

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

*Three-Year Debt Summary*

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

**Debt Summary, Fiscal 2004 - 2006 (Budgetary Basis)  
(\$ in thousands)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Outstanding General Obligation Debt .....	\$904,691	\$846,326	\$849,179
Authorized But Unissued Debt.....	<u>\$565,013</u>	<u>\$584,968</u>	<u>\$525,523</u>
Debt Service.....	\$127,021	\$123,361	\$115,151
Debt Service as a % of Total General Fund Revenues, Transfers and Other Available Funds.....	6.7%	6.2%	5.5%
Debt Service as a % of Total Expenditures and Encumbrances .....	6.7%	6.3%	5.5%
Debt Service as a % of Total Net Tax Levy.....	12.1%	11.2%	9.9%
Bonds Issued			
General Obligation - New Money.....	\$ 65,000	\$ 75,000	\$ 80,000
General Obligation - Refunding Bonds.....	<u>78,200</u>	<u>52,775</u>	-
<u>Total Bonds Issued.....</u>	<u>\$143,200</u>	<u>\$127,775</u>	<u>\$80,000</u>

Source: City of Boston Auditing Department.

*Short-Term Borrowings*

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

**Special Obligation Debt**

In addition to general obligation indebtedness, the Bond Procedure Act of 1983 and various other special acts authorize the City to incur indebtedness which is secured by and payable solely from certain revenues of the City which are pledged for the payment of such indebtedness or which are subject to annual appropriation by the City for such purpose. The only special obligation indebtedness of the City outstanding as of March 1, 2007 was \$108.0 million Special Obligation Refunding Bonds, Boston City

Hospital Issue (the “BCH Bonds”) and \$106.8 Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the “Convention Center Bonds”).

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

The BCH Bonds are special obligations of the City payable from, and secured solely by a pledge and assignment of amounts payable on a promissory note issued to the City by the Commission. The promissory note is in turn a special obligation of the Commission secured by an assignment and pledge of rents payable by BMCC to the Commission under the lease of the BCH campus and, upon any failure of BMCC to pay all or any part of such rent, the proceeds of certain assistance grants payable by the City to BMCC. The payment of assistance grants to BMCC is subject to annual appropriation by the City and the payment of rent by BMCC is contingent upon the appropriation and payment of such assistance grants. The rent payments and the assistance grants are each at least equal, in amount and terms of payment, to the principal and interest payable on the BCH Bonds. The City has also covenanted and agreed, subject to appropriation, to meet any deficiency in the amounts otherwise pledged for the payment of the BCH Bonds. The BCH Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the BCH Bonds.

The Convention Center Bonds were issued by the City in April, 2002 pursuant to Chapter 152 of the Acts of 1997, as amended (the “Convention Center Act”), to permanently finance certain costs incurred by the City in connection with the development of the Boston Convention and Exhibition Center (the “BCEC Project”), a joint development of the City, acting through the Boston Redevelopment Authority (the “BRA”), which was responsible for the acquisition, preparation and remediation of the site for the BCEC Project, and the Commonwealth, acting through the Massachusetts Convention Center Authority (the “MCCA”), which was responsible for the construction of the project and which owns and operates the facility. As provided in the Convention Center Act, the City has reimbursed the BRA for \$176.8 million of site costs for the BCEC Project, funded in part from the proceeds of the Convention Center Bonds and in part from special revenues accumulated by the City since enactment of the Convention Center Act, including the proceeds from the sale of hackney (taxi) medallions authorized by the Convention Center Act.

The Convention Center Bonds are special obligations of the City payable from, and secured solely by a pledge of, certain “Pledged Receipts,” including all amounts received by the City from a 4% local option room occupancy excise imposed in Boston and from a portion of a surcharge imposed by the Commonwealth on vehicular rental transaction contracts in Boston. See “City Revenues-Excise Revenues.” The Convention Center Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the Convention Center Bonds.

The Convention Center Act authorizes the City to annually transfer to the City’s General Fund all Pledged Receipts that are not required for the payment of the Convention Center Bonds. The City anticipates that room occupancy excise receipts that are attributable to lodging establishments that were first opened for business after July 1, 1997 (a measuring date provided in the Convention Center Act), together with the other Pledged Receipts held under the Convention Center Trust Agreement, will be sufficient to pay the future debt service on the Convention Center Bonds. Accordingly, the City anticipates that excise tax receipts that were historically available to fund annual operating expenditures of the City will be available for transfer to the General Fund. In fiscal 2004, 2005 and 2006, excise tax receipts in excess of the debt service requirements on the Convention Center Bonds were transferred to the General Fund in the amount of \$17.0 million, \$18.0 million and \$18.0 million, respectively. See “City Revenues-Excise Revenues-Room Occupancy Excise,” above.

#### **Debt of Agencies Related to the City**

In addition to general obligation and special obligation indebtedness of the City, the City and certain agencies related to the City are authorized to issue debt which is solely an obligation of the agency or

which, although issued by the City, are payable solely from revenues derived from projects financed by such debt. Except as described below, such obligations do not constitute a debt of the City.

#### *Boston Water and Sewer Commission*

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

#### *Economic Development and Industrial Corporation of Boston*

The Economic Development and Industrial Corporation of Boston (“EDIC”) is a body politic and corporate and an instrumentality of the Commonwealth with a board of five members, also appointed as the members of the Boston Redevelopment Authority (“BRA”). EDIC has a variety of powers to assist industrial development projects in the City including the power to issue special obligation revenue bonds to finance economic development projects in the City, which are solely the obligation of EDIC or the owner or lessee of the financed project. The City is also authorized to appropriate or borrow monies in aid of EDIC development projects within certain urban renewal debt limitations. The City has issued approximately \$19.7 million in general obligation debt for EDIC purposes, of which approximately \$3.3 million was outstanding as of March 1, 2007.

#### *Boston Redevelopment Authority*

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

#### *Boston Public Health Commission*

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

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

The Commission is also obligated to reimburse the City for debt service paid on all outstanding general obligation bonds of the City issued for public health and hospital purposes. Such bonds were

outstanding on March 1, 2007 in the aggregate principal amount of \$8.7 million. The Commission has required, and can be expected to continue to require, substantial financial support from the City to maintain its public health mission and programs, including satisfaction of its obligations described above.

#### *Other Agencies and Corporations*

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

#### **Major Contractual Obligations**

In addition to its debt obligations, the City has substantial contractual obligations. Included in this category are the City's obligation for pension benefit payments to its contributory retirement system for City employees which is included in the annual tax levy (see "Retirement Systems"); agreements for the provision of sanitation, solid waste collection and disposal services (see "The City—Principal Government Services—Public Works"); and agreements with BMCC for the provision of operating assistance and capital grants. (see "City Indebtedness—Special Obligation Debt" and "Debt of Agencies Related to the City—Boston Public Health Commission" above). The City has also executed several equipment lease agreements in order to finance the acquisition of departmental equipment. As of March 1, 2007 the amount outstanding under the lease agreements equaled \$28.0 million. Lease payments are subject to annual appropriation, and are not included in the City's debt limit.

#### **Capital Planning and Borrowing Program**

##### *Capital Planning Process*

The capital planning process is organized to coincide with the annual budget cycle. It begins when City departments submit capital requests, and concludes when the City publishes an updated version of its five-year capital plan. Capital appropriations are requested of the City Council each year for the cost of projects included in the updated capital plan. This process allows for a continuing reassessment of capital needs and projections. On April 12, 2006 the Mayor submitted his fiscal 2007 budget to the City Council, which included approximately \$115.4 million in new authorizations as well as an \$8 million authorization from the Surplus Property Disposition Fund to support the fiscal 2007 capital plan. All authorizations were approved by the City Council on June 28, 2006 and became effective in July, 2006.

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

##### *Capital Funding Plan*

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

### *Current Capital Investment Plans*

The City's fiscal 2007-2011 capital plan released in April 2006 proposes new long-term investments over the next 5-7 years as well as several studies to lay the groundwork for future growth. In all, \$1.3 billion from City and non-City sources are proposed to be spent on capital projects. These expenditures will be used for improvements to schools, libraries, parks and recreation, roads and bridges. In view of the proven economic and social benefits of consistent, long-range capital planning, the City remains committed to moving forward with its capital program.

The fiscal 2007-2011 capital plan includes projects to improve the physical condition of the City's schools. In addition to ongoing roof replacements, masonry repairs and fire alarm systems upgrades, the City has begun construction for an addition to and renovation of Burke High School which also incorporates the construction of a new neighborhood branch library.

The maintenance of the City's roadways and sidewalks is a significant part of the capital plan. In 2005, Public Works Department launched the Citywalks program, a three-year effort to repair sidewalks and roads across the City. The City's regular program will be bolstered by an additional \$12 million in funding. In fiscal 2007, 32 miles of roads will be reconstructed or resurfaced and 950,000 square feet of sidewalks will be repaired. Approximately 500 new street lights are scheduled to be installed to improve visibility and public safety.

Boston's public libraries have also benefited from the capital planning process. The designs for a comprehensive branch renovation and for the construction of two new buildings to replace existing branch libraries are underway. In Roxbury, construction is underway on one new branch library. In Mattapan, construction is expected to begin on a new branch library in 2007. The historic McKim Building at the central library continues to undergo major restorations.

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

For a description of the City's expenditures in support of the BCEC see "City Indebtedness – Special Obligation Debt" above.

## **EMPLOYEE BENEFITS**

### **Retirement Systems**

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

The City is committed to funding based upon a schedule approved by the SBRs and the state actuary, which includes paying the current year's estimated present value of benefits earned during the year ("normal cost") and an annual contribution toward reducing the unfunded liability to zero by the year 2023. This schedule is calculated in accordance with the entry age actuarial cost method. The schedule is updated by SBRs and subject to approval at least every three years by the state Public Employee Retirement Administration Commission ("PERAC"), a state agency established to oversee all 106 Massachusetts public retirement systems. The SBRs most recently received approval for a funding schedule for fiscal 2008, 2009, and 2010. The latest approved schedule targets full funding of the system five years prior to the legally required funding date of 2028. The annual appropriation, based on the funding schedule, is a legal obligation of the City that must be included as part of the property tax rate certification by the Commonwealth.

Beginning January 1, 2000, the Board adopted an asset valuation method that gradually incorporates over time annual investment gains over and losses under the actuarial investment return assumption of 8%.

The actuarial value of assets is used in determining the funding schedule, thereby avoiding the direct and immediate impact of dramatic upswings and downswings inherent in the investment markets.

A cost of living adjustment is set each year at the CPI or an amount up to, but not greater than, 3% on the first \$12,000 of a retiree's annual payment. Cost of living adjustments are considered by the Board on an annual basis. As part of the annual review process, the Board considers the fiscal conditions of the City and whether the granting of a COLA would substantially impair the City's funding schedule. COLA's were approved from fiscal 1999 through fiscal 2007. The funding schedule incorporated a 3% cost of living adjustment into its annual appropriation calculation. The Commonwealth, meanwhile, has incorporated in its pension funding schedule sufficient funds to fulfill its obligation for local cost of living adjustments it had awarded prior to fiscal 1998.

**Schedule of Funding Progress  
(\$ in thousands)**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b - a) / c</u>
January 1, 2006	\$3,836,807	\$5,957,373	\$2,120,566	64.4%	\$1,168,808	181.4%
January 1, 2005	3,587,118	5,664,288	2,077,170	63.3	1,115,529	186.2
January 1, 2004	3,384,814	5,420,842	2,036,028	62.4	1,067,492	190.7
January 1, 2003	3,204,893	5,121,319	1,916,426	62.6	1,099,779	174.3
January 1, 2002	3,371,716	4,796,130	1,424,414	70.3	1,052,420	135.3

Source: City of Boston Retirement Board

For long-term investment performance, the SBRS recorded a five-year average annualized return (January 1, 2001 through December 31, 2005) equal to 4.96%, and a twenty-one year average annualized return (January 1, 1985 through December 31, 2005) equal to 10.21%. In calendar 2005 the rate of return for the SBRS equaled 8.56%, and the composite rate of return for all 106 Massachusetts public pension funds equaled 11.41%.

In addition to SBRS, the Boston Retirement System, the predecessor system, is funded by the City. This predecessor system has as its members only those active and retired employees whose employment commenced prior to 1946 and who have not elected coverage under the SBRS program. This system is funded on a "pay-as-you-go" basis. In addition to SBRS and its predecessor system, the City also provides noncontributory retirement benefits to certain employees whose employment predates SBRS and its predecessor system or who are veterans who meet certain state law requirements. The City is currently providing such benefits to approximately 222 pensioners.

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

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

<u>Fiscal Year Ending June 30</u>	<u>SBRS Contributory System</u>	<u>Predecessor/ Noncontributory System</u>	<u>Teachers Pension Reimbursement</u>	<u>Net Pension Cost</u>
2007 Budgeted .....	\$192.9	\$4.7	\$(85.2)	\$112.5
2006 .....	186.3	4.6	(85.2)	105.7
2005 .....	146.6	4.9	(76.5)	75.0
2004 .....	137.0	4.9	(61.4)	80.5
2003 .....	134.4	4.9	(53.7)	85.6
2002 .....	129.7	6.0	(45.3)	90.4

Source: City of Boston Office of Budget Management

## **Other Post Employment Benefits**

In addition to the pension benefits described above, the City provides post-employment health care and life insurance benefits to approximately 12,600 participating retirees and their beneficiaries and dependents in accordance with state statute and City ordinance. The City pays 75% of Blue Cross/Blue Shield of Massachusetts premiums and 90% of HMO premiums for medical and hospitalization incurred by retirees and their dependents. The City also pays 75% of Blue Cross/Blue Shield Medicare premiums for each Medicare eligible retiree and 50% of the premiums for \$5,000 of life insurance for each eligible retiree.

Currently, the City provides for the cost of health care and life insurance benefits for retirees and their beneficiaries and dependents on a pay-as-you-go basis. Expenditures for such purposes were approximately \$63.9 million in fiscal 2004, \$76.6 million in fiscal 2005 and \$78.3 million in fiscal 2006.

GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, become effective June 30, 2007 and June 30, 2008, respectively. These statements will require the City to account for and report the value of its future other post-employment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. In anticipation of these reporting requirements, the City engaged The Segal Group, actuarial consultants, to provide an actuarial valuation of the City's OPEB obligations as of June 30, 2005. The report, issued in November, 2006, estimated that the City's total OPEB actuarial accrued liability as of June 30, 2005 was \$5.2 billion if the City continued to provide for its OPEB obligations on a pay-as-you-go basis. The report further estimated that the City's actuarial accrued liability would be reduced to \$2.5 billion if the City adopted a policy of prefunding its unfunded actuarial accrued OPEB liability over a 30-year period. Based on these estimates, the City's annual actuarially required contribution toward its OPEB obligations on account of then current and estimated future retirees was projected to increase over the ensuing 30 year period to approximately \$286 million per annum on a pay-as-you-go basis and that its annual actuarially required contribution would be approximately \$176 million per annum under an actuarially pre-funded policy. Although cities and towns that choose to self-insure all or a portion of the cost of their OPEB obligations may establish a trust fund for the purpose of paying claims, Massachusetts General Laws do not currently provide cities and towns with general legal authority to establish a trust fund for the purpose of prefunding this liability in the same manner as traditional pension benefits.

## **AVAILABILITY OF OTHER INFORMATION**

The City's Auditing Department prepares a Comprehensive Annual Financial Report (CAFR) with respect to each fiscal year ended June 30 which generally becomes available in December of the following fiscal year. The CAFR is presented in three sections: (1) an Introductory Section which includes general information about the City and summarizes financial activity for the fiscal year; (2) a Financial Section which includes the Independent Auditors' Report on the City's Basic Financial Statements for the fiscal year, Management's Discussion and Analysis, the Basic Financial Statements for the fiscal year and the Combining and Individual Fund Financial Statements and Schedules for the various funds of the City, including required supplemental information; and (3) a Statistical Section which includes financial data, debt computations, and a variety of demographic, economic and supplemental statistical information concerning the City. Specific reference is made to the City's CAFR for the year ended June 30, 2006, which is available from the City. A copy of the CAFR has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and is also posted at the City's internet site at [www.cityofboston.gov/auditing](http://www.cityofboston.gov/auditing).

Questions regarding this Information Statement and requests for additional financial information concerning the City of Boston should be directed to Lisa Signori, Chief Financial Officer, Boston City Hall, Room 813, One City Hall Square, Boston, MA 02201-1020, telephone (617) 635-2840. Questions regarding legal matters relating to this Information Statement should be directed to Robert H. Hale, Edwards Angell Palmer & Dodge, LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone (617) 239-0407.



**CITY OF BOSTON, MASSACHUSETTS**

Basic Financial Statements and Required Supplementary Information

June 30, 2006

(With Independent Auditors' Report Thereon)

# CITY OF BOSTON, MASSACHUSETTS

## Table of Contents

	<b>Pages</b>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis – Required Supplementary Information	3 - 14
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	20
Statement of Revenues and Expenditures – Budgetary Basis General Fund – Budget and Actual	21
Statement of Net Assets – Proprietary Funds	22
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	23
Statement of Cash Flows – Proprietary Fund Types	24 - 25
Statement of Fiduciary Net Assets – Fiduciary Funds	26
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	27
Notes to Basic Financial Statements	28 - 61
Schedule I: Schedules of Funding Progress and Employers' Contributions – Required Supplementary Information	62



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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, 2006, 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 5% of the assets and revenues, respectively, of the aggregate remaining fund information and 24% and 26% 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2006 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 U.S. generally accepted accounting principles. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Boston, Massachusetts  
November 17, 2006

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

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, 2006. 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 basic financial statements include two types of financial statements that present different views of the City – the *Government-Wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

#### **Government-Wide Financial Statements**

The *Government-Wide Financial Statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assist 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.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

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

*Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most services normally associated with city government fall into this category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, 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

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

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

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

The City presents four columns in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's three major governmental funds are – the General Fund, the Special Revenue Fund, and the Capital Projects Fund. All nonmajor governmental funds are combined in the "Other Governmental Funds" column on these statements. The governmental fund financial statements can be found immediately following the government-wide 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 U.S. generally accepted accounting principles (GAAP). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied, while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the general fund that GAAP records in separate funds, and "budgetary" records 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.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

- 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.

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 Funds Financial Statements.

New for fiscal year 2006, is the implementation of GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. Please see the statistical section in the City's Comprehensive Annual Financial Report (CAFR).

Also for fiscal year 2006, the City adopted GASB Statement Nos. 42, 46 and 47, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, Net Assets Restricted By Enabling Legislation and Accounting for Termination Benefits*. These Statements did not have a material effect on the City's fiscal year 2006 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.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

#### ***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 – Primary Government* – The total net assets of the City exceeded its liabilities at fiscal year ending June 30, 2006 by \$975.1 million (presented as net assets). Of this amount, \$467.7 million was reported as “unrestricted net assets”. Unrestricted net assets represent the amount available to be used to meet the City’s ongoing obligations to citizens and creditors.

*Changes in Net Assets – Primary Government* – The City’s total net assets increased by \$99.4 million in fiscal year 2006. Net assets of governmental activities increased by \$93.2 million, while net assets of the business-type activities increased by \$6.2 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 (governmental and business-type activities) totaled \$975.1 million at the end of 2006, compared to \$875.7 million at the end of the previous year.

The components of net assets are composed 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 \$230.6 million indicating that the net book value of the City’s fixed assets exceeds the amount of capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City’s governmental activities net assets (26.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City’s ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets. Part of the unrestricted net assets (approximately \$145.5 million) represents the receivable from the Massachusetts School Building Authority (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 2007, the amount to be received by the City to pay debt service is approximately \$15.2 million. Although this receivable increases unrestricted net assets, it will not affect the City’s free cash position.

**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

June 30, 2006

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. These costs are intended to be covered by user charges, grants and lease receipts from third parties.

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

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Current assets	\$ 1,387,438	1,496,597	58,737	50,010	1,446,175	1,546,607
Capital assets	1,063,860	1,013,034	—	—	1,063,860	1,013,034
Other assets	4,830	4,748	2,801	2,987	7,631	7,735
Due from others	27,075	28,106	85,751	92,370	112,826	120,476
<b>Total assets</b>	<b>\$ 2,483,203</b>	<b>2,542,485</b>	<b>147,289</b>	<b>145,367</b>	<b>2,630,492</b>	<b>2,687,852</b>
Noncurrent liabilities	\$ 1,041,598	1,032,463	207,893	217,683	1,249,491	1,250,146
Other liabilities	388,260	549,872	17,647	12,166	405,907	562,038
<b>Total liabilities</b>	<b>\$ 1,429,858</b>	<b>1,582,335</b>	<b>225,540</b>	<b>229,849</b>	<b>1,655,398</b>	<b>1,812,184</b>
Invested in capital assets net of related debt	\$ 230,636	108,924	—	—	230,636	108,924
Restricted	276,769	294,453	—	—	276,769	294,453
Unrestricted	545,940	556,773	(78,251)	(84,482)	467,689	472,291
<b>Total net assets</b>	<b>\$ 1,053,345</b>	<b>960,150</b>	<b>(78,251)</b>	<b>(84,482)</b>	<b>975,094</b>	<b>875,668</b>

**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2006

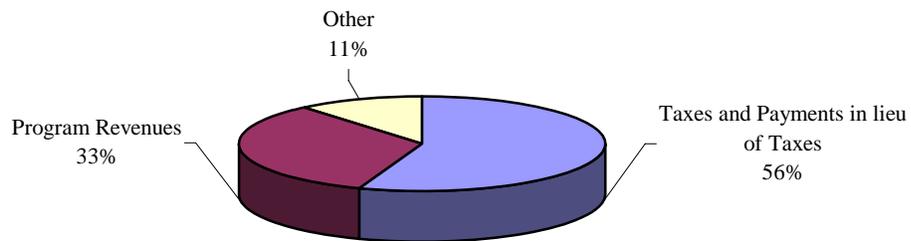
**Changes in Net Assets – Primary Government**  
(In thousands)

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 167,596	158,513	—	—	167,596	158,513
Operating grants and contributions	614,685	581,220	3,537	297	618,222	581,517
Capital grants and contributions	24,746	21,079	—	—	24,746	21,079
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,195,564	1,136,487	—	—	1,195,564	1,136,487
Excises	94,743	100,888	30,503	28,028	125,246	128,916
Payment in lieu of taxes	60,584	42,218	—	—	60,584	42,218
Grants and contributions not restricted	225,731	231,258	—	—	225,731	231,258
Investment income	42,082	28,072	5,920	6,116	48,002	34,188
Miscellaneous	2,164	2,344	—	—	2,164	2,344
Total revenues	<u>2,427,895</u>	<u>2,302,079</u>	<u>39,960</u>	<u>34,441</u>	<u>2,467,855</u>	<u>2,336,520</u>
Program expenses:						
General government	82,040	113,301	—	—	82,040	113,301
Human services	39,956	36,673	—	—	39,956	36,673
Public safety	578,778	543,552	—	—	578,778	543,552
Public works	127,379	124,406	—	—	127,379	124,406
Property and development	112,875	90,471	—	—	112,875	90,471
Parks and recreation	21,985	20,835	—	—	21,985	20,835
Library	41,665	38,250	—	—	41,665	38,250
Schools	1,016,901	924,148	—	—	1,016,901	924,148
Public health programs	63,604	62,653	—	—	63,604	62,653
County	115,388	109,854	—	—	115,388	109,854
State and district assessments	118,817	115,894	—	—	118,817	115,894
Interest on long-term debt	33,312	35,877	—	—	33,312	35,877
Convention center	—	—	10,814	6,165	10,814	6,165
Hospital	—	—	4,915	5,104	4,915	5,104
Total program expenses	<u>2,352,700</u>	<u>2,215,914</u>	<u>15,729</u>	<u>11,269</u>	<u>2,368,429</u>	<u>2,227,183</u>
Excess before special items and transfers	75,195	86,165	24,231	23,172	99,426	109,337
Special items	—	348,427	—	—	—	348,427
Transfers	<u>18,000</u>	<u>18,000</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>—</u>	<u>—</u>
Change in net assets	93,195	452,592	6,231	5,172	99,426	457,764
Net assets – beginning of year	<u>960,150</u>	<u>507,558</u>	<u>(84,482)</u>	<u>(89,654)</u>	<u>875,668</u>	<u>417,904</u>
Net assets – end of year	<u>\$ 1,053,345</u>	<u>960,150</u>	<u>(78,251)</u>	<u>(84,482)</u>	<u>975,094</u>	<u>875,668</u>

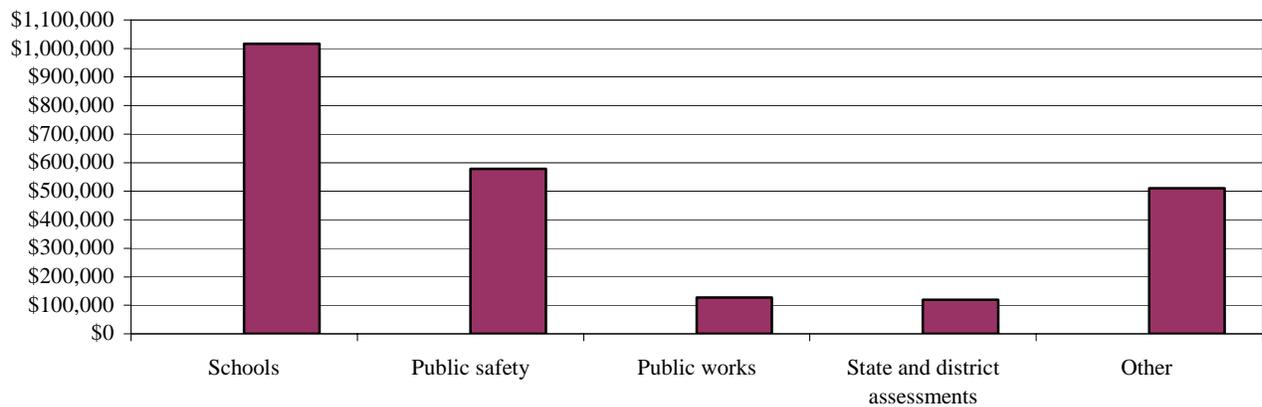
**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis  
June 30, 2006

**Revenues – Governmental Activities  
Fiscal Year 2006**



**Expenses – Governmental Activities  
Fiscal Year 2006  
(In thousands)**



## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

#### **Governmental Activities**

The City's governmental activities net assets increased by \$93.2 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal 2006: In the assets accounts, cash and investments increased by \$2.2 million, receivables decreased by \$96.1 million, capital assets increased by \$50.8 million. In the liability accounts, there were decreases in warrants payable of \$58.9 million, and current long-term debt of \$88.5 million, with an increase of \$1.0 million in unearned revenue and a \$15.2 million decrease in accrued liabilities.

The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.4 billion and \$807.0 million of program revenues. Approximately 55.6% of the City's total revenue came from taxes and payments in lieu of taxes, while 33.2% resulted from program revenues. Investment income and other miscellaneous revenues totaled \$44.2 million. The City's expenses cover a range of services. The largest expenses were for schools (\$1.0 billion), public safety (\$578.8 million), public works (\$127.4 million), state and district assessments (\$118.8 million), county (\$115.4 million) property and development (\$112.9 million), and general government (\$82.0 million). In 2006, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.5 billion. This shortfall was covered primarily through taxes (\$1.4 billion) and unrestricted grants and contributions (\$225.7 million).

Significant changes in revenues, specifically property tax revenue and federal and state grant revenue, allowed for increased spending for schools, public safety and public works. Comparative data on these revenues and expenses is itemized in the reporting of the *Changes in Net Assets – Primary Government* on page 9.

#### **Business-Type Activities**

Net assets from business-type activities increased by \$6.2 million during fiscal 2006. This change in net assets resulted primarily from an increase in excise tax revenues.

#### **Financial Analysis of the City's Fund Statements**

This analysis is based on the Governmental and Proprietary 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 2006, the City's governmental funds reported a combined ending fund balance of \$938.2 million, an increase of \$80.9 million from the prior year. Of this total amount, \$487.8 million represents the "unreserved and undesignated fund balances" with \$438.7 million of this amount in the general fund.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

#### **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 2006 was \$438.7 million, which represents approximately 22.1% of GAAP general fund operating expenditures.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of undesignated fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash". Free cash is the amount of statutory fund balance in the general fund, as certified by the Commonwealth of Massachusetts' Department of Revenue, 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 of Massachusetts' Department of Revenue) in years where the appropriation of free cash shall not cause the fiscal year's GAAP undesignated fund balance to go below 10% of the fiscal year's GAAP general fund expenditures while maintaining a Budgetary Undesignated Fund Balance between 5% and 10% of Budgetary Operating Expenses.

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

The general fund budgetary highlights include ending fiscal year 2006 with a \$13.9 million dollar surplus. This represents the City's 21st consecutive year with a balanced budget. Changes to the original budget resulted in an increase of \$11.3 million to the overall budget. The two supplemental appropriations totaling \$11.3 million were for the School, Public Works, Police, Fire, Library, Property Management, Parks, Transportation, City Clerk, and Arts and Cultural Development Departments. These appropriations were used for energy supply increases. Funding for the supplemental appropriations came from available revenue sources. During the year revenues exceeded budgetary estimates, thus eliminating the need to draw from existing fund balance.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

*Special Revenue Fund – Fund Balance* – The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for predefined purposes. The fiscal year 2006 special revenue fund balance is reported at \$216.9 million, a \$35.6 million increase from fiscal year 2005. The overall increase is primarily due to an increase in Intergovernmental Revenue of \$45.1 million, offset by a decrease of \$7.0 million in Departmental and Other Revenue.

*Capital Projects Fund – Fund Balance* – The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The fiscal year 2006 capital projects fund balance is \$14.8 million, a \$3.8 million decrease from fiscal year 2005.

*Other Governmental Funds – Fund Balance* – Other Governmental Funds account for assets held by the City in permanent trust funds. The fiscal year 2006 other governmental funds fund balance is \$45.0 million, a \$719 thousand increase from fiscal year 2005.

#### **Proprietary Funds**

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

The City's Proprietary Funds net deficit for fiscal year 2006 was \$78.3 million. As stated in the discussion on the Government-Wide Financial Statements, the net deficit 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, 2006, included \$2.2 billion of cost and accumulated depreciation of \$1.1 billion, leaving a net book value of \$1.1 billion. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was approximately 5% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$94.6 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 \$48.5 million. Additional information on the City's capital assets can be found in note 8 of the Notes to Basic Financial Statements.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

June 30, 2006

#### ***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 \$839.1 million in General Obligations Bonds principal outstanding – an increase of 0.4% over last year.

The key factor in this increase was the issuance of the January 31, 2006 Series A \$80.0 million General Obligation Bonds, of which there was no debt that was refinanced during the fiscal year.

General Obligation Bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding has been approved by a vote of the City Council.

*Notes and Leases Payable and Other Long-Term Obligations* – The City's general long-term notes and leases and other long-term obligations decreased by \$82.7 million, or 20.5% during the current fiscal year. The key factor was the payoff of the Bond Anticipation Notes totaling \$96.0 million.

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

#### **Future Accounting Pronouncements**

GASB Statement Nos. 43 and 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* are effective June 30, 2007 and June 30, 2008, respectively.

These statements will require the City to account for and report the value of its future other post-employment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The City has estimated its total OPEB obligation as of June 30, 2005 to be between \$5.2 billion (pay-as-you-go) and \$2.5 billion (pre-funded) depending on the funding policy elected by the City. Based on these estimates, the City's actuarially required contribution (ARC) is estimated to be between \$286 million and \$176 million, respectively.

#### **Requests for Information**

This financial report is designed to provide a general overview of the City of Boston's finances for all of City of Boston's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M-4, Boston, MA 02201.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Net Assets

June 30, 2006

(In thousands)

	<b>Primary government</b>			<b>Component units</b>
	<b>Governmental activities</b>	<b>Business-type activities</b>	<b>Total</b>	
<b>Assets:</b>				
<b>Current assets:</b>				
Cash and investments	\$ 880,993	—	880,993	195,394
Cash and investments held by trustees	49,499	56,596	106,095	5,828
<b>Receivables, net:</b>				
Property taxes	17,510	—	17,510	—
Intergovernmental	216,648	—	216,648	—
Other	18,705	2,141	20,846	40,693
Other assets	4,830	2,801	7,631	20,664
Internal balances	18,000	(18,000)	—	—
Due from BMC	—	—	—	1,015
Due from primary government	—	—	—	250
Due from component units	9,075	—	9,075	—
<b>Total current assets</b>	<b>1,215,260</b>	<b>43,538</b>	<b>1,258,798</b>	<b>263,844</b>
<b>Noncurrent assets:</b>				
Intergovernmental receivables	130,394	—	130,394	—
Notes and other receivables	73,689	—	73,689	71,305
Other assets	—	—	—	131,082
<b>Capital assets:</b>				
Nondepreciable	194,626	—	194,626	20,100
Depreciable, net	869,234	—	869,234	39,579
Due from component units	—	103,751	103,751	—
<b>Total noncurrent assets</b>	<b>1,267,943</b>	<b>103,751</b>	<b>1,371,694</b>	<b>262,066</b>
<b>Total assets</b>	<b>2,483,203</b>	<b>147,289</b>	<b>2,630,492</b>	<b>525,910</b>
<b>Liabilities:</b>				
<b>Current liabilities:</b>				
Warrants and accounts payable	54,055	5,240	59,295	19,830
<b>Accrued liabilities – current:</b>				
Tax abatement liability	26,000	—	26,000	—
Compensated absences	41,892	—	41,892	—
Judgments and claims	8,354	—	8,354	—
Payroll and related costs	89,555	—	89,555	—
Deposits and other	62,853	2,842	65,695	1,844
Current portion of long-term debt and leases	92,355	9,565	101,920	1,041
Due to component units	250	—	250	—
Due to BMC	—	—	—	70,473
Due to primary government	—	—	—	112,826
Unearned revenue	12,946	—	12,946	47,035
<b>Total current liabilities</b>	<b>388,260</b>	<b>17,647</b>	<b>405,907</b>	<b>253,049</b>
<b>Noncurrent liabilities:</b>				
Bonds due in more than one year	780,256	207,893	988,149	136,527
Notes and leases payable due in more than one year	58,945	—	58,945	—
Other noncurrent liabilities	202,397	—	202,397	3,045
<b>Total noncurrent liabilities</b>	<b>1,041,598</b>	<b>207,893</b>	<b>1,249,491</b>	<b>139,572</b>
<b>Total liabilities</b>	<b>1,429,858</b>	<b>225,540</b>	<b>1,655,398</b>	<b>392,621</b>
<b>Net assets:</b>				
Investment in capital assets, net of related debt	230,636	—	230,636	38,069
<b>Restricted for:</b>				
Capital projects	14,844	—	14,844	—
Expendable trust	45,018	—	45,018	—
Special Revenue	216,907	—	216,907	56,490
Unrestricted	545,940	(78,251)	467,689	38,730
<b>Total net assets</b>	<b>\$ 1,053,345</b>	<b>(78,251)</b>	<b>975,094</b>	<b>133,289</b>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Activities

Year ended June 30, 2006

(In thousands)

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 82,040	11,600	6,573	8,217	(55,650)		(55,650)	
Human services	39,956	32	15,323	—	(24,601)		(24,601)	
Public safety	578,778	121,090	46,700	—	(410,988)		(410,988)	
Public works	127,379	13,670	—	10,035	(103,674)		(103,674)	
Property and development	112,875	5,415	69,589	230	(37,641)		(37,641)	
Parks and recreation	21,985	281	284	1,368	(20,052)		(20,052)	
Library	41,665	397	4,493	382	(36,393)		(36,393)	
Schools	1,016,901	15,105	360,600	4,514	(636,682)		(636,682)	
Public health programs	63,604	—	—	—	(63,604)		(63,604)	
County	115,388	6	111,123	—	(4,259)		(4,259)	
State and district assessments	118,817	—	—	—	(118,817)		(118,817)	
Interest on long-term debt	33,312	—	—	—	(33,312)		(33,312)	
Total governmental activities	<u>2,352,700</u>	<u>167,596</u>	<u>614,685</u>	<u>24,746</u>	<u>(1,545,673)</u>		<u>(1,545,673)</u>	
Business-type activities:								
Convention Center	10,814	—	3,537	—		(7,277)	(7,277)	
Hospital Bonds	4,915	—	—	—		(4,915)	(4,915)	
Total business-type activities	<u>15,729</u>	<u>—</u>	<u>3,537</u>	<u>—</u>	<u>—</u>	<u>(12,192)</u>	<u>(12,192)</u>	
Total primary government	<u>\$ 2,368,429</u>	<u>167,596</u>	<u>618,222</u>	<u>24,746</u>	<u>(1,545,673)</u>	<u>(12,192)</u>	<u>(1,557,865)</u>	
Component units:								
Boston Public Health Commission	\$ 122,574	—	45,066	541				(76,967)
Boston Redevelopment Authority	19,459	11,429	2,458	—				(5,572)
Trustees of the Public Library of the City of Boston	16,860	858	13,699	—				(2,303)
Economic Development and Industrial Corporation of Boston	32,928	13,835	15,577	—				(3,516)
Total component units	<u>\$ 191,821</u>	<u>26,122</u>	<u>76,800</u>	<u>541</u>				<u>(88,358)</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					1,195,564	—	1,195,564	—
Excises					94,743	30,503	125,246	—
Payments in lieu of taxes					60,584	—	60,584	—
Grants and contributions not restricted					225,731	—	225,731	—
Investment income					42,082	5,920	48,002	8,190
City appropriation					—	—	—	61,300
Miscellaneous					2,164	—	2,164	16,376
Transfers					18,000	(18,000)	—	—
Total general revenues and transfers					<u>1,638,868</u>	<u>18,423</u>	<u>1,657,291</u>	<u>85,866</u>
Change in net assets					93,195	6,231	99,426	(2,492)
Net assets – beginning of year					<u>960,150</u>	<u>(84,482)</u>	<u>875,668</u>	<u>135,781</u>
Net assets – end of year					<u>\$ 1,053,345</u>	<u>(78,251)</u>	<u>975,094</u>	<u>133,289</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Balance Sheet – Governmental Funds

June 30, 2006

(In thousands)

<b>Assets</b>	<b>General</b>	<b>Special revenue</b>	<b>Capital projects</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
Cash and investments	\$ 663,547	158,601	24,221	—	846,369
Cash and investments held by trustees	—	—	4,209	45,290	49,499
Receivables, net:					
Property taxes	17,510	—	—	—	17,510
Intergovernmental	239,719	103,307	4,016	—	347,042
Departmental and other	18,381	73,689	—	218	92,288
Total receivables	<u>275,610</u>	<u>176,996</u>	<u>4,016</u>	<u>218</u>	<u>456,840</u>
Due from other funds	24,221	2,682	—	—	26,903
Due from component units	9,021	—	—	—	9,021
Total assets	<u>\$ 972,399</u>	<u>338,279</u>	<u>32,446</u>	<u>45,508</u>	<u>1,388,632</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Warrants and accounts payable	\$ 36,295	11,452	5,786	490	54,023
Accrued liabilities:					
Payroll and related costs	88,189	1,366	—	—	89,555
Deposits and other	9,653	28,646	8,510	—	46,809
Deferred revenue	173,349	73,689	3,306	—	250,344
Due to other funds	3,266	6,219	—	—	9,485
Due to component unit	250	—	—	—	250
Total liabilities	<u>311,002</u>	<u>121,372</u>	<u>17,602</u>	<u>490</u>	<u>450,466</u>
Fund balances:					
Reserved for:					
Encumbrances	44,573	67,116	71,727	149	183,565
Future appropriations	—	—	43,756	—	43,756
Unreserved:					
Designated for subsequent years' expenditures	178,157	—	—	—	178,157
Undesignated	438,667	149,791	(100,639)	—	487,819
Reported in permanent funds	—	—	—	44,869	44,869
Total fund balances	<u>661,397</u>	<u>216,907</u>	<u>14,844</u>	<u>45,018</u>	<u>938,166</u>
Total liabilities and fund balances	<u>\$ 972,399</u>	<u>338,279</u>	<u>32,446</u>	<u>45,508</u>	<u>1,388,632</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, 2006

(In thousands)

Total fund balance – Governmental funds	\$	938,166
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		15,902
Land improvements		105,908
Buildings and improvements		1,349,059
Furniture and equipment		191,816
Infrastructure		330,555
Construction in progress		178,724
Less accumulated depreciation		<u>(1,108,104)</u>
		<u>1,063,860</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis		237,398
Internal service funds are included in the government-wide statements		30,567
Bond issuance costs are capitalized in the government-wide statements		3,004
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		(890,525)
Capital leases		(17,620)
Bond issue premiums		(33,052)
Deferred bond gains (losses)		9,641
Accrued interest on bonds		(16,044)
Compensated absences		(184,276)
Landfill		(14,373)
Judgments and claims		(47,401)
Tax abatements		<u>(26,000)</u>
		<u>(1,219,650)</u>
Net assets of governmental activities	\$	<u><u>1,053,345</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, 2006  
(In thousands)

	<b>General</b>	<b>Special revenue</b>	<b>Capital projects</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
<b>Revenues:</b>					
Real and personal property taxes	\$ 1,190,347	—	—	—	1,190,347
Excises	107,361	—	—	—	107,361
Payments in lieu of taxes	60,584	—	—	—	60,584
Fines	67,876	18	—	—	67,894
Investment income	32,351	351	—	190	32,892
Licenses and permits	40,353	71	—	—	40,424
Departmental and other	51,992	45,894	3,864	8,018	109,768
Intergovernmental	557,418	377,471	9,538	—	944,427
Total revenues	<u>2,108,282</u>	<u>423,805</u>	<u>13,402</u>	<u>8,208</u>	<u>2,553,697</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General government	57,262	4,684	—	5,379	67,325
Human services	24,875	10,009	—	—	34,884
Public safety	446,784	30,004	—	—	476,788
Public works	101,441	8,961	—	—	110,402
Property and development	33,322	71,749	—	—	105,071
Parks and recreation	15,723	384	—	—	16,107
Library	28,365	5,670	—	—	34,035
Schools	719,715	149,685	—	—	869,400
Public health programs	61,282	1,985	—	—	63,267
County	—	106,270	—	—	106,270
Judgments and claims	11,590	—	—	—	11,590
Retirement costs	96,853	—	—	—	96,853
Other employee benefits	157,885	—	—	—	157,885
State and district assessments	118,817	—	—	—	118,817
Capital outlays	815	1,695	103,305	—	105,815
Debt service	112,600	—	97,446	—	210,046
Total expenditures	<u>1,987,329</u>	<u>391,096</u>	<u>200,751</u>	<u>5,379</u>	<u>2,584,555</u>
Excess (deficiency) of revenues over expenditures	<u>120,953</u>	<u>32,709</u>	<u>(187,349)</u>	<u>2,829</u>	<u>(30,858)</u>
<b>Other financing sources (uses):</b>					
Long-term debt and capital leases issued	—	—	89,871	—	89,871
Premiums on long-term debt issued	—	3,872	—	—	3,872
Transfers in (out)	(72,580)	(1,000)	93,690	(2,110)	18,000
Total other financing sources (uses)	<u>(72,580)</u>	<u>2,872</u>	<u>183,561</u>	<u>(2,110)</u>	<u>111,743</u>
Net change in fund balances	48,373	35,581	(3,788)	719	80,885
Fund balance – beginning of year	613,024	181,326	18,632	44,299	857,281
Fund balance – end of year	<u>\$ 661,397</u>	<u>216,907</u>	<u>14,844</u>	<u>45,018</u>	<u>938,166</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, 2006

Net change in fund balances – total governmental funds	\$	80,885
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 (\$94,582) exceeded depreciation expense (\$48,495).		46,087
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.		(7,478)
Proceeds of long-term debt (\$89,871) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond, note and lease principal (\$180,432) 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.		90,561
Bond premiums net (\$1,176) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$1,555) are expenditures in the governmental funds, but are deferred assets in the statement of assets. This is the amount by which premiums exceeded issuance costs.		379
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds		(114,983)
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 (\$9,612), judgments (\$1,653) and health and life claims (\$128) offset by a decrease in liabilities for landfill (\$116), interest payable (\$3,359) and notes payable (\$1,755).		(6,163)
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds.		<u>3,907</u>
Change in net assets of governmental activities	\$	<u><u>93,195</u></u>

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, 2006  
(with comparative actual amounts for 2005)

(In thousands)

	<b>2006</b>		<b>Actual</b>	<b>Variance over (under)</b>	<b>2005 Actual</b>
	<b>Original budget</b>	<b>Final budget</b>			
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,166,783	1,166,783	1,167,342	559	1,106,336
Excises	104,450	105,450	126,208	20,758	118,657
Commonwealth of Massachusetts	546,162	546,162	549,777	3,615	537,655
Departmental and other revenue	40,988	40,988	54,116	13,128	53,142
Fines	64,600	64,600	67,611	3,011	65,280
Payments in lieu of taxes	43,315	46,815	60,584	13,769	42,218
Investment income	16,000	22,806	30,049	7,243	17,787
Licenses and permits	27,180	27,180	38,755	11,575	33,821
Other available funds	41,336	41,336	9,810	(31,526)	5,529
<b>Total revenues and other available funds</b>	<b>2,050,814</b>	<b>2,062,120</b>	<b>2,104,252</b>	<b>42,132</b>	<b>1,980,425</b>
Expenditures:					
General government	58,807	62,351	60,933	1,418	59,837
Human services	24,506	25,019	24,950	69	23,853
Public safety	427,692	430,182	451,997	(21,815)	429,376
Public works	93,812	100,672	101,996	(1,324)	106,699
Property and development	32,351	36,375	36,225	150	25,425
Parks and recreation	15,134	15,859	15,629	230	15,179
Library	26,694	27,713	27,712	1	26,600
Schools	712,683	717,809	717,793	16	680,181
Boston Public Health Commission	61,300	61,300	61,300	—	60,568
Judgments and claims	3,500	3,500	10,497	(6,997)	10,884
Other employee benefits	159,002	159,002	159,058	(56)	147,803
Retirement costs	190,985	190,985	190,885	100	151,463
State and district assessments	125,102	118,401	118,817	(416)	115,894
Debt requirements	119,246	112,952	112,599	353	118,330
<b>Total expenditures</b>	<b>2,050,814</b>	<b>2,062,120</b>	<b>2,090,391</b>	<b>(28,271)</b>	<b>1,972,092</b>
<b>Excess of revenues and other available funds over expenditures</b>	<b>\$ —</b>	<b>—</b>	<b>13,861</b>	<b>70,403</b>	<b>8,333</b>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Net Assets – Proprietary Funds

June 30, 2006

(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center bonds</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
<b>Assets:</b>				
<b>Current assets:</b>				
Cash and investments	\$ —	—	—	34,624
Cash and investments held by trustees	36,266	20,330	56,596	—
Receivables, net	—	—	—	107
Intergovernmental receivables	2,141	—	2,141	—
<b>Total current assets</b>	<b>38,407</b>	<b>20,330</b>	<b>58,737</b>	<b>34,731</b>
<b>Noncurrent assets:</b>				
Due from other funds	—	—	—	582
Due from component units	—	103,751	103,751	54
Other assets	1,307	1,494	2,801	1,825
<b>Total noncurrent assets</b>	<b>1,307</b>	<b>105,245</b>	<b>106,552</b>	<b>2,461</b>
<b>Total assets</b>	<b>39,714</b>	<b>125,575</b>	<b>165,289</b>	<b>37,192</b>
<b>Liabilities:</b>				
<b>Current liabilities:</b>				
Warrants and accounts payable	5,240	—	5,240	32
Accrued liabilities	—	—	—	6,593
Due to other funds	18,000	—	18,000	—
Accrued interest payable	867	1,975	2,842	—
Current portion of long-term debt	3,070	6,495	9,565	—
<b>Total current liabilities</b>	<b>27,177</b>	<b>8,470</b>	<b>35,647</b>	<b>6,625</b>
<b>Noncurrent liabilities:</b>				
Special obligation bonds	103,715	—	103,715	—
Revenue bonds	—	104,178	104,178	—
<b>Total noncurrent liabilities</b>	<b>103,715</b>	<b>104,178</b>	<b>207,893</b>	<b>—</b>
<b>Total liabilities</b>	<b>130,892</b>	<b>112,648</b>	<b>243,540</b>	<b>6,625</b>
<b>Net assets:</b>				
Unrestricted	(91,178)	12,927	(78,251)	30,567
<b>Total net assets</b>	<b>\$ (91,178)</b>	<b>12,927</b>	<b>(78,251)</b>	<b>30,567</b>

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, 2006

(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center bonds</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
Operating revenues:				
Contributions	\$ —	—	—	90,165
State aid – pledged for debt service	30,503	—	30,503	—
Intergovernmental revenue	2,141	—	2,141	—
Total operating revenues	<u>32,644</u>	<u>—</u>	<u>32,644</u>	<u>90,165</u>
Operating expenses:				
Payments made on behalf of State	5,240	—	5,240	—
Health benefits	—	—	—	86,258
Total operating expenses	<u>5,240</u>	<u>—</u>	<u>5,240</u>	<u>86,258</u>
Operating income	<u>27,404</u>	<u>—</u>	<u>27,404</u>	<u>3,907</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	1,396	—	1,396	—
Investment earnings – pledged for debt service	—	5,145	5,145	—
Investment earnings – other	775	—	775	—
Interest expense	(5,574)	(4,915)	(10,489)	—
Total nonoperating revenue (expense)	<u>(3,403)</u>	<u>230</u>	<u>(3,173)</u>	<u>—</u>
Income before transfers	<u>24,001</u>	<u>230</u>	<u>24,231</u>	<u>3,907</u>
Transfer to general fund	(18,000)	—	(18,000)	—
Change in net assets	<u>6,001</u>	<u>230</u>	<u>6,231</u>	<u>3,907</u>
Total net assets – beginning of year	<u>(97,179)</u>	<u>12,697</u>	<u>(84,482)</u>	<u>26,660</u>
Total net assets – end of year	<u><u>\$ (91,178)</u></u>	<u><u>12,927</u></u>	<u><u>(78,251)</u></u>	<u><u>30,567</u></u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**  
Statement of Cash Flows – Proprietary Fund Types  
Year ended June 30, 2006  
(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center bonds</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
Cash flows from operating activities:				
Cash received from State aid	\$ 30,503	—	30,503	—
Cash received from employees and employer	—	—	—	90,165
Cash paid to vendors	—	—	—	(86,096)
Cash payments on behalf of State	—	—	—	—
Net cash provided by operations	<u>30,503</u>	<u>—</u>	<u>30,503</u>	<u>4,069</u>
Cash flows from noncapital financing activities:				
Grants received from State	1,396	—	1,396	—
Interest paid on debt	(5,537)	(5,094)	(10,631)	—
Lease receipts	—	11,763	11,763	—
Transfers to other funds	(18,000)	—	(18,000)	—
Repayment of long-term debt	(2,915)	(6,305)	(9,220)	—
Net cash provided by (used in) noncapital financing activities	<u>(25,056)</u>	<u>364</u>	<u>(24,692)</u>	<u>—</u>
Cash flows from investing activities:				
Investment income	775	—	775	—
Net cash provided by investing activities	<u>775</u>	<u>—</u>	<u>775</u>	<u>—</u>
Increase in cash and cash equivalents	6,222	364	6,586	4,069
Cash and cash equivalents, beginning of year	<u>30,044</u>	<u>19,966</u>	<u>50,010</u>	<u>30,555</u>
Cash and cash equivalents, end of year	<u>\$ 36,266</u>	<u>20,330</u>	<u>56,596</u>	<u>34,624</u>
Reconciliation of operating income to cash provided by operating activities:				
Operating income	\$ 27,404	—	27,404	3,907
Reconciliation of operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	(2,141)	—	(2,141)	(60)
Other assets	—	—	—	49
Due from component units	—	—	—	54
Accounts payable and accrued liabilities	5,240	—	5,240	119
Net cash provided by operating activities	<u>\$ 30,503</u>	<u>—</u>	<u>30,503</u>	<u>4,069</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**  
Statement of Cash Flows – Proprietary Fund Types  
Year ended June 30, 2006  
(In thousands)

	<b>Enterprise funds</b>			<b>Internal service</b>
	<b>Convention center bonds</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	
Reconciliation of operating income to cash provided by operating activities:				
Operating income	\$ 27,404	—	27,404	3,907
Reconciliation of operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	(2,141)	—	(2,141)	(60)
Other assets	—	—	—	49
Due from other funds	—	—	—	54
Accounts payable and accrued liabilities	5,240	—	5,240	119
Net cash provided by operating activities	<u>\$ 30,503</u>	<u>—</u>	<u>30,503</u>	<u>4,069</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2006

(Except for Employee Retirement Plan, which is as of December 31, 2005)

(In thousands)

	<u>Employee retirement plan</u>	<u>Private purpose trusts</u>	<u>Agency funds</u>
Assets:			
Cash and cash equivalents	\$ 16,193	79,725	1,673
Receivables:			
Interest and dividends	27,223	—	
Securities sold	81,845	—	—
Other	106,087	2,192	—
Total receivables	<u>215,155</u>	<u>2,192</u>	<u>—</u>
Investments, at fair value:			
Short-term:			
Domestic	42,739	—	—
International	19,325	—	—
Equity:			
Domestic	1,656,389	—	—
International	701,405	—	—
Fixed-income:			
Domestic	538,842	—	—
International	204,858	—	—
Real estate	255,357	—	—
Venture capital funds	260,270	—	—
Total investments	<u>3,679,185</u>	<u>—</u>	<u>—</u>
Securities lending short-term collateral investment pool	228,073	—	—
Other assets	—	30	—
Total assets	<u>4,138,606</u>	<u>81,947</u>	<u>1,673</u>
Liabilities:			
Accounts payable	13,681	1,314	—
Securities purchased	105,225	—	—
Collateral held on securities lending	228,073	—	—
Refunds payable and other	—	—	1,673
Total liabilities	<u>346,979</u>	<u>1,314</u>	<u>\$ 1,673</u>
Net assets:			
Held in trust for pension benefits and other purposes	\$ <u>3,791,627</u>	<u>80,633</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, 2006

(Except for Employee Retirement Plan, which is for the year ended December 31, 2005)

(In thousands)

	<u>Employee retirement plan</u>	<u>Private purpose trusts</u>
Additions:		
Contributions:		
Employers	\$ 212,308	—
Employees	108,837	—
Donations and other	—	25,243
Total contributions	<u>321,145</u>	<u>25,243</u>
Investment earnings:		
Net appreciation in the fair value of investments	183,408	—
Interest and dividends	95,800	1,395
Less investment expenses	(10,925)	—
Net investment earnings	<u>268,283</u>	<u>1,395</u>
Securities lending activities:		
Securities lending income	7,733	—
Less borrower rebates and fees	(7,284)	—
Net income from securities lending activities	<u>449</u>	<u>—</u>
Total net investment income	268,732	1,395
Intergovernmental	18,070	—
Total additions	<u>607,947</u>	<u>26,638</u>
Deductions:		
Benefits	335,718	—
Reimbursement to other systems	8,746	—
Refunds of contributions	16,107	—
Administrative expenses	3,589	20,479
Total deductions	<u>364,160</u>	<u>20,479</u>
Change in net assets	243,787	6,159
Net assets, beginning of year	<u>3,547,840</u>	<u>74,474</u>
Net assets, end of year	\$ <u><u>3,791,627</u></u>	<u><u>80,633</u></u>

See accompanying notes to basic financial statements.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2006

### (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, 2005 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201.

#### (c) *Discretely Presented Component Units Disclosure*

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

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

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2006

**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, 2006.

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

**(a) *Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2006

separately from certain legally separate *component units* for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

### **(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

#### **Government-Wide Financial Statements**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

#### **Governmental Fund Financial Statements**

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

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2006

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

### **Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements**

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from the collection of revenue pledged to repay debt. The principal operating revenues of the City's enterprise funds are lease receipts and excise taxes. The principal operating revenues of the City's internal service funds are 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

## Notes to Basic Financial Statements

June 30, 2006

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 basic financial statements, it is not considered a major fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 SBRS which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

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

**(e) *Interfund Receivables and Payables***

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

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

**(f) *Uncollectible Tax and Other Receivables***

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

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

**(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, 2006 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.

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2006

(i) ***Long-Term Obligations and Related Costs***

**Premiums, Discounts, and Issue Costs** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported 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, 2006, 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, 2006, 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 2006 were approximately \$116,000.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2006

**(m) Use of Estimates**

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

**(3) Short-Term Debt**

During fiscal year 2006, 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. Supplemental appropriations, other than the aforementioned transfers, were approximately \$11.3 million for the year.

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

June 30, 2006

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

- (a) Revenues are recorded when cash is received, except for real estate and personal property taxes which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).
- (c) Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).
- (d) Amounts raised for the prior years’ deficits and available funds from prior years’ surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures, and transfers.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2006 (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	\$ 2,104,252	2,090,391	—	13,861
Adjustments:				
Revenues to modified accrual basis	16,614	—	—	16,614
Expenditures, encumbrances, and accruals, net	—	(17,898)	—	17,898
Reclassifications:				
State-funded teachers’ retirement costs	(85,164)	(85,164)	—	—
Convention Center fund revenue	(18,000)	—	18,000	—
Transfers	90,580	—	(90,580)	—
As reported on a GAAP basis	<u>\$ 2,108,282</u>	<u>1,987,329</u>	<u>(72,580)</u>	<u>48,373</u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

**(5) Deposits and Investments**

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed 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 MMDT. The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

The City and its blended component unit adopted 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, 2006, the bank balances of uninsured and uncollateralized deposits totaled approximately \$5.2 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, 2006

**(c) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a listing of the City's fixed income investments (in thousands) and related maturity schedule (in years) as of June 30, 2006:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1-5</u>
External investment pool	\$ 643	643	—
Mutual funds	57,403	57,403	—
U.S. Treasury notes and bonds	10,877	—	10,877
Domestic corporate	4,673	—	4,673
	<u>\$ 73,596</u>	<u>58,046</u>	<u>15,550</u>

**(d) Credit Risk**

The City's fixed income investments as of June 30, 2006 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	\$ 57,403	AAA
External investment pool	643	Not Rated
Domestic corporate	4,673	AAA to BBB+
	<u>\$ 62,719</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, 2005, all of the System's deposits were insured.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

**(b) Investment Policy**

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

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

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

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

**(c) Interest Rate Risk**

The following is a listing of the System’s fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2005:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
U.S. Treasury notes and bonds	\$ 49,908	9,822	10,377	12,475	17,234
U.S. agencies	127,079	—	63,399	18,954	44,726
Domestic corporate	292,593	14,426	134,431	101,459	42,277
International corporate	70,877	6,072	48,581	12,667	3,557
International government	98,126	—	64,321	16,637	17,168
Asset-backed:					
CMOs	19,861	—	2,338	1,708	15,815
Mortgage-backed	43,185	—	857	211	42,117
Other	42,071	—	26,038	7,351	8,682
	<u>\$ 743,700</u>	<u>30,320</u>	<u>350,342</u>	<u>171,462</u>	<u>191,576</u>

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

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2005 are highly sensitive to changes in interest rates.

**(d) Credit Risk**

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

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

The System's fixed income investments as of December 31, 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:

<b>Investment type</b>	<b>Fair value</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>BB</b>	<b>B</b>	<b>CCC</b>	<b>Not rated</b>
U.S. agencies	\$ 127,079	127,079	—	—	—	—	—	—	—
Domestic corporate	292,593	10,137	17,174	143,401	20,159	46,544	44,900	795	9,483
International corp.	70,877	40,952	1,040	5,586	5,566	3,449	1,915	—	12,369
International gov't	98,126	69,202	11,150	98	598	—	—	—	17,078
Asset-backed:									
CMOs	19,861	19,220	279	94	—	—	—	—	268
Mortgage-backed	43,185	22,836	—	—	—	—	—	—	20,349
Other	42,071	40,437	—	317	767	—	—	—	550
	<u>\$ 693,792</u>	<u>329,863</u>	<u>29,643</u>	<u>149,496</u>	<u>27,090</u>	<u>49,993</u>	<u>46,815</u>	<u>795</u>	<u>60,097</u>

In addition to the above schedule, the System has approximately \$49,908,000 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, 2005.

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, 2005, there were no open forward currency contracts.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

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

<u>Currency</u>	<u>Short-term</u>	<u>Fixed income</u>	<u>Equity</u>	<u>Alternative</u>	<u>Total</u>
Australian dollar	58	3,999	14,681	—	18,738
Brazilian real	(3,047)	2,389	3,328	—	2,670
Canadian dollar	18	6,419	5,088	—	11,525
Danish krone	—	3,711	5,524	—	9,235
Euro currency	3,126	64,199	196,296	5,847	269,468
Hong Kong dollar	163	—	10,136	—	10,299
Indonesian rupiah	3	833	621	—	1,457
Israeli shekel	(62)	—	428	—	366
Japanese yen	235	59,891	154,423	—	214,549
Malaysian ringgit	10	—	1,233	—	1,243
Mexican peso	872	867	1,528	—	3,267
New Zealand dollar	249	1,027	—	—	1,276
Norwegian krone	—	2,072	5,288	—	7,360
Phillipine peso	—	—	249	—	249
Pound sterling	1,799	16,421	133,136	—	151,356
Singapore dollar	62	6,210	6,299	—	12,571
South African rand	70	—	4,584	—	4,654
South Korean won	283	1,644	4,678	—	6,605
Swedish krona	65	10,562	9,406	—	20,033
Swiss franc	204	—	48,937	—	49,141
Thailand baht	—	3,173	725	—	3,898
International equity pooled funds (various currencies)	—	—	65,814	—	65,814
Total securities subject to foreign currency risk	4,108	183,417	672,402	5,847	865,774
United States dollars (securities held by international investment managers)*	19,388	21,441	29,003	—	69,832
Total international investment securities	23,496	204,858	701,405	5,847	935,606

\* Short-term investments include cash of approximately \$63 million.

**(6) Property Taxes**

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

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

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 August 6, all properties with unpaid fiscal year 2006 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	\$ 21,401	—	—	—	—	21,401
Other taxes	138,506	—	—	—	—	138,506
Intergovernmental	239,719	103,307	4,016	—	—	347,042
Other	<u>33,146</u>	<u>73,689</u>	<u>—</u>	<u>218</u>	<u>107</u>	<u>107,160</u>
Gross receivables	432,772	176,996	4,016	218	107	614,109
Less allowance for uncollectibles	<u>(157,162)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(157,162)</u>
Net total receivables	<u>\$ 275,610</u>	<u>176,996</u>	<u>4,016</u>	<u>218</u>	<u>107</u>	<u>456,947</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 (up to 90% of total costs) to the City to build and/or renovate schools. As of June 30, 2006, under this program, the City was due funds totaling \$145.5 million.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown (in thousands) as of June 30, 2006 through 2011, and in five-year increments thereafter:

	<u>Anticipated revenue</u>
Fiscal year(s):	
2007	\$ 15,136
2008	15,020
2009	14,507
2010	14,265
2011	12,466
2012-2015	40,565
2016-2020	<u>33,571</u>
Total	<u>\$ 145,530</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, 2006, under this program, the City determined that \$73.7 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 taxes receivable (general fund)	\$ 18,179	—
Due from component units	—	9,021
Section 108 receivable	73,689	—
School building assistance receivable	145,530	3,306
Other	<u>—</u>	<u>619</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 237,398</u>	<u>12,946</u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

**(8) Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows (in thousands):

***Primary Government***

	<b><u>Beginning balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending balance</u></b>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 15,866	36	—	15,902
Construction in progress	<u>319,601</u>	<u>78,233</u>	<u>(219,110)</u>	<u>178,724</u>
Total capital assets not being depreciated	<u>335,467</u>	<u>78,269</u>	<u>(219,110)</u>	<u>194,626</u>
Capital assets being depreciated:				
Land improvements	79,463	26,445	—	105,908
Buildings and improvements	1,177,761	171,298	—	1,349,059
Furniture and equipment	176,628	21,158	(5,970)	191,816
Infrastructure	<u>308,062</u>	<u>22,493</u>	<u>—</u>	<u>330,555</u>
Total capital assets being depreciated	<u>1,741,914</u>	<u>241,394</u>	<u>(5,970)</u>	<u>1,977,338</u>
Less accumulated depreciation for:				
Land improvements	8,741	3,812	—	12,553
Buildings and improvements	809,592	21,068	—	830,660
Furniture and equipment	142,802	13,078	(4,738)	151,142
Infrastructure	<u>103,212</u>	<u>10,537</u>	<u>—</u>	<u>113,749</u>
Total accumulated depreciation	<u>1,064,347</u>	<u>48,495</u>	<u>(4,738)</u>	<u>1,108,104</u>
Total capital assets being depreciated, net	<u>677,567</u>	<u>192,899</u>	<u>(1,232)</u>	<u>869,234</u>
Governmental activities capital assets, net	<u>\$ 1,013,034</u>	<u>271,168</u>	<u>(220,342)</u>	<u>1,063,860</u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

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

Governmental activities:		
General government	\$	524
Human services		459
Public safety		8,658
Public works, including depreciation of general infrastructure assets		11,440
Property and development		2,009
Parks and recreation		3,012
Library		2,041
Schools		20,128
County		72
Public health		152
		<hr/>
Total depreciation expense – governmental activities	\$	<u><u>48,495</u></u>

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

Individual fund and discrete component unit receivable and payable balances at June 30, 2006, are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 24,221	3,266
Special revenue	2,682	6,219
Convention Center	—	18,000
Internal service	582	—
	<hr/>	<hr/>
Balances at June 30, 2006	\$ <u><u>27,485</u></u>	<u><u>27,485</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	\$ 9,021	250
Hospital revenue bond	103,751	—
Internal service	54	—
	<hr/>	<hr/>
	112,826	250
	<hr/>	<hr/>
Discretely presented component units:		
TPL	—	23
PHC	250	112,803
	<hr/>	<hr/>
	250	112,826
	<hr/>	<hr/>
Balances at June 30, 2006	\$ <u><u>113,076</u></u>	<u><u>113,076</u></u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

**(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, 2006 (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 bonds dated 1/31/06	4.0-5.0%	—	80,000	—	80,000	6,235
General obligation refunding bonds dated 2/1/05	2.5-5.0%	\$ 127,775	—	5,125	122,650	5,125
General obligation refunding bonds dated 4/1/04	2.0-5.0%	37,005	—	6,530	30,475	5,725
General obligation refunding bonds dated 2/1/04	3.0-5.0%	97,070	—	5,090	91,980	9,345
General obligation refunding bonds dated 2/1/03	2.25-5.0%	146,610	—	9,010	137,600	9,710
General obligation refunding bonds dated 11/15/02	4.0-5.0%	20,905	—	4,790	16,115	4,660
General obligation refunding bonds dated 8/15/02	2.875-5.0%	47,525	—	275	47,250	285
General obligation bonds dated 2/1/02	3.0-5.0%	81,730	—	6,090	75,640	6,090
General obligation refunding bonds dated 4/11/01	3.50-5.0%	43,100	—	300	42,800	350
General obligation bonds dated 2/1/01	4.25-5.0%	86,560	—	8,360	78,200	6,890
General obligation bonds dated 2/1/00	5.0-5.75%	30,125	—	6,025	24,100	6,025
General obligation bonds dated 10/15/98	3.25-5.0%	40,675	—	6,685	33,990	6,685
General obligation refunding bonds dated 4/15/98	4.5-5.25%	40,820	—	4,960	35,860	5,135
General obligation bonds dated 1/15/98	4.5%	21,690	—	4,625	17,065	4,620
General obligation bonds dated 11/15/96	5.0%	10,800	—	5,400	5,400	5,400
General obligation bonds dated 10/15/95	5.0-5.25%	3,300	—	3,300	—	—
Total governmental obligation bonds payable		\$ 835,690	80,000	76,565	839,125	82,280
Add (deduct):						
Unamortized bond premiums					33,052	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(9,641)	
Current portion of long-term debt					(82,280)	
					\$ 780,256	

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

**(b) Notes and Leases 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, 2006 (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%	\$ 7,534	—	448	7,086	446
Notes payable – Section 108	5.44-7.18%	46,069	—	1,755	44,314	2,903
Bond Anticipation Notes dated 2/02, due 2/06	3.5%	62,000	—	62,000	—	—
Bond Anticipation Notes dated 2/03, due 2/06	2.125%	34,000	—	34,000	—	—
Leases		13,413	9,871	5,664	17,620	6,726
Total notes and leases payable		<u>163,016</u>	<u>9,871</u>	<u>103,867</u>	<u>69,020</u>	<u>10,075</u>
Other long-term obligations:						
Judgments		2,448	14,768	13,115	4,101	1,761
Workers' compensation		43,300	9,219	9,219	43,300	—
Health and life claims		6,465	86,386	86,258	6,593	6,593
Compensated absences		174,664	62,210	52,598	184,276	41,892
Landfill postclosure care costs		14,489	—	116	14,373	—
Total other long-term obligations		<u>241,366</u>	<u>172,583</u>	<u>161,306</u>	<u>252,643</u>	<u>50,246</u>
Total notes, leases, and other long-term obligations		<u>\$ 404,382</u>	<u>182,454</u>	<u>265,173</u>	<u>321,663</u>	<u>60,321</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, 2006

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

Following is a summary of the business type long-term obligations of the City as of June 30, 2006 (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%	\$ 109,700	—	2,915	106,785	3,070
Hospital Bond fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0-5.0%	<u>114,290</u>	<u>—</u>	<u>6,305</u>	<u>107,985</u>	<u>6,495</u>
Total business type obligations		<u>\$ 223,990</u>	<u>—</u>	<u>9,220</u>	<u>214,770</u>	<u>9,565</u>
Add (deduct):						
Unamortized bond premiums					3,096	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(408)	
Current portion of long-term debt					<u>(9,565)</u>	
					<u>207,893</u>	

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

**A. General Obligation Bonds**

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2006, are as follows (in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30:			
2007	\$ 82,280	38,169	120,449
2008	77,440	34,936	112,376
2009	75,315	31,344	106,659
2010	71,670	28,157	99,827
2011	66,460	24,910	91,370
2012-2016	262,200	81,238	343,438
2017-2021	155,145	30,117	185,262
2022-2026	48,615	4,520	53,135
	\$ 839,125	273,391	1,112,516

On January 31, 2006, the City issued \$80 million of general obligation bonds for various municipal purposes. Interest on the bonds is payable semiannually each July 1 and January 1, until maturity in fiscal 2026.

***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, 2006, the City may issue \$2.8 billion of additional general obligation debt under the debt limit. General obligation debt of \$434.8 million, subject to the debt limit, and \$90.7 million, exempt from the debt limit, are authorized but unissued as of June 30, 2006.

**B. Notes and Leases Payable**

At June 30, 2006, the City had various notes outstanding totaling \$51.4 million.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

The annual debt of the City's notes payable as of June 30, 2006, is as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2007	\$ 3,349	2,447	5,796
2008	3,799	2,355	6,154
2009	2,809	2,207	5,016
2010	2,676	2,088	4,764
2011	3,186	1,939	5,125
2012-2016	26,700	6,324	33,024
2017-2021	7,127	1,076	8,203
2022-2026	1,754	134	1,888
	<u>\$ 51,400</u>	<u>18,570</u>	<u>69,970</u>

In prior years, the City issued two BANs totaling \$96 million to fund various school projects that were due in fiscal 2006. The City received a lump-sum payment of \$93.6 million from the MSBA to pay down the BANs in fiscal year 2006. The remaining portion was paid out of unspent BAN proceeds.

In the prior year, 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, 2006 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2007	\$ 9,565	9,843	19,408
2008	9,920	9,451	19,371
2009	10,360	9,008	19,368
2010	10,815	8,546	19,361
2011	11,250	8,108	19,358
2012-2016	63,575	33,015	96,590
2017-2021	57,310	16,975	74,285
2022-2026	34,100	7,250	41,350
2027-2031	7,875	394	8,269
	<u>\$ 214,770</u>	<u>102,590</u>	<u>317,360</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, 2006

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 \$8.7 million at June 30, 2006.

#### *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, 2006 was approximately \$128.1 million.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

**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 2006 was as follows (in thousands):

<u>Date of issuance</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>
December 20, 2003	\$ 3,493	—	1,852	1,641
April 21, 2004	2,604	—	1,074	1,530
November 5, 2004	6,266	—	1,856	4,410
March 11, 2005	1,050	—	290	760
November 10, 2005	—	6,545	592	5,953
April 13, 2006	—	3,326	—	3,326
	<u>\$ 13,413</u>	<u>9,871</u>	<u>5,664</u>	<u>17,620</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, 2006 are as follows (in thousands):

2007	\$ 7,315
2008	4,816
2009	3,246
2010	1,435
2011	1,126
2012-2013	<u>1,097</u>
Total minimum lease payments	19,035
Less amount representing interest	<u>1,415</u>
Total minimum principal lease payments	17,620
Less current portion	<u>6,726</u>
Long-term portion	<u>\$ 10,894</u>

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

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2006

### (11) Retirement Plans

#### (a) *Plan Description*

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

- (1) City of Boston
- (2) Boston Redevelopment Authority
- (3) Boston Housing Authority
- (4) Boston Water and Sewer Commission
- (5) Boston Public Health Commission
- (6) 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 \$5.9 million for the year ended June 30, 2006. 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, 2006

**(c) Membership**

Membership in the System consisted of the following at December 31, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,783
Terminated plan members entitled to but not receiving benefits	6,178
Active plan members	<u>20,917</u>
Total membership	<u><u>40,878</u></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, 2006, 2005 and 2004 were \$186 million, \$147 million, and \$137 million, or \$101 million, \$71 million, and \$78 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, 2006

**(e) Legally Required Reserve Accounts**

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2005 are as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,163,543	Active members' contribution balance
Annuity reserve fund	370,583	Retired members' contribution account
Military service credit	48	Members' contribution account while on military leave
Pension reserve fund	572,652	Amounts appropriated to fund future retirement benefits
Pension fund	<u>1,684,801</u>	Remaining net assets
	<u>\$ 3,791,627</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, 2005 and 2004. 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, 2005 and 2004, 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, 2005 and 2004 were \$7.2 million and \$2.7 million, respectively.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

At December 31, 2005 and 2004, the fair value of securities loaned by the System amounted to \$223.1 million and \$215.1 million, respectively, against which was held collateral of \$233.0 million and \$222.7 million, respectively, as follows (in thousands):

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Short-term collateral investment pool	\$ 228,073	219,129
Noncash collateral	4,946	3,539
Total	\$ 233,019	222,668

**(g) Commitments**

At December 31, 2005, the System had contractual commitments to provide approximately \$291 million of additional funding to venture capital funds.

**(12) Other Postemployment Benefit (OPEB) 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 \$78.3 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal year 2006.

GASB Statement Nos. 43 and 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* are effective June 30, 2007 and June 30, 2008, respectively.

These statements will require the City to account for and report the value of its future other post-employment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The City has estimated its total OPEB obligation as of June 30, 2005 to be between \$5.2 billion (pay-as-you-go) and \$2.5 billion (pre-funded) depending on the funding policy elected by the City. Based on these estimates, the City's actuarially required contribution (ARC) is estimated to be between \$286 million and \$176 million, respectively.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

**(13) Transfers**

Transfers and their purposes during the year ended June 30, 2006 were as follows (in thousands):

	Governmental funds				Proprietary fund
	General	Special revenue	Capital projects	Other governmental	Convention center
Primary government:					
Excess hotel/motel excise taxes	\$ 18,000	—	—	—	(18,000)
Cemetery fees/fund appropriation	2,110	—	—	(2,110)	—
Parking meter fees/fund appropriation	1,000	(1,000)	—	—	—
Intergovernmental revenue/BAN payment	(93,690)	—	93,690	—	—
Total	\$ (72,580)	(1,000)	93,690	(2,110)	(18,000)

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

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2006 in the following categories (in thousands):

Public safety:	
Police Department	\$ 9,765
Fire Department	12,506
Public works:	
Snow removal	1,336
Judgments and claims:	
Execution of courts	6,997
Other employee benefits:	
Worker's compensation fund	151
State and district assessments:	
Parking Surcharge	449
Special Education Chapter 766	24
	\$ 31,228

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).

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2006

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 2006, the City appropriated \$61.3 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 \$63.6 million for the PHC for fiscal year 2007.

#### *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. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$8.7 million at June 30, 2006. 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.

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

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 an \$11.1 million balance available for future losses. The City's property insurance was renewed – a one-year, all-risk catastrophic property insurance policy covering all City property assets up to \$65 million, after a \$10 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$2.5 million.

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved. Changes in the self-insurance liability for the fiscal years ended June 30, 2006 and 2005 are as follows (in thousands):

	<b>Internal service fund</b>	
	<b>2006</b>	<b>2005</b>
Health and life claims, beginning of year	\$ 6,465	6,114
Incurred claims	86,386	83,035
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(86,258)	(82,684)
Health and life claims, end of year	<u>\$ 6,593</u>	<u>6,465</u>
	<b>Government-wide statements</b>	
	<b>2006</b>	<b>2005</b>
Judgments and claims, beginning of year	\$ 45,748	25,468
Incurred claims	31,818	48,777
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(14,293)	(18,708)
Unemployment compensation	(2,757)	(3,164)
Court judgments	(13,115)	(6,625)
Judgments and claims, end of year	<u>\$ 47,401</u>	<u>45,748</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, 2006

**(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, 2006					
(In thousands)					
	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
<b>Assets:</b>					
Current assets:					
Cash and investments	\$ 91,579	39,043	60,759	4,013	195,394
Cash and investments held by trustee	—	—	—	5,828	5,828
Receivables, net:					
Other	8,562	15,130	1,579	15,422	40,693
Other assets	8,431	219	2,193	9,821	20,664
Due from BMC	1,015	—	—	—	1,015
Due from primary government	250	—	—	—	250
Total current assets	<u>109,837</u>	<u>54,392</u>	<u>64,531</u>	<u>35,084</u>	<u>263,844</u>
Noncurrent assets:					
Notes receivable	4,377	66,928	—	—	71,305
Other assets	101,763	29,319	—	—	131,082
Capital assets:					
Nondepreciable	11,915	6,766	—	1,419	20,100
Depreciable	10,664	1,656	1,159	26,100	39,579
Total noncurrent assets	<u>128,719</u>	<u>104,669</u>	<u>1,159</u>	<u>27,519</u>	<u>262,066</u>
Total assets	<u>238,556</u>	<u>159,061</u>	<u>65,690</u>	<u>62,603</u>	<u>525,910</u>
<b>Liabilities:</b>					
Current liabilities:					
Warrants and accounts payable	11,451	1,691	2,095	4,593	19,830
Accrued liabilities:					
Other	—	—	16	1,828	1,844
Current portion of long-term debt and leases	—	—	—	1,041	1,041
Due to BMC	70,473	—	—	—	70,473
Due to primary government	112,803	—	23	—	112,826
Deferred revenue	6,011	33,679	125	7,220	47,035
Total current liabilities	<u>200,738</u>	<u>35,370</u>	<u>2,259</u>	<u>14,682</u>	<u>253,049</u>
Noncurrent liabilities:					
Due in more than one year	—	116,215	247	20,065	136,527
Other noncurrent liabilities	2,442	—	—	603	3,045
Total noncurrent liabilities	<u>2,442</u>	<u>116,215</u>	<u>247</u>	<u>20,668</u>	<u>139,572</u>
Total liabilities	<u>203,180</u>	<u>151,585</u>	<u>2,506</u>	<u>35,350</u>	<u>392,621</u>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	20,269	3,657	910	13,233	38,069
Restricted	—	—	56,490	—	56,490
Unrestricted	15,107	3,819	5,784	14,020	38,730
Total net assets	<u>\$ 35,376</u>	<u>7,476</u>	<u>63,184</u>	<u>27,253</u>	<u>133,289</u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2006

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

Year ended June 30, 2006

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Expenses	\$ 122,574	19,459	16,860	32,928	191,821
Program revenues:					
Charges for services	—	11,429	858	13,835	26,122
Operating grants and contributions	45,066	2,458	13,699	15,577	76,800
Capital grants and contributions	541	—	—	—	541
Total program revenues	<u>45,607</u>	<u>13,887</u>	<u>14,557</u>	<u>29,412</u>	<u>103,463</u>
Net (expenses) revenues	<u>(76,967)</u>	<u>(5,572)</u>	<u>(2,303)</u>	<u>(3,516)</u>	<u>(88,358)</u>
General revenues:					
Investment income	3,045	380	3,642	1,123	8,190
City appropriation	61,300	—	—	—	61,300
Miscellaneous income	11,601	3,619	—	1,156	16,376
Total general revenues	<u>75,946</u>	<u>3,999</u>	<u>3,642</u>	<u>2,279</u>	<u>85,866</u>
Change in net assets	<u>(1,021)</u>	<u>(1,573)</u>	<u>1,339</u>	<u>(1,237)</u>	<u>(2,492)</u>
Net assets – beginning of year	<u>36,397</u>	<u>9,049</u>	<u>61,845</u>	<u>28,490</u>	<u>135,781</u>
Net assets – end of year	\$ <u><u>35,376</u></u>	<u><u>7,476</u></u>	<u><u>63,184</u></u>	<u><u>27,253</u></u>	<u><u>133,289</u></u>

## 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)
01/01/06	\$ 3,836,807	5,957,373	2,120,566	64.4%	\$ 1,168,808	181.4%
01/01/05	3,587,118	5,664,288	2,077,170	63.3	1,115,529	186.2
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
2005	\$ 191,132	100%
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, 2006
Actuarial cost method	Entry age normal cost
Amortization method	Payment increase at 4.5% per year
Remaining amortization period	17 years remaining as of January 1, 2006
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.

## **EXHIBIT II**

### **Schedules of Comparative Financial Statements for Fiscal Years 2006 - 2002**

The following schedules of Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Fund Equity for the fiscal years ended June 30, 2006, 2005, 2004, 2003 and 2002 have been prepared by the City of Boston Auditing Department based on information taken from the City's audited financial statements.

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City of Boston

General Fund

BALANCE SHEETS  
June 30, 2006, 2005, 2004, 2003 and 2002  
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002<sup>(1)</sup></u>
<b>ASSETS</b>					
Cash and investments.....	\$ 663,547	\$ 692,679	\$ 609,638	\$ 529,315	\$ 482,419
Cash and investments held by trustee.....	-	-	-	-	16,008
Receivables :					
Property taxes.....	21,401	32,666	40,600	41,175	37,555
Motor vehicle excise.....	62,328	73,855	65,370	58,263	56,456
Intergovernmental.....	239,719	343,686	77,414	79,528	78,215
Departmental and other.....	33,146	31,742	34,361	43,726	34,849
Tax title and possession.....	76,178	75,379	79,641	82,925	86,241
Total receivables.....	<u>432,772</u>	<u>557,328</u>	<u>297,386</u>	<u>305,617</u>	<u>293,316</u>
Allowance:					
Abatement res/property tax allow.....	(3,891)	(16,950)	(28,001)	-	-
Tax title and possession.....	(76,178)	(75,379)	(79,641)	(82,925)	(86,241)
Motor vehicle excise.....	(56,876)	(56,179)	(54,611)	(58,263)	(56,456)
Other.....	(20,217)	(20,336)	(23,371)	(23,340)	(23,233)
Total allowances.....	<u>(157,162)</u>	<u>(168,844)</u>	<u>(185,624)</u>	<u>(164,528)</u>	<u>(165,930)</u>
Net receivable.....		388,484	111,762	141,089	127,386
Due from other funds.....	24,221	20,690	25,201	18,000	-
Due from component units.....	9,021	10,065	12,285	15,679	19,250
Other assets.....		-	333	-	-
Total assets.....	<u>\$ 972,399</u>	<u>\$ 1,111,918</u>	<u>\$ 759,219</u>	<u>\$ 704,083</u>	<u>\$ 645,063</u>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 36,295	\$ 94,107	\$ 52,187	\$ 33,603	\$ 41,940
Accrued liabilities:					
Tax abatement refunds.....	-	-	-	-	25,022
Judgements and claims.....	-	-	-	-	10,000
Compensated absences.....	-	-	-	10,259	20,000
Payroll and related costs.....	88,189	100,798	94,784	104,670	81,454
Other.....	9,653	4,508	4,596	4,174	5,045
Due to other funds.....	3,266	1,945	2,144	1,765	727
Due to component units.....	250	84	180	-	108
Matured interest and bonds payable.....	-	-	-	306	421
Deferred revenue.....	173,349	297,452	32,108	57,952	58,237
Total liabilities.....	<u>\$ 311,002</u>	<u>\$ 498,894</u>	<u>\$ 185,999</u>	<u>\$ 212,729</u>	<u>\$ 242,954</u>
<b>FUND BALANCES AND OTHER CREDITS</b>					
Reserved for:					
Encumbrances.....	44,573	33,155	56,132	20,787	20,262
Debt Service.....	-	-	-	-	-
Unreserved:					
Designated for subsequent year expenditures....	178,157	164,621	139,986	139,028	36,000
Undesignated.....	438,667	415,248	377,102	331,539	345,847
Total fund balance.....	<u>661,397</u>	<u>613,024</u>	<u>573,220</u>	<u>491,354</u>	<u>402,109</u>
Total liabilities and fund balance....	<u>\$ 972,399</u>	<u>\$ 1,111,918</u>	<u>\$ 759,219</u>	<u>\$ 704,083</u>	<u>\$ 645,063</u>

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

City of Boston

General Fund

Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Changes in Fund Balance  
Fiscal Years Ending June 30, 2006, 2005, 2004, 2003 and 2002  
Partially Restated for Comparative Purposes  
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>REVENUES:</b>					
Local:					
Real and personal property taxes, net.....	\$ 1,190,347	\$ 1,138,254	\$ 1,082,574	\$ 1,053,945	\$ 990,848
Excises.....	107,361	93,906	85,354	94,133	111,114
Payments in lieu of taxes.....	60,584	42,218	42,373	40,910	36,332
Fines.....	67,876	65,280	66,342	59,187	60,601
Investment income.....	32,351	17,970	8,253	8,951	14,596
Licenses and permits.....	40,353	33,491	33,900	30,217	33,325
Departmental and other revenue.....	51,992	60,704	45,556	62,373	62,200
Total local revenues.....	<u>1,550,864</u>	<u>1,451,823</u>	<u>1,364,352</u>	<u>1,349,716</u>	<u>1,309,016</u>
Intergovernmental:					
Intergovernmental.....	557,418	460,898	459,836	444,751	492,299
Total intergovernmental revenues.....	<u>557,418</u>	<u>460,898</u>	<u>459,836</u>	<u>444,751</u>	<u>492,299</u>
Total revenues.....	<u>2,108,282</u>	<u>1,912,721</u>	<u>1,824,188</u>	<u>1,794,467</u>	<u>1,801,315</u>
<b>EXPENDITURES:</b>					
Current:					
General government.....	57,262	57,471	30,061	53,343	77,019
Human services.....	24,875	23,821	22,642	24,738	6,434
Public safety.....	446,784	457,541	390,854	394,692	405,844
Public works.....	101,441	106,749	87,045	86,819	74,651
Property and development.....	33,322	29,836	31,088	29,260	48,774
Parks and recreation.....	15,723	15,708	11,260	14,622	16,230
Library.....	28,365	27,594	24,089	27,715	28,695
Schools.....	719,715	673,009	656,291	654,958	627,653
Public Health Programs <sup>(1)</sup> .....	61,282	60,586	58,762	63,897	64,537
County.....	-	-	-	4,539	4,537
Judgments and claims.....	11,590	6,620	(3,544)	2,880	2,724
Retirement costs.....	96,853	59,419	87,934	74,720	82,034
Other employee benefits.....	157,885	142,721	129,937	114,512	107,701
State and district assessments.....	118,817	115,894	111,061	69,009	67,769
Capital outlays.....	815	2,683	393	2,971	5,177
Debt Service.....	112,600	115,769	120,938	121,184	115,366
Total expenditures.....	<u>1,987,329</u>	<u>1,895,421</u>	<u>1,758,811</u>	<u>1,739,859</u>	<u>1,735,145</u>
Excess of revenues over expenditures.....	<u>120,953</u>	<u>17,300</u>	<u>65,377</u>	<u>54,608</u>	<u>66,170</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Payments to escrow agent to refund debt	-	(1,025)	(511)	-	-
Transfers in.....	(72,580)	23,529	17,000	34,637	1,778
Transfers out.....	-	-	-	-	-
Total other financing uses, net.....	<u>(72,580)</u>	<u>22,504</u>	<u>16,489</u>	<u>34,637</u>	<u>1,778</u>
Net change in fund balances.....	<u>48,373</u>	<u>39,804</u>	<u>81,866</u>	<u>89,245</u>	<u>67,948</u>
Fund balance, beginning of year, as previously reported .....	613,024	573,220	491,354	402,109	266,460
Cumulative change in accounting principle.....	-	-	-	-	67,701
Fund balance, beginning of year .....	<u>613,024</u>	<u>573,220</u>	<u>491,354</u>	<u>402,109</u>	<u>334,161</u>
Fund balance, end of year.....	<u>\$ 661,397</u>	<u>\$ 613,024</u>	<u>\$ 573,220</u>	<u>\$ 491,354</u>	<u>\$ 402,109</u>

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

City of Boston

General Fund - Budgetary Basis

Statement of Revenues, Transfers, Available Funds, Expenditures,  
Encumbrances and Prior Years' Deficit Raised - Budget to Actual  
Fiscal Years Ending June 30, 2006, 2005, 2004, 2003 and 2002  
Partially Restated for Comparative Purposes  
(in thousands)

	2006		2005		2004		2003		2002	
	Actual	Variance Fav. (Unfav.)								
<b>Revenues, Transfers and Other Available Funds:</b>										
Real and personal property taxes, net.....	\$ 1,167,342	\$ 559	\$ 1,106,336	\$ 1,307	\$ 1,052,067	\$ 205	\$ 996,030	\$ 577	\$ 926,336	\$ 399
Motor vehicle excise.....	50,178	11,628	44,763	12,713	33,207	(647)	45,611	7,605	42,776	551
Other excises.....	76,030	9,130	73,894	6,994	61,062	1,312	72,794	7,794	69,528	4,133
Commonwealth of Massachusetts.....	549,777	3,615	537,655	14,313	521,231	16,612	498,217	(23,520)	541,456	(8,996)
Departmental and other revenue.....	54,116	13,128	53,142	14,660	50,960	13,766	54,720	7,999	62,193	13,862
Fines.....	67,611	3,011	65,280	3,436	66,342	6,392	58,985	(2,512)	60,659	1,649
Payments in lieu of taxes.....	60,584	13,769	42,218	2,219	42,373	4,763	40,910	6,786	36,332	7,245
Investment income.....	30,049	7,243	17,787	10,487	7,792	3,412	8,552	(2,198)	14,801	(749)
Licenses and permits.....	38,755	11,575	33,821	8,471	34,821	13,791	30,146	4,928	29,651	5,836
Transfers from other available funds.....	9,810	(31,526)	5,529	(23,376)	22,932	(18,876)	24,849	(1,876)	4,568	(9,086)
Sale of property.....	-	-	-	-	-	-	-	-	-	-
Total revenues, transfers and other available funds.....	<u>2,104,252</u>	<u>42,132</u>	<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>
<b>Expenditures and Encumbrances:</b>										
General government.....	60,933	1,418	59,837	598	75,925	(13,317)	65,401	3,833	70,702	(4,649)
Human services.....	24,950	69	23,853	133	22,945	173	24,936	893	6,398	18
Public safety.....	451,997	(21,815)	429,376	(20,714)	393,826	(5,025)	408,849	(4,933)	405,150	(2,388)
Public works.....	101,996	(1,324)	106,699	(14,247)	87,639	(2,330)	86,599	(4,058)	74,833	151
Property and development.....	36,225	150	25,425	55	26,400	114	34,744	318	41,630	(994)
Parks and recreation.....	15,629	230	15,179	292	13,437	270	14,680	105	16,071	103
Library.....	27,712	1	26,600	1	24,086	-	27,726	282	28,813	-
Schools.....	717,793	16	680,181	26	656,539	8	650,600	17	639,710	19
Boston Public Health Commission.....	61,300	-	60,568	-	58,762	-	63,897	-	64,005	-
County.....	-	-	-	-	4,553	-	4,737	-	4,537	-
Judgments and claims.....	10,497	(6,997)	10,884	(7,384)	18,842	(15,342)	2,166	-	5,000	(900)
Other employee benefits.....	159,058	(56)	147,803	(1,648)	133,206	(830)	115,164	259	107,473	(787)
Retirement costs.....	190,885	100	151,463	-	141,867	-	139,325	-	135,710	-
State and district assessments.....	118,817	(416)	115,894	(25)	106,509	(66)	69,009	(510)	67,769	(258)
Debt requirements.....	112,599	353	118,330	22	123,866	-	121,184	8	115,332	8
Total expenditures.....	<u>2,090,391</u>	<u>(28,271)</u>	<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>
Excess of revenues available for appropriation over expenditures.....	<u>\$ 13,861</u>	<u>\$ 13,861</u>	<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>

**City of Boston**

**Special Revenue Fund**

**BALANCE SHEETS**  
**June 30, 2006, 2005, 2004, 2003 and 2002**  
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>					
Cash and investments.....	\$ 158,601	\$ 123,608	\$ 116,283	\$ 67,535	\$ 106,093
Restricted cash and investments.....	-	-	-	-	-
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	103,307	103,493	116,216	83,769	56,301
Departmental and other.....	73,689	75,439	-	165	195
Total receivables.....	<u>176,996</u>	<u>178,932</u>	<u>116,216</u>	<u>83,934</u>	<u>56,496</u>
Due from other funds.....	2,682	1,363	1,499	1,044	-
Other assets.....	-	-	1	-	-
Total assets.....	<u>\$ 338,279</u>	<u>\$ 303,903</u>	<u>\$ 233,999</u>	<u>\$ 152,513</u>	<u>\$ 162,589</u>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 11,452	\$ 14,752	\$ 32,532	\$ 9,230	\$ 14,597
Accrued liabilities:					
Payroll and related costs.....	1,366	1,534	-	-	-
Other.....	28,646	28,162	34,401	31,557	27,281
Due to component units.....	-	-	-	214	-
Deferred revenue.....	73,689	75,439	-	-	-
Due to other funds.....	6,219	2,690	8,201	-	-
Total liabilities.....	<u>121,372</u>	<u>122,577</u>	<u>75,134</u>	<u>41,001</u>	<u>41,878</u>
<b>FUND BALANCES AND OTHER CREDITS</b>					
Reserved for:					
Encumbrances and other.....	67,116	51,090	34,738	49,019	44,111
Unreserved:					
Designated.....	-	-	-	-	-
Undesignated.....	149,791	130,236	124,127	62,493	76,600
Total fund balance.....	<u>216,907</u>	<u>181,326</u>	<u>158,865</u>	<u>111,512</u>	<u>120,711</u>
Total liabilities and fund balance.....	<u>\$ 338,279</u>	<u>\$ 303,903</u>	<u>\$ 233,999</u>	<u>\$ 152,513</u>	<u>\$ 162,589</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, 2006, 2005, 2004, 2003 and 2002  
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>REVENUES:</b>					
Local:					
Fines.....	\$ 18	\$ 17	\$ 19	\$ 19	\$ 44
Investment income.....	351	282	175	479	159
Licenses and permits.....	71	74	70	57	252
Departmental and other revenue.....	45,894	52,882	26,374	13,170	10,478
Total local revenues.....	<u>46,334</u>	<u>53,255</u>	<u>26,638</u>	<u>13,725</u>	<u>10,933</u>
Intergovernmental:					
Intergovernmental.....	377,471	332,331	356,555	311,347	334,961
Total intergovernmental revenues.....	<u>377,471</u>	<u>332,331</u>	<u>356,555</u>	<u>311,347</u>	<u>334,961</u>
Total revenues.....	<u>423,805</u>	<u>385,586</u>	<u>383,193</u>	<u>325,072</u>	<u>345,894</u>
<b>EXPENDITURES:</b>					
Current operations:					
General government.....	4,684	22,548	3,175	8,385	7,131
Human services.....	10,009	8,678	9,337	7,231	5,290
Public safety.....	30,004	24,338	21,052	23,119	21,888
Public works.....	8,961	2,719	286	186	407
Parks and recreation.....	384	1,001	1,230	831	396
Libraries.....	5,670	5,579	5,409	5,186	5,261
Schools.....	149,685	134,992	124,356	131,383	130,162
County.....	106,270	101,832	102,044	96,452	104,754
Public health.....	1,985	1,710	86	-	-
Property & development.....	71,749	57,154	86,599	63,851	63,081
Capital outlays.....	1,695	805	1,891	-	-
Debt service.....	-	3,879	3,054	13,841	3,894
Total expenditures.....	<u>391,096</u>	<u>365,235</u>	<u>358,519</u>	<u>350,465</u>	<u>342,264</u>
Excess (deficiency) of revenues over expenditures.....	<u>32,709</u>	<u>20,351</u>	<u>24,674</u>	<u>(25,393)</u>	<u>3,630</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Long-term debt and capital leases issued.....	-	1,381	15,000	4,094	-
Premiums on long-term debt issued.....	3,872	10,409	11,775	12,100	3,839
Payments to escrow agents.....	-	(6,180)	(4,096)	-	-
Transfers out, net.....	(1,000)	(3,500)	-	-	-
Total other financing sources (uses), net.....	<u>2,872</u>	<u>2,110</u>	<u>22,679</u>	<u>16,194</u>	<u>3,839</u>
Net change in fund balances.....	35,581	22,461	47,353	(9,199)	7,469
Fund balance, beginning of year.....	181,326	158,865	111,512	120,711	113,242
Fund balance, end of year.....	<u>\$ 216,907</u>	<u>\$ 181,326</u>	<u>\$ 158,865</u>	<u>\$ 111,512</u>	<u>\$ 120,711</u>

City of Boston

Capital Projects Fund

BALANCE SHEETS  
June 30, 2006, 2005, 2004, 2003 and 2002  
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>					
Cash and investments.....	\$ 24,221	\$ 31,910	\$ 82,694	\$ 62,761	\$ 80,537
Cash and investments held by trustees.....	4,209	2,429	3,094	3,788	3,745
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	4,016	3,005	-	-	-
Departmental and other.....	-	-	-	-	-
Total receivables.....	<u>4,016</u>	<u>3,005</u>	<u>-</u>	<u>-</u>	<u>-</u>
Due from other funds.....	-	-	-	101	-
Other assets.....	-	-	-	-	-
Total assets.....	<u>\$ 32,446</u>	<u>\$ 37,344</u>	<u>\$ 85,788</u>	<u>\$ 66,650</u>	<u>\$ 84,282</u>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 5,786	\$ 3,493	\$ 4,560	\$ 9,845	\$ 9,593
Other accrued liabilities.....	8,510	15,219	25,951	-	-
Other liabilities.....	-	-	-	35	35
Deferred revenue.....	3,306	-	-	-	-
Due to other funds.....	-	-	-	-	-
Due to other governments.....	-	-	-	-	-
Total liabilities.....	<u>17,602</u>	<u>18,712</u>	<u>30,511</u>	<u>9,880</u>	<u>9,628</u>
<b>FUND BALANCES AND OTHER CREDITS</b>					
Reserved for:					
Encumbrances and other.....	71,727	84,471	50,821	84,184	112,020
Future appropriations.....	43,756	43,724	50,374	42,875	55,874
Unreserved:					
Undesignated (deficit).....	(100,639)	(109,563)	(45,918)	(70,289)	(93,240)
Total fund balance.....	<u>14,844</u>	<u>18,632</u>	<u>55,277</u>	<u>56,770</u>	<u>74,654</u>
Total liabilities and fund balance.....	<u>\$ 32,446</u>	<u>\$ 37,344</u>	<u>\$ 85,788</u>	<u>\$ 66,650</u>	<u>\$ 84,282</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, 2006, 2005, 2004, 2003 and 2002  
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>REVENUES:</b>					
Local:					
Investment income.....	\$ -	\$ -	\$ -	\$ -	\$ -
Departmental and other revenue.....	3,864	3,065	7,985	-	8,649
Total local revenues.....	<u>3,864</u>	<u>3,065</u>	<u>7,985</u>	<u>-</u>	<u>8,649</u>
Intergovernmental:					
Intergovernmental.....	9,538	8,800	10,917	13,095	13,609
Total intergovernmental revenues.....	<u>9,538</u>	<u>8,800</u>	<u>10,917</u>	<u>13,095</u>	<u>13,609</u>
Total revenues.....	<u>13,402</u>	<u>11,865</u>	<u>18,902</u>	<u>13,095</u>	<u>22,258</u>
<b>EXPENDITURES:</b>					
Capital outlays.....	103,305	87,974	132,562	164,891	139,593
Debt Service.....	97,446	-	-	25,000	-
Total expenditures.....	<u>200,751</u>	<u>87,974</u>	<u>132,562</u>	<u>189,891</u>	<u>139,593</u>
Excess (deficiency) of revenues over expenditures.....	<u>(187,349)</u>	<u>(76,109)</u>	<u>(113,660)</u>	<u>(176,796)</u>	<u>(117,335)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Long-term debt and capital leases issued.....	89,871	136,003	147,986	304,440	170,915
Payments to escrow agent to refund debt.....	-	(96,539)	(35,819)	(130,740)	-
Transfers out.....	93,690	-	-	(14,788)	-
Total other financing sources, net.....	<u>183,561</u>	<u>39,464</u>	<u>112,167</u>	<u>158,912</u>	<u>170,915</u>
<b>SPECIAL ITEM:</b>					
Proceeds from sale of capital assets.....	-	-	-	-	13,300
Net change in fund balances.....	(3,788)	(36,645)	(1,493)	(17,884)	66,880
Fund balance, beginning of year.....	18,632	55,277	56,770	74,654	7,774
Fund balance, end of year.....	<u>\$ 14,844</u>	<u>\$ 18,632</u>	<u>\$ 55,277</u>	<u>\$ 56,770</u>	<u>\$ 74,654</u>

**City of Boston**

**Internal Service Fund**

**BALANCE SHEETS**  
**June 30, 2006, 2005, 2004, 2003 and 2002**  
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>					
Cash and cash equivalents.....	\$ 34,624	\$ 30,555	\$ 19,702	\$ 14,133	\$ 12,052
Receivables:					
Departmental and other receivables....	107	154	295	279	151
Due from other funds and sources.....	582	582	645	620	727
Due from component units.....	54	-	41	-	-
Other assets.....	1,825	1,873	1,980	240	1,606
Total assets.....	<u>\$ 37,192</u>	<u>\$ 33,164</u>	<u>\$ 22,663</u>	<u>\$ 15,272</u>	<u>\$ 14,536</u>
 <b>LIABILITIES</b>					
Accrued Liabilities:					
Warrants and accounts payable.....	\$ 32	\$ 39	\$ 17	\$ 17	\$ 25
Judgments and claims <sup>(1)</sup> .....	6,593	6,465	6,114	7,325	7,051
Total liabilities.....	<u>6,625</u>	<u>6,504</u>	<u>6,131</u>	<u>7,342</u>	<u>7,076</u>
 <b>FUND EQUITY</b>					
Unrestricted.....	30,567	26,660	16,532	7,930	7,460
Total fund equity.....	<u>30,567</u>	<u>26,660</u>	<u>16,532</u>	<u>7,930</u>	<u>7,460</u>
Total liabilities and fund equity...	<u>\$ 37,192</u>	<u>\$ 33,164</u>	<u>\$ 22,663</u>	<u>\$ 15,272</u>	<u>\$ 14,536</u>

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

**City of Boston**

**Internal Service Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Equity  
Fiscal Years Ending June 30, 2006, 2005, 2004, 2003 and 2002  
(in thousands)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>REVENUES</b>					
Employer contributions.....	\$ 67,786	\$ 68,861	\$ 61,406	\$ 53,853	\$ 53,042
Employee contributions.....	22,379	23,951	22,886	18,773	18,367
Miscellaneous.....	-	-	36	167	510
Total operating revenues.....	90,165	92,812	84,328	72,793	71,919
<b>EXPENDITURES</b>					
Administrative and general.....	-	-	-	-	-
Benefits <sup>(1)</sup> .....	86,258	82,684	75,726	72,323	64,767
Total operating expenditures...	86,258	82,684	75,726	72,323	64,767
Changes in net assets .....	3,907	10,128	8,602	470	7,152
Net assets (deficit), beginning of year.....	26,660	16,532	7,930	7,460	308
Net assets, end of year.....	\$ 30,567	\$ 26,660	\$ 16,532	\$ 7,930	\$ 7,460

(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, 2006, 2005, 2004, 2003 and 2002**  
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>ASSETS</b>					
Current assets:					
Cash and investments.....	\$ -	\$ -	\$ 525	\$ 841	\$ 702
Cash and investments held by trustees.....	56,596	50,010	45,985	56,286	64,777
Receivables, net.....	-	-	-	1,140	-
Due from component units.....	103,751	110,370	116,739	122,869	129,103
Due from other governments.....	2,141	-	-	-	2,600
Other assets.....	2,801	2,987	3,174	3,360	1,555
Total current assets.....	<u>165,289</u>	<u>163,367</u>	<u>166,423</u>	<u>184,496</u>	<u>198,737</u>
Total assets.....	<u>\$ 165,289</u>	<u>\$ 163,367</u>	<u>\$ 166,423</u>	<u>\$ 184,496</u>	<u>\$ 198,737</u>
<b>LIABILITIES</b>					
Current liabilities:					
Warrants and accounts payable.....	\$ 5,240	\$ -	\$ -	\$ -	\$ 269
Accrued liabilities.....	-	-	-	3,127	-
Due to other funds.....	18,000	18,000	17,000	18,000	-
Other liabilities.....	2,842	2,946	3,046	-	-
Current portion of long-term debt.....	9,565	9,220	8,905	9,695	6,835
Total current liabilities.....	<u>35,647</u>	<u>30,166</u>	<u>28,951</u>	<u>30,822</u>	<u>7,104</u>
Noncurrent liabilities:					
Special obligation bonds.....	103,715	106,785	109,700	112,480	114,790
Revenue bonds.....	104,178	110,898	117,426	123,776	136,360
Total noncurrent liabilities.....	<u>207,893</u>	<u>217,683</u>	<u>227,126</u>	<u>236,256</u>	<u>251,150</u>
Total liabilities.....	<u>243,540</u>	<u>247,849</u>	<u>256,077</u>	<u>267,078</u>	<u>258,254</u>
<b>NET ASSETS</b>					
Unrestricted.....	(78,251)	(84,482)	(89,654)	(82,582)	(59,517)
Total net assets.....	<u>\$ (78,251)</u>	<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, 2006, 2005, 2004, 2003 and 2002

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:					
Excise taxes - pledged for debt service.....	\$ 30,503	\$ 28,028	\$ 23,845	\$ 23,348	\$ 5,079
Departmental and other - pledged for debt service.....	2,141	-	3,326	-	7,303
Total operating revenues.....	<u>32,644</u>	<u>28,028</u>	<u>27,171</u>	<u>23,348</u>	<u>12,382</u>
Operating expenditures:					
Contributions to State.....	5,240	84	32,890	33,845	19,035
Total operating expenses.....	<u>5,240</u>	<u>84</u>	<u>32,890</u>	<u>33,845</u>	<u>19,035</u>
Operating (loss) income.....	<u>27,404</u>	<u>27,944</u>	<u>(5,719)</u>	<u>(10,497)</u>	<u>(6,653)</u>
Nonoperating revenue (expenditure):					
Intergovernmental - state grants.....	1,396	297	20,930	12,877	38,695
Investment earnings - pledged for debt service.....	5,145	5,293	5,595	7,725	8,579
Investment earnings - other.....	775	823	58	652	15
Interest expense.....	(10,489)	(11,185)	(10,936)	(15,822)	(8,232)
Total nonoperating revenue (expense).....	<u>(3,173)</u>	<u>(4,772)</u>	<u>15,647</u>	<u>5,432</u>	<u>39,057</u>
Income before transfers.....	24,231	23,172	9,928	(5,065)	32,404
Transfer to general fund.....	<u>(18,000)</u>	<u>(18,000)</u>	<u>(17,000)</u>	<u>(18,000)</u>	<u>-</u>
Change in net assets.....	<u>6,231</u>	<u>5,172</u>	<u>(7,072)</u>	<u>(23,065)</u>	<u>32,404</u>
Total net assets - beginning.....	<u>(84,482)</u>	<u>(89,654)</u>	<u>(82,582)</u>	<u>(59,517)</u>	<u>(91,921)</u>
Total net assets - ending.....	<u>\$ (78,251)</u>	<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.

### TABLE OF CONTENTS

INTRODUCTION.....	1	HOTEL MARKET .....	16
THE BOSTON ECONOMY.....	3	TRANSPORTATION .....	17
OVERVIEW OF RECENT ECONOMIC CONDITIONS..	3	SEAPORT AND AIRPORT.....	18
STATISTICAL DATA .....	3	CONSTRUCTION ACTIVITY.....	19
POPULATION .....	4	LARGE PUBLIC SECTOR PROJECTS.....	19
EMPLOYMENT STRUCTURE, EMPLOYMENT		EMPOWERMENT ZONE DESIGNATION .....	20
TRENDS AND OCCUPATIONAL CHANGES .....	5	OFFICE MARKET AND NEW DEVELOPMENT .....	21
UNEMPLOYMENT.....	9	RETAIL MARKET .....	23
PRIVATE EMPLOYERS .....	11	INDUSTRIAL MARKET AND RECENT	
LABOR FORCE AND EDUCATION.....	11	DEVELOPMENTS .....	24
INCOME, WAGES, AND COST OF LIVING .....	12	HOUSING STOCK, HOUSING VALUES, AND	
MEDICAL AND HIGHER EDUCATIONAL		DEVELOPMENT .....	24
INSTITUTIONS .....	13	THE LINKAGE PROGRAM .....	30
TOURISM AND CULTURE .....	15		

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## THE BOSTON ECONOMY

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

In 2000 the City had a population of 589,141, as reported by the U.S. Department of Commerce Bureau of the Census (the “Bureau of the Census”), and had 680,174 jobs as reported by the U.S. Department of Commerce, Bureau of Economic Analysis (the “Bureau of Economic Analysis”). 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*

For the most part, economic, demographic, and market data indicate that the City’s economy was very strong through the 1990s and into 2000. By early 2001, however, the national economy was moving toward a recession. The events of September 11<sup>th</sup> compounded matters. Economic data available through December 2006, however, indicate an improving, and in most cases, growing economy.

The Boston economy peaked most recently during 1999-2000. By mid-year 2000 and into early 2001 the City’s office, hotel, and housing markets were among the strongest in the nation. Signs of an economic slowdown in the national and state economies first became notable commencing in January 2001. The City’s slowing economic growth in 2001 was evidenced by an increasing unemployment rate, a growing number of initial unemployment claims, a higher level of continuing unemployment claims, a falling hotel occupancy rate a lower average daily hotel room rate, a growing office vacancy rate, and a reduction in the number of residential real estate sales.

Evidence of a turnaround in the U.S. and Massachusetts economies first became apparent in late 2003 and persisted through 2004, 2005 and into 2006. In Boston, as of the end of 2006, signs of an improving economy in Massachusetts, Metropolitan Boston (defined under “Population” below) and the City remained evident. The latest data shows an improved labor market, with falling initial and continuing unemployment claims and a stabilized to slowly falling unemployment rate, as shown by data for the Commonwealth, the Boston metropolitan area, and City. In addition, the City’s office and hotel markets are greatly improved.

Unemployment rates, which had declined to a low of 2.7%, 2.5%, and 3.0% in the Commonwealth, Metropolitan Boston (defined under “Population” below), and in the City, respectively, by the end of 2000, rose to peak levels in 2003 and were 4.8%, 4.5% and 5.2%, respectively, in 2005. As had been the case for most major office markets in the country, Boston’s office market weakened with rising vacancy rates rising availability rates and negative absorption for three consecutive years, before strengthening in 2005 and again in 2006. Hotel occupancy fell to 69.6% in 2001 from 78.4% the previous year, but has increased to 74.5%, 75.4% and 76.4% in 2004, 2005, and 2006, respectively. The total number of residential home sales had been strong through mid-year 2005, with steady volume due to low interest rates, and sales prices in most cases holding firm or even increasing. Housing data for year-end 2005 and through 2006, however, suggests a market correction is underway with both sales and prices dropping modestly.

### *Statistical Data*

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

The 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 June 2006 on certain topics for the region, the Commonwealth, and the metropolitan area. The Bureau of the Census does not publish such interim data for the City.

The Bureau of Economic Analysis publishes quarterly and annual statistics on income and employment. The most recent annual figures for the nation, New England, Massachusetts, Suffolk County and the metropolitan area are for 2004. The most recent quarterly statistics are for the second quarter of 2006. The City accounts for approximately 87% of Suffolk County's population and approximately 96% of its employment.

The Bureau of Labor Statistics publishes data and reports about the workforce and related subjects including unemployment rates, area wages, and cost-of-living adjustments. Final data for 2005 are the most recent annual data available. The most recent monthly data are for December 2006.

The City and the BRA prepare reports and compile data on the population and economy of the City and its neighborhoods. The BRA also provides data and trends obtained from various local, regional, state and national sources from both the public and private sectors on such topics as employment and 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.

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

### ***Population***

The six-state New England region had a combined population of 14.2 million people and 9.0 million jobs in 2005 according to Bureau of Economic Analysis annual data. Total personal income in New England grew at an annual average compound rate of 3.4% from 2000 through 2005, below the 4.0% national rate for the same period. Employment in New England grew by 200,561 jobs from 2000 through 2005, an annual average of 0.5%.

Massachusetts had a population of 6.4 million people and 4.1 million jobs in 2005, according to Bureau of Economic Analysis annual data. Total personal income in Massachusetts grew at a 3.1% annual average rate from 2000 through 2005, slightly less than the 3.4% rate of increase for New England, and below the national rate of 4.0%. Massachusetts gained 17,222 jobs between 2000 and 2005, an annual average of 0.1%.

The Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area, defined by the Bureau of Economic Analysis to include Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties in Massachusetts, and Rockingham and Strafford counties in New Hampshire ("Metropolitan Boston"), had 4.4 million people and 3.0 million jobs in 2004. Total personal income from 2000 through 2005 grew at an annual average rate of 3.1%, below the national mark of 4.0%. The most recent employment data show a loss of 61,307 jobs for the 2000-2004 period, an annual rate of -0.4%. Although 2005 data from the BEA is not available yet for Metropolitan Boston, data on payroll jobs (see below) from state sources has shown that it has grown from 2004 at rates slightly higher than the state as a whole.

The 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 218,457 in 1980, to 228,464 in 1990, and to 239,528 in 2000, while household size fell from 2.4 to 2.3 persons per household from 1980 to 2000. The 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 4,391,344 in 2000, a rise of 257,449 persons or 6.2% over the decade. The Bureau of the Census has released 2006 population data for states. The population estimate for Massachusetts as of July 1, 2006 is estimated to have been 6,437,193, a gain of 1.4% over that for April 2000. The Bureau of the Census has released 2005 population data for cities. The population estimate for Boston as of July 1, 2005 was 596,638, a 1.3% rise from the population total in April 2000.

**Population of Massachusetts, Metropolitan Boston  
and the City of Boston 1980, 1990, 2000 and 2005**

	<u>1989</u>	<u>1990</u>	<u>2000</u>	<u>2005</u>	<u>1980-90</u>		<u>1990-2000</u>		<u>2000-05</u>	
					<u>Population Change</u>	<u>Percent Change</u>	<u>Population Change</u>	<u>Percent Change</u>	<u>Population Change</u>	<u>Percent Change</u>
Massachusetts	5,737,037	6,016,425	6,349,097	6,433,367	279,388	4.9%	332,672	5.5%	84,270	1.3%
Metropolitan Boston <sup>(1)</sup>	NA	4,133,895	4,391,344	4,411,835	NA	NA	257,449	6.2	20,849	0.4
City of Boston	562,994	574,283	589,141	596,638	11,289	2.0%	14,858	2.6	7,497	1.3

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Source: 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.

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

The economy of Metropolitan Boston rests primarily on high technology, finance, professional and business services, defense, and educational and medical institutions. The City’s economy is more specialized in the financial, governmental, business and professional services, and educational and medical sectors, than the suburban economy, which is more specialized in high technology and the defense industry. 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 the 2000-2005 population, income and employment trends for the U.S., New England, Massachusetts, and Metropolitan Boston.

**Population, Income and Employment  
2000-2004  
(Income in current year dollars)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
United States						
Total Personal Income (\$000) .....	\$8,422,074,000	\$8,716,992,000	\$8,872,871,000	\$9,150,908,000	\$9,717,173,000	\$10,224,761,000
Per Capita Income .....	\$29,845	\$30,574	\$30,810	\$31,463	\$33,090	\$34,494
Population .....	282,193,477	285,107,923	287,984,799	290,850,005	293,656,842	296,410,404
Employment .....	166,758,800	167,014,700	166,633,100	167,546,500	170,482,700	174,219,000
New England						
Total Personal Income (\$000) .....	\$503,960,765	\$524,401,681	\$528,029,789	\$539,129,649	\$569,707,851	\$595,013,214
Per Capita Income .....	\$36,118	\$37,342	\$37,379	\$37,983	\$40,059	\$41,785
Population .....	13,953,025	14,043,298	14,126,418	14,194,106	14,221,651	14,239,724
Employment .....	8,775,891	8,835,470	8,781,497	8,754,477	8,853,243	8,976,452
Massachusetts						
Total Personal Income (\$000) .....	\$240,208,628	\$249,094,962	\$249,954,238	\$254,206,105	\$267,820,574	\$279,635,404
Per Capita Income .....	\$37,756	\$38,953	\$38,985	\$39,611	\$41,799	\$43,702
Population .....	6,362,132	6,394,750	6,411,568	6,417,565	6,407,382	6,398,743
Employment .....	4,096,551	4,125,438	4,064,943	4,031,056	4,056,984	4,113,773
Metropolitan Boston <sup>(1)</sup>						
Total Personal Income (\$000) .....	\$182,380,414	\$188,442,089	\$188,434,021	\$191,957,545	\$203,527,013	\$212,464,000(p)
Per Capita Income .....	\$41,436	\$42,552	\$42,512	\$43,345	\$46,060	\$48,158(p)
Population .....	4,401,523	4,428,474	4,432,439	4,428,581	4,418,758	NA
Employment .....	3,046,389	3,070,248	3,012,650	2,974,614	2,985,082	NA

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

(p) Preliminary data

Source: Bureau of Economic Analysis, January 2007. 2000 population figures for all of the above are from the Bureau of the Census, except for Metropolitan Boston, which is from the Bureau of Economic Analysis.

The following table shows Boston's employment growth by industry category for 2004, 2005, and 2006. The industry categories are in the new North American Industrial Classification System (NAICS) format, which the Bureau of Economic Analysis began using in 2001. Employment for 2006 in the following table is based on the first two quarters of data from the Division of Unemployment Assistance and final 2004 data from the Bureau of Economic Analysis, projected for 2006.

**City of Boston Employment 2004 – 2006**  
**NAICS (North American Industry Classification System)**

<u>Industry</u>	<u>2004</u>	<u>2005</u> <sup>(1)</sup>	<u>2006</u> <sup>(2)</sup>	<u>Absolute</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Fishing/Mining/Agriculture.....	211	108	98	-113	-53.5%
Utilities .....	2,151	2,111	2,033	-118	-5.5
Construction .....	16,475	16,291	16,761	286	-1.7
Manufacturing.....	14,074	13,332	11,919	-2,155	-15.3
Wholesale Trade.....	9,470	9,396	9,298	-172	-1.8
Retail Trade (excludes food service) .....	31,609	31,302	31,493	-116	-0.4
Transportation and Warehousing.....	19,770	18,481	16,511	-3,259	-16.5
Transportation.....	18,114	16,985	15,841	-2,273	-12.5
Information .....	16,623	16,137	17,365	742	4.5
Finance and Insurance .....	75,545	77,531	78,532	2,987	4.0
Banking.....	15,195	15,180	14,333	-862	-5.7
Securities and other Financial Investment Activities...	45,329	46,164	47,587	2,258	5.0
Insurance Carriers and Related Activities.....	15,123	16,340	16,943	1,820	12.0
Real Estate and Rental and Leasing .....	18,900	19,236	19,556	656	3.5
Professional, Scientific, and Technical Services.....	70,727	72,201	74,812	4,085	5.8
Legal Services .....	20,099	19,963	20,074	-25	-0.1
Accounting, Tax Preparation, Bookkeeping.....	8,957	9,879	9,847	890	9.9
Architectural, Engineering, Design, and Related.....	10,158	10,087	10,238	80	0.8
Computer Systems Design and Related Services.....	5,327	5,394	6,194	867	16.3
Management, Scientific, and Technical.....	11,773	12,112	13,291	1,518	12.9
Scientific Research and Development Services.....	7,164	7,477	7,802	638	8.9
Other Professional, Scientific and Technical Serv.	6,397	6,444	6,546	149	2.3
Management of Companies and Enterprises .....	7,665	7,566	7,299	-366	-4.8
Admin. & Support and Waste Mgmt. and Remediation Service .	40,417	40,601	42,079	1,662	4.1
Educational Services .....	46,542	47,100	48,463	1,921	4.1
Colleges and Universities.....	39,830	40,240	41,196	1,366	3.4
Health Care and Social Assistance .....	106,486	108,379	110,884	4,398	4.1
Hospitals .....	72,038	73,695	76,023	3,985	5.5
Arts, Entertainment, and Recreation .....	12,948	12,743	12,526	-422	-3.3
Accommodation and Food Services .....	43,314	44,636	45,254	1,940	4.5
Accommodation .....	10,170	10,594	10,661	491	4.8
Food Service and Drinking Places.....	33,149	33,838	34,598	1,449	4.4
Other Services (except public administration) <sup>(3)</sup> .....	26,535	27,333	28,198	1,663	6.3
Government .....	<u>76,160</u>	<u>77,146</u>	<u>77,649</u>	<u>1,489</u>	2.0
<b>Total .....</b>	<b>635,623</b>	<b>641,628</b>	<b>650,730</b>	<b>15,107</b>	<b>2.4</b>

Notes: (1) 2005 employment is an estimate based upon average annual data from the Commonwealth's Division of unemployment Assistance ("DUA") and an estimate for the Bureau of Economic Analysis.

(2) 2006 is an estimate based upon first and second quarter data from DUA and an estimate for the Bureau of Economic Analysis.

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

Source: 2004-2006 figures are mathematically derived from the Bureau of Economic Analysis Series for Suffolk County, pro-rated to the City's geographical boundary. Due to use of pro-rating factors, minor discrepancies of 1 to 3 units between totals and employment categories may result.

A more recent picture of employment trends for the Commonwealth and Metropolitan Boston is available from the Bureau of Labor Statistics (Current Employment Series or CES 790 series) non-agricultural employment data. As of early January 2007 these data were available through the month of November 2006, and are presented in the following tables.

Data from the two following tables show that employment was lower than the mark for the same month of the previous year in Metropolitan Boston from January 2004 through June 2004. Every month since June 2004 has shown an increase in employment over the same month in the previous year. In December 2006 an increase of 17,000 jobs (a preliminary figure) in Metropolitan Boston was evident over December of the previous year. Since January 2004, the month when employment reached its low point, there has been an increase of 123,300 jobs.

**Metropolitan Boston<sup>(1)</sup>**  
**Total Non-Agricultural Employment**  
**Monthly, 2004-2006**  
**(Not seasonally adjusted, employment in 000's)**

<u>Month</u>	2004		2005		2006	
	<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 .....	2,349.9	-1.7%	2,366.9	+0.7%	2,390.9	+1.0%
February .....	2,354.6	-1.0	2,374.8	+0.9	2,399.5	+1.0
March .....	2,369.0	-0.8	2,380.7	+0.5	2,408.0	+1.1
April .....	2,396.6	-0.5	2,416.7	+0.8	2,440.4	+1.0
May .....	2,408.2	-0.5	2,426.5	+0.8	2,451.2	+1.0
June .....	2,420.9	-0.3	2,440.6	+0.8	2,464.1	+1.0
July .....	2,402.2	+0.1	2,416.9	+0.6	2,439.9	+1.0
August .....	2,391.5	+0.1	2,409.3	+0.7	2,431.0	+0.9
September .....	2,412.6	+0.1	2,432.5	+0.8	2,450.6	+0.7
October .....	2,425.3	+0.4	2,446.7	+0.9	2,464.5	+0.8
November .....	2,433.4	+0.3	2,454.2	+0.9	2,471.4	+0.7
December .....	2,439.3	+0.7	2,456.2	+0.7	2,473.2	+0.6
<b>ANNUAL.....</b>	<b>2,400.3</b>	<b>-0.2</b>	<b>2,418.5</b>	<b>+0.8</b>	<b>NA</b>	<b>NA</b>

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Source: Bureau of Labor Statistics, (790 Series of Non-Agricultural Employment, January 2007. Dec. 2007 preliminary.)

The industry composition of employment comparing December 2005 to December 2006 shows that most job losses over the previous year occurred in Construction, Manufacturing/Non-Durable Goods, Retail Trade, Transportation & Utilities, Leisure & Hospitality Services, and Other Services. Gains were evident in Manufacturing/Durable Goods, Wholesale Trade, Information Services, Financial Activities, Professional & Business Services, Education & Health Services, & Government. Natural Economic Resources (farming, fishing, and mining) remained unchanged.

**Metropolitan Boston<sup>(1)</sup>**  
**Non-Agricultural Wage and Salary Employment by Industry**  
**December 2005 and December 2006**  
**(Seasonally unadjusted, employment in 000's)**

<u>Industry</u>	<u>Nov. 2005</u>	<u>Nov. 2006</u>	<u>Change</u>	<u>Percent</u>
Non-Agricultural Total.....	2,456.2	2,473.2	+17.0	+0.7%
Natural Economic Resources .....	1.1	1.1	0.0	0.0
Construction .....	103.3	102.4	-0.9	-0.9
Manufacturing.....	227.0	227.5	+0.5	+0.2
Durable Goods .....	161.0	162.2	+1.2	+0.7
Non-Durable Goods .....	66.0	65.3	-0.7	-1.0
Trade, Transportation & Utilities .....	435.6	433.0	-2.6	-1.0
Wholesale Trade.....	101.7	102.5	+0.8	+0.8
Retail Trade.....	271.3	268.5	-2.8	-1.0
Transport. Warehousing & Utilities ..	62.6	62.0	-0.6	-1.0
Information Services .....	74.8	75.1	+0.3	+0.4
Financial Activities .....	187.8	190.7	+2.9	+1.5
Professional & Business Services .....	391.8	398.7	+6.9	+1.8
Education & Health Services .....	448.6	456.4	+7.8	+1.7
Leisure & Hospitality Services .....	203.7	203.2	-0.5	-0.2
Other Services.....	86.3	85.7	-0.6	-0.7
Government.....	296.2	299.4	+3.2	+1.1

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

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: Bureau of Labor Statistics, (790 Series of Non-Agricultural Employment, February 2007.)

The following table 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. The 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, & Related jobs gaining but Sales & Office jobs declining. At the same time, Blue-Collar & Service occupations continued to decline, with the exception of Production, Transportation & Related workers who showed a modest increase between 1990 & 2000.

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

	<u>1960</u>		<u>1970</u>		<u>1980</u>		<u>1990</u>		<u>2000</u>	
	<u>Number</u>	<u>%</u>								
White-Collar .....	126,471	44	146,657	55	154,456	60	191,251	67	197,049	69
Manag'l., Profess'l & Related.....	49,080	17	59,929	23	77,217	30	107,206	38	123,850	43
Sales & Office.....	77,391	27	86,728	33	77,239	30	84,045	29	73,199	26
Blue-Collar & 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., & Related..	52,175	18	36,695	14	24,825	10	19,971	7	23,630	8
Service and Farm & Fishing .....	50,037	17	55,996	21	56,964	22	59,029	20	51,062	18
Not Reported.....	<u>27,115</u>	<u>9</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total.....	288,196	100	266,505	100	256,017	100	288,704	100	285,859	100

Source: Bureau of the Census.

Percentages may not add due to rounding.

### Unemployment

In 2006 the annual average unemployment rate for the City was 5.3%, a bit worse than the 4.6% national rate. Metropolitan Boston, Massachusetts and New England had slightly better rates at 4.6%, 4.9%, and 4.6%, respectively. All of these rates were still above the historically low rates reached in the year 2000. Bureau of the Census data for Metropolitan Boston for 2000, 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 the City's total unemployment rate equaled 7.2% the unemployment rate for whites equaled 5.1%, and the unemployment rate for all minority groups combined equaled 10.2%. This pattern is typical of many of the nation's urban centers.

### Annual Unemployment Rates, 2000-2006

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City of Boston	3.0%	4.1%	5.9%	6.5%	5.7%	5.2%	5.3%
Metropolitan Boston <sup>(1)</sup>	2.5	3.6	5.3	5.7	5.0	4.5	4.6
Massachusetts	2.7	3.7	5.3	5.8	5.2	4.8	4.9
New England	2.8	3.6	4.8	5.4	4.9	4.7	4.6
United States	4.0	4.7	5.8	6.0	5.5	5.1	4.6

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Sources: Bureau of Labor Statistics for United States, New England and Massachusetts and Massachusetts Department of Workforce Development for the City and Metropolitan Boston.

As the following table illustrates, monthly data for all areas for 2006 show a relatively stable unemployment rate over 2005 and 2006, except for the United States as a whole, where the rate is down considerably. In December 2006, Boston's unemployment rate registered 5.0% compared with the 4.7% mark one year earlier in December 2005, and the 4.8% rate two years earlier in December 2004.

**Monthly Unemployment Rates for City of Boston, Metropolitan Boston<sup>(1)</sup>, Massachusetts,  
New England and the United States for 2004, 2005 and 2006<sup>(2)</sup>**

	<u>City of Boston</u>			<u>Metropolitan Boston<sup>(1)</sup></u>			<u>Massachusetts</u>			<u>New England</u>			<u>United States</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Jan. ....	6.3%	5.4%	5.3%	5.8%	5.0%	4.7%	5.6%	4.9%	4.6%	5.9%	5.3%	5.1%	5.7	5.2%	4.7%
Feb. ....	5.9	5.3	5.4	5.5	5.0	5.0	5.5	4.9	5.0	5.6	5.3	5.2	5.6	5.4	4.8
Mar. ....	6.0	5.1	5.4	5.6	4.8	4.9	5.4	4.9	4.9	5.6	5.0	5.0	5.7	5.1	4.7
Apr. ....	5.5	4.9	5.1	4.9	4.3	4.4	5.3	4.8	4.9	4.9	4.6	4.4	5.5	5.1	4.7
May.....	5.8	5.1	5.3	5.0	4.4	4.5	5.3	4.8	5.0	4.8	4.5	4.3	5.6	5.1	4.6
Jun. ....	6.3	5.7	5.9	5.3	4.7	4.8	5.2	4.8	5.0	5.1	4.7	4.6	5.6	5.0	4.6
Jul. ....	6.3	5.7	5.6	5.2	4.7	4.6	5.2	4.7	4.7	5.0	4.7	4.6	5.5	5.0	4.8
Aug. ....	5.8	5.3	5.5	4.9	4.4	4.5	5.1	4.7	4.9	4.6	4.4	4.4	5.4	4.9	4.7
Sep. ....	5.7	5.5	5.7	4.8	4.6	4.7	5.0	4.8	5.1	4.5	4.5	4.5	5.4	5.1	4.6
Oct. ....	5.2	5.0	4.7	4.4	4.2	4.0	5.0	4.8	4.6	4.2	4.2	3.9	5.4	4.9	4.4
Nov. ....	5.0	5.1	5.0	4.3	4.3	4.3	4.9	4.8	5.0	4.3	4.4	4.3	5.4	5.0	4.5
Dec.....	4.8	4.7	5.0	4.3	4.1	4.4	4.9	4.8	4.9	4.3	4.3	4.3	5.4	4.9	4.3

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

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

Sources: Bureau of Labor Statistics for United States, New England and Massachusetts, and Massachusetts Department of Workforce Development for the City and Metropolitan Boston.

### *Private Employers*

The following table lists the fifty 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 2006.

#### **Largest Private Employers in Boston, April, 2006 (With 1,000+ employees, listed alphabetically)**

ABM Janitorial Services	Investors Bank & Trust Co.
American Cleaning Company, Inc.	KPMG, LLP
Bank of America	Liberty Mutual
Beth Israel Deaconess Medical Center	Manulife Financial/John Hancock
Blue Cross Blue Shield of Massachusetts	Massachusetts Eye and Ear Infirmary
Boston College	Massachusetts Financial Services Co.
Boston Globe Newspaper	Massachusetts General Hospital
Boston Herald	New England Baptist Hospital
Boston Medical Center	New England Financial
Boston University	New England Medical Center
Brigham and Women's Hospital	Northeastern University
Carney Hospital	PricewaterhouseCoopers, LLP
Children's Hospital	Pioneer Investments
CVS Pharmacies	Shaws Supermarkets
Christian Science Monitor	Spaulding Rehabilitation Hospital
Dana-Farber Cancer Institute	St. Elizabeth's Medical Center
Deloitte & Touche, LLP	State Street Corporation
Ernst & Young	Stop and Shop Supermarkets
Faulkner Hospital	Suffolk University
Federal Reserve Bank of Boston	Teradyne, Inc
Fidelity Investments (FMR Corp.)	Thomson Corporation
Gillette Company	Verizon Communications
Harvard University (graduate schools)	Wellington Management
Hebrew Rehabilitation Center for the Aged	WGBH
Houghton Mifflin Co.	YMCA

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 77,649 federal state and local government workers in the City in 2006. 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 the 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. Bureau of the Census data show that by 1990, the City's population had increased by 2% over 1980 levels, while the City's labor force increased by 12.8%. During the 1990's Boston's population continued to rise, posting a 2.6% increase 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 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	
	Persons	Percent	Persons	Percent	Persons	Percent	Persons	Percent
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. .	36,245	10.4	67,073	20.3	109,711	30.0	134,252	35.5
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: Bureau of the Census.

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

Per capita personal income for Suffolk County was \$45,830 in 2004, 39% above the national per capita personal income of \$33,090, according to the Bureau of Economic Analysis. City residents constitute approximately 87% of the County's population. An historical summary of per capita income shows that from 1980 to 1990 Suffolk County's per capita income grew at a rate greater than that for the nation, in contrast to the 1970-1980 period when it rose at a slower rate. Suffolk County's per capita income grew at a faster rate than the per capita income growth rates for the United States, New England, and Massachusetts and just barely below the rate of growth for Metropolitan Boston between 1990 and 2000. The City's median household income (in current year dollars), based on Census data, rose from \$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, 1990 and 2000-2005  
(In current year dollars not adjusted for inflation)**

	United States	New England	Massachusetts	Metropolitan Boston <sup>(1)</sup>	Suffolk County <sup>(2)</sup>
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
2000 .....	29,845	36,118	37,756	41,436	38,139
2001 .....	30,574	37,342	38,953	42,552	40,659
2002 .....	30,810	37,379	39,985	42,512	40,631
2003 .....	31,463	37,983	39,611	43,345	42,405
2004 .....	33,090	40,059	41,799	46,060	45,830
2005 .....	34,495	41,785	43,702	48,158(p)	NA

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

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

(p) Preliminary

Source: Bureau of Economic Analysis, January 2007.

Data from the Bureau of Economic Analysis indicate that the average annual earnings per job for 1970 through 2004 by place of work, have been consistently higher over time in Suffolk County than in Metropolitan Boston and the Commonwealth. In 2004, Suffolk County's average wage per job (\$78,516) was 33% greater than that in the Boston metropolitan area (\$59,057) and 45% greater than the average state earnings level (\$53,458). The average annual earnings per job reflects the combined income earned by individuals at their place of work for all industries combined.

**Average Earnings per Job Comparison, 1970, 1980, 1990, 2000-2005**  
(In current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metropolitan Boston</u> <sup>(1)</sup>	<u>Suffolk County</u> <sup>(2)</sup>
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.....	39,007	44,300	47,806	52,305	65,884
2001.....	40,164	45,590	48,654	53,282	68,765
2002.....	41,116	46,324	49,407	53,889	68,487
2003.....	42,433	47,537	50,538	55,373	70,897
2004.....	44,360	50,045	53,458	59,057	78,516
2005.....	45,847	51,435	54,658	NA	NA

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

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

Source: Bureau of Economic Analysis, January 2007.

During the years 2000-2005, based on the Bureau of Labor Statistics Consumer Price Index, the cost of living index rose at an annual average rate of 3.34% in Metropolitan Boston, while the national index increased at a 2.55% annual rate. From November 2005 to November 2006, the cost of living in Metropolitan Boston increased 2.1%, compared to a 2.0% rate increase for the nation.

**Consumer Price Index for All Urban Consumers**  
**For 2000 through 2006**  
(CPI-U)

	<u>United States</u>	<u>Percent</u>	<u>Metropolitan Boston</u> <sup>(1)</sup>	<u>Percent</u>
	<u>Index</u>	<u>Change</u>	<u>Index</u>	<u>Change</u>
2000.....	172.2	3.4	183.6	4.3
2001.....	177.1	2.8	191.5	4.3
2002.....	179.9	1.6	196.5	2.6
2003.....	184.0	2.3	203.9	3.8
2004.....	188.9	2.7	209.5	2.7
2005.....	195.3	3.4	216.4	3.3
2005 (Nov.).....	197.6	-	218.6	-
2006 (Nov.).....	201.5	2.0	223.1	2.1

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

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: Bureau of Labor Statistics

***Medical and Higher Educational Institutions***

Boston's medical and educational institutions are an important component of its economy, providing employment opportunities for residents of the City and Metropolitan Boston. Expenditures by the institutions' patients, students and visitors 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 2006, there were 110,884 health services jobs 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 2004 and 2006 grew from 72,038 to 76,023.

Between 2003 and 2006 several large medical buildings were completed. In 2003, the Harvard Institutes of Medicine completed the redevelopment of the former English High School into a 435,000 square-foot medical research building. Also in 2003, Children's Hospital finished the 295,000 square-foot Karp Research Laboratory and a 294,000 square foot Clinical building. Also in 2003, Tufts University completed its 146,800 biomedical research and nutrition complex. In 2004 Emmanuel College finished a 300,000 square foot medical research building for Merck pharmaceutical company. In October 2004, Massachusetts General Hospital opened a new \$125 million 440,000 square feet Yawkey Center for Outpatient Care. In 2006, at Harvard Dental School in the Longwood Medical and Academic Area of Boston, a new building with 24,000 square-feet of educational space and 16,000 square-feet of medical research space was completed. And in 2006, the 105,000 square-foot Boston Medical Center Moakley Cancer Care Center garage was completed.

As of February 2006, there were three hospital or medical research building projects in construction for completion between 2007 and 2008: the new \$80 million sciences building with 160,000 square-feet of medical research space at Boston University Medical Center's BioSquare (Parcel D in the South End); the Lyme Properties' 575,000 square-foot Blackfan Research Center in the Longwood Medical and Academic Area; and Brigham and Women's Hospital's 350,000 square foot Center for Advanced Medicine. The BRA has also approved several other hospital or medical projects; among them are the Massachusetts General Hospital's 526,000 square foot Building for the Third Century; Boston University Medical Center's BioSafety Level 4 (BSL4) research facility (phase 2, Parcel F in the South End); Joslin Diabetes Center's proposed 490,000 square-foot expansion project, and the 440,000 square foot Longwood North medical research building in the Longwood Medical and Academic Area recently acquired by Children's Hospital.

For the thirteenth 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. Boston received awards totaling more than \$1.619 billion in fiscal 2006. 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 one of the nation's largest cluster of life sciences industries. According to a January 2007 report by Battelle entitled "Growing the Nation's Bioscience Sector: A Regional Perspective," Boston ranks fifth among the 25 metropolitan regions with over 10,000 employment in the bio-sciences specialties with 42,323 jobs (20,051 in research, testing, and medical laboratories; 15,874 in medical devices and equipment; 5,984 in drugs and pharmaceuticals; and 417 in chemicals). On a per-capita basis, Boston also ranked fifth among the 25 metropolitan areas with biosciences employing at least 10,000, and 9.58 biosciences employees per 1,000 population. 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 BioSafety Level 4 Research Facility both in the South End.

As of academic year 2004-2005, the New England Board of Higher Education reported that the City's 32 universities, colleges, and community colleges had a combined enrollment in fall 2004 of 139,784, a 9.7% gain from the 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 the fall of 2004, with 30,101 students. Boston, with only 10% of the state's population, has 31% of the statewide college student enrollment.

From 2003 through 2006, three higher education building projects were completed: Boston College added a Faculty Administration building with 156,000 square feet of space, Harvard University's Baker Library at Harvard Business School was expanded; and Simmon's College expanded their library. Boston College High School completed a 60,000 square-foot addition. Among the other planned expansions, 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 2000 and 2006, 6,777 dormitory beds (6,197 undergraduate and 580 graduate) have opened to Boston's college students: Boston College opened one dorm with 322 beds; Boston University opened three dorms with 1,238 beds; Emerson College added the Piano Row residences in September of 2006 with 596 beds; Emmanuel College added one dorm with 225 beds; Harvard University with 360 graduate beds; Mass College of Art finished one dorm with 310 beds; Mass. College of Pharmacy completed one dorm with 270 beds; Northeastern opened five dorms with 2,022 beds; Suffolk University built one dormitory with 368 beds; and Wentworth Institute added two dorms with 923 beds. The recent addition means that Boston's colleges and universities now accommodate 31,184 students with on-campus housing (29,971 in dorms and 1,213 in apartments). The two dormitories under construction as of February 2007 are the 170 bed dormitory as part of the Trilogy building on 180 Brookline Avenue for Harvard University graduate students and a new 1,200-bed Northeastern University dormitory (Residence Hall I). While college enrollment remains stable, new student housing is pulling students out of the neighborhood housing stock, easing housing prices and ameliorating tight vacancies. Several future dorms have been approved and several more are under review.

### ***Tourism and Culture***

According to the Greater Boston Convention and Visitors Bureau ("CVB"), an estimated 17.6 million people visited the Boston metropolitan area in 2005, up by 5.5% from the 16.6 million visitors in 2004. 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 \$9.8 billion for hotel accommodations, meals, entertainment, shopping, transportation and other services during 2005. 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 107<sup>th</sup> 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 New England Patriots football team 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 TD Banknorth Garden, a privately-financed, multi-purpose arena in Boston's North Station District constructed by the New Boston Garden Corporation, a subsidiary of Delaware North, opened on September 30, 1995. The new ownership of the Boston Red Sox baseball franchise have undertaken renovations of the existing Fenway Park, including the addition of new seating and modernizing facilities, and have also proposed additional changes to the existing structure and also in the surrounding neighborhood.

Boston 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 (“Hynes”), the World Trade Center and the Bayside Exposition Center, with a combined capacity of over one million people per year, and the new 1.6 million square-foot Boston Convention and Exhibition Center (“BCEC”) that can host large national conventions. In Fiscal Year 2006 the Hynes and the BCEC hosted 276 events with 579,370 attendees.

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.

Several cultural institutions are pursuing development plans that are either currently proposed, approved, or under construction. The Museum of Fine Arts has planned a 462,400 square-foot multi-phase expansion, 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, a Boston Cultural Museum and possibly a Boston History Museum are planned. A newly constructed Institute of Contemporary Art museum opened on the South Boston waterfront in 2006. The 65,000 square foot building features galleries, a “mediatheque” with computer stations for accessing digital media, a 325-seat theater, and workshop and classroom spaces.

In May, 2005 the Mayor launched Create Boston, an economic development program at the Boston Redevelopment Authority (BRA) that is designed to help creative businesses and individuals achieve their full potential for success. The program focuses on film, media, design, visual arts/crafts and performance, and provides resources in financial and site location assistance, workforce development and business advocacy; and is geared specifically toward business development and job creation. The program is supported by a 20-member advisory committee that represents a cross-section of creative industry experts. One of Create Boston’s first projects was to conduct a comprehensive analysis of the impact of the creative economy. This landmark research makes Boston one of the only cities nationally to clearly define the creative economy and to present its findings in a concise and comprehensive analysis. The “Boston’s Creative Economy” report is available on the Create Boston website at [www.createboston.com](http://www.createboston.com). For a description of Boston’s artists’ housing program see the section below on “Housing Stock, Housing Values, and Development”

### ***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 5,229 rooms or 76%. Most of this growth took place between 1982 and 1985 when 3,981 rooms came on line with the opening of eight new hotels. Since July 1997 Boston has built 5,577 rooms in 25 new hotels and 5 expansions. Boston’s favorable hotel market and the decision to build the new Boston Convention and Exposition Center stimulated considerable new development over this period. Since 1992 Boston annual occupancy rates have exceeded 72% in all but two of these 15 years.

From the beginning of 2004 through 2006 the following hotels were completed: an 81-room Courtyard by Marriott at 88 Exeter Street in the Back Bay; the Hotel Onyx, a 112-room Kimpton 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; a 164-room Courtyard by Marriott in the South Bay/Roxbury district; the 40 room Hotel 140 in the Back Bay; the 793 room Westin BCEC Headquarters Hotel, attached to the new Boston Convention and Exhibition Center in South Boston; and the 424 room Intercontinental Hotel on the downtown waterfront. As of January 2007 there were a total of 17,020 hotel rooms in establishments of 50 or more rooms in Boston as a net result of the development detailed above, and the closing of two older hotels.

Four other hotels with 1,078 rooms are now under construction in Boston. The 308 room Liberty Hotel is an adaptive reuse of the old Charles Street Jail with a new construction element, opening planned for mid-2007. The 471 room Marriott Renaissance on the South Boston waterfront and the 150 room Battery Wharf Regent on the downtown waterfront are also scheduled to open in 2007. The 149 room Mandarin Oriental, a mixed-use project including condominium residences and retail space, is currently under construction in the Back Bay and is expected to open in early 2008. Six more hotels have BRA Board approvals but have not yet started.

Between 1991 and 2000, average annual occupancy rates grew from 70.1% to 78.4% and average daily room rates rose steadily from \$118.17 to \$198.00 according to Pinnacle Advisory Group, an independent hospitality industry consultant. The year 2001 brought a more challenging environment for the hospitality industry as a slowing economy combined with the events of September 11<sup>th</sup> dampened hotel market performance in Boston. In 2001 the occupancy rate fell to 69.6% and the room rate to \$180.58. By 2003 hotel room demand was growing again, but room supply continued its steady growth too, resulting in a 71.1% occupancy rate and \$155.52 average daily rate in that year. Since 2003 and through 2006 Boston room demand grew by 15.5% over these three years and 2006 occupancy rose to 76.4% with average daily rates averaging \$196.61 according to Pinnacle. Revenue per available room was \$150.23 in 2006, the highest since the \$155.33 recorded for 2000.

### ***Transportation***

The City is a major national and international air terminus, a seaport, and the center of New England's rail, truck and bus service. The City is served by three limited-access interstate highways which connect it to the national highway system: U.S. 90 (the "Massachusetts Turnpike"), which leads westward from downtown Boston 138 miles to the New York State border; U.S. 95, the East Coast's principal north-south highway, which connects Boston to Portland, Maine to the north and New York City and Washington, D.C. to the south; and U.S. 93, another north-south interstate highway, that extends from just south of the City north to New Hampshire. The City is also served by two national railroads, Amtrak and Conrail, a regional rail carrier, Boston and Maine (a subsidiary of Guilford Transportation Industries), and Bay Colony, a local carrier.

Transportation planning includes both major highway and mass transit programs. The Massachusetts Bay Transportation Authority ("MBTA") provides commuter rail, subway, local bus and express bus services to 175 cities and towns in eastern Massachusetts, offering public transit alternatives to a population of almost 4.7 million people in an area of 3,200 square miles. The MBTA, the fifth largest mass transit system in the nation as determined by ridership, currently serves about 1.1 million persons per day.

The MBTA's Capital Investment Program totals approximately \$2.7 billion over fiscal years 2007-2011, averaging about \$540 million per year. The Capital Investment Program consists of five major programmatic areas: (i) reinvestment in the infrastructure (\$2.11 billion); (ii) accessibility improvements (\$112 million); (iii) enhancement of existing service (\$195 million); (iv) system expansion efforts (\$254 million) and (v) statewide planning (\$34 million). Capital Investment Program spending by transportation mode is as follows: subway, \$1.295 billion; commuter rail, \$688 million; Silver Line, \$96 million; bus, \$341 million; and system wide, \$282 million; The major infrastructure projects include vehicles (\$964 million); station modernization (\$368 million); rail signaling systems (\$184 million); maintenance facilities, including rail car houses and bus garages (\$138 million); track/right-of-way (\$109 million); fare equipment (\$98 million), power (\$75 million), bridges (\$35 million); and communications (\$14 million).

Several specific system enhancement projects are underway. The most significant efforts in the City are devoted towards the \$260.3 million North Station Superstation project, the \$37.3 million Fairmount Corridor Improvements project to be completed in fiscal 2008, and new parking initiatives. 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. Improvements include several bridges, the signal system, and several stations, including Morton Street and Upham's Corner. The current plan has also expended \$94.6 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.

Finally, the MBTA's 2007-2011 Capital Investment Program includes \$118.3 million for the Silver Line project in Boston, or 35% of the MBTA's system-wide expansion effort. The full Silver Line will provide new service within Boston's urban areas to Roxbury, South Boston, and Downtown. The MBTA is constructing the Silver Line in three phases to operate as part of its core downtown transit system. Phase I completed in July 2002 provides bus rapid transit services along Washington Street (through the Downtown, Chinatown, the South End, and Roxbury neighborhoods) with 14 new stations. Phase II mostly completed in 2004, provides bus rapid transit services along the South Boston Piers Transitway, which extends from South Station along the South Boston waterfront to the Federal Courthouse to World Trade Center and beyond to the tunnel to the airport. 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.

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, and acquisition of 20 new Acela Express high-speed trains, and 15 high-horsepower electric locomotives to reduce rail travel time from downtown Boston to downtown New York City. 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 2006 Amtrak carried 801,561 passengers between New York and Boston—an increase of 16% 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).

For a description of the depression of the Central Artery and the construction of a third tunnel under Boston Harbor, two other significant transportation projects in the City, see “Large Public Sector Projects,” below.

### ***Seaport and Airport***

The Massachusetts Port Authority (“Massport”) was created by the state legislature to develop and manage the City's major air and sea transportation centers, and the Tobin Memorial Bridge over the Mystic River. Massport is financially independent, and the City is not responsible for any debt or other obligations incurred by Massport. Heavy use of Boston Logan International Airport (“Logan Airport”) and the Port of Boston has compelled significant expansion of both facilities. Massport's net investment in its facilities through June 2006 exceeded \$3.45 billion, consisting of \$2.89 billion invested in airports and \$557 million invested in the Tobin Bridge, maritime development and other capital projects. In February 2005, Massport projected that it would spend about \$1.05 billion during fiscal years 2006-2010 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.

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 Port of Boston is also a major cruise port. The total number of cruise passengers in fiscal 2006 (246,385) increased by 27.7% compared to fiscal 2005 reflecting a trend of continued growth in cruise traffic. The cruise port mainly operates in the months of May through October.

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 2006 the Port activity of 111,020 boxed containers increased 7.1% over fiscal 2005, primarily as a result of new far-east service provided by COSCO, while the 11,170 automobiles handled in fiscal 2006 decreased by 4.8% from fiscal 2005 and the 202,681 tons (in bulk tonnage) for fiscal 2006 decreased by 6.9% from fiscal 2005's bulk tonnage.

In calendar 2006, Logan Airport served a total of 27.7 million passengers, a 2.4% increase from the 27.1 million passengers served in 2005. A report on calendar year 2005 prepared by Airports Council International ("ACI") showed that Logan was the most active airport in New England, the 19<sup>th</sup> most active in the United States and the 37<sup>th</sup> most active in the world. A new runway at Logan airport was completed late in 2006. See "Large Public Sector Projects," below. Logan Airport also plays an important role as a center for processing domestic and international air cargo. According to ACI, Logan Airport ranked 18<sup>th</sup> in the nation in total air cargo volume in 2005. In fiscal 2006 total combined cargo and mail volume was 759.3 million pounds: a 4.6% decrease from the 796.3 million pounds in fiscal 2005.

### **Construction Activity**

The following table sets forth construction activity in the City from fiscal years 1997-2006, 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 2006 indicated that total construction activity was an estimated \$3.09 billion. Revenue from building permit fees increased in all but four of the fiscal years between 1996 and 2007. Between fiscal years 2005 and 2006, building permit revenue increased from \$23.21 million to \$26.25 million.

#### **Boston Building Permit Revenues and Estimated Construction Activity Ten Fiscal Years, 1997-2006**

	<b>Building Permit Revenues<sup>(1)</sup></b>	<b>Estimated Potential Construction Activity<sup>(2)</sup></b>	<b>Estimated Potential Construction Activity Adjusted For Inflation<sup>(3)</sup></b>
1997.....	\$ 9,199,877	\$ 1,082,338,471	\$ 1,436,887,000
1998.....	14,757,703	1,736,200,395	2,253,926,000
1999.....	11,404,006	1,341,647,713	1,699,166,000
2000.....	17,922,648	2,108,546,846	2,559,886,000
2001.....	27,191,839	3,199,039,882	3,723,582,000
2002.....	19,055,144	2,241,781,647	2,542,968,000
2003.....	20,145,888	2,370,104,471	2,590,957,000
2004.....	22,724,810	2,673,507,019	2,844,509,000
2005.....	23,213,600	2,731,011,765	2,813,043,000
2006.....	26,253,000	3,088,592,000	3,088,592,000
Total .....	<u>\$191,868,515</u>	<u>\$22,572,770,209</u>	<u>\$25,553,516,000</u>
Annual Average 1997-2006 .....	\$ 19,186,852	\$ 2,257,277,021	\$ 2,555,352,000

- (1) Building permit revenues in current dollars. Columns may not add due to rounding.
  - (2) Construction activity estimated by dividing permit revenues by 0.85%, which is the midpoint between permit fees calculated at 0.7% of the first \$100,000 estimated value of development cost, and 1% for the remainder of development cost.
  - (3) Estimated construction activity adjusted to May, 2006 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 2006).

### **Large Public Sector Projects**

In addition to major construction projects of the MBTA and Massport, Boston has witnessed several major other public sector projects. 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 Project" or "CA/T"). The CA/T Project, which is intended to improve traffic flow, is under the control of the Massachusetts Turnpike Authority.

The CA/T Project includes the Ted Williams Tunnel, connecting Logan Airport and the North Shore to Downtown Boston and the western suburbs, the Leverett Circle Connector Bridge, a four-lane bridge over the Charles River carrying traffic between Leverett Circle in downtown Boston and U.S. 93 in Charlestown, the extension of U.S. 90 under Fort Point Channel to South Boston connecting with the highway with the Ted Williams Tunnel and Logan Airport in East Boston, and the Central Artery and the Leonard P. Zakim Bunker Hill Bridge over the Charles River. The CA/T Project, with an estimated total cost of \$14.63 billion, has been nearly half funded by the federal government while the remainder is the responsibility of the Commonwealth of Massachusetts. Although portions of the Ted Williams Tunnel were closed in 2006 for ceiling repairs following an accident, the CA/T Project is substantially complete and all elements of the project are open and operational.

The BCEC Project was constructed on a 60-acre site in South Boston through the joint efforts of the City, the Commonwealth, the BRA, and the MCCA. The 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 the MCCA is the owner and operator of the BCEC. In Fiscal Year 2006 the BCEC hosted conventions with over 250,000 attendees.

In addition to the BCEC Project, a 793-room convention center hotel on the northeast corner of the BCEC Project site opened in June 2006.

The Massachusetts Water Resources Authority ("MWRA"), an independent state authority, has recently completed construction of the major components of its Integrated Water Supply Improvement Program including the MetroWest Water Supply Tunnel, Norumbega Covered Storage Reservoir and the John J. Carroll Water Treatment Plant. The Integrated Water Supply Improvement Program has cost approximately \$1.1 billion through June 30, 2006. In addition, MWRA continues to operate the Deer Island Treatment Plant. This project, which was undertaken pursuant to a federal district court order, was part of MWRA's capital improvement program costing approximately \$3.8 billion and brought wastewater discharges into compliance with federal and state requirements.

The MWRA has also spent approximately \$943.3 million on improvements to its wastewater system improvements and approximately \$1.5 billion on waterworks system through June 30, 2006. The largest expenditures have been for the MetroWest Water Supply Tunnel, the John J. Carroll Water Treatment Plant, improved water storage facilities and reduction of combined sewer overflows.

The MWRA-approved FY07 Capital Improvement Program anticipates the spending of approximately \$1.1 billion on additional water and wastewater system improvements over the next ten years. The largest expenditures will be for the combined sewer overflow (CSO) control plan, interceptor and pumping improvements and water distribution system improvements. The largest component of the combined sewer overflow control plan is the North Dorchester Bay CSO Storage Tunnel and related facilities. Relatively small portions of the other improvements are located within the City, but they should nonetheless provide major improvements in the system infrastructure that serves the City.

The Boston Housing Authority ("BHA") recently completed major revitalization initiatives at three public housing developments: Mission Main, in the Mission Hill neighborhood of Boston, Orchard Park, in Roxbury, and Maverick Gardens in East Boston. The BHA was able to initiate the revitalization of these developments when it was awarded three HOPE VI grants from the U.S. Department of Housing and Urban Development ("HUD"). The grants, totaling \$105 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.

### ***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 6.953 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 Empowerment Zone also includes two development sites, the

“Massachusetts Turnpike Air Rights” and Morton Plaza in Mattapan. The EZ contains 58,717 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.

Boston Connects, Inc. (BCI) was established in November 1999 to oversee and implement the Empowerment Zone 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.

The 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. To date Pilot Seafood in the Seaport District, The Best Western Roundhouse Hotel in Newmarket, Katsiroubas Brothers also in Newmarket, 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. 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.

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 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 and is currently under construction. When the Center is complete, there will be 1,500 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 \$43.4 million in bonds to the Crosstown Center. The total development cost of the project is \$70.4 million.

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, project equity, and to establish a loan loss reserve. The EDI funding makes the City eligible for matching Section 108 funds. Section 108 funds can be used (i) as capital improvement loans for commercial or industrial projects that produce jobs, 60% of which are for low and moderate-income residents; or (ii) aid in the prevention or elimination of slums or blight, or meet urgent community needs.

EDI and 108 funds have been instrumental in helping to revitalize neighborhoods and create job opportunities for City residents. Dudley Square has seen the revitalization of Palladio Hall, Fairfield Center and the Warren-Palmer Building. 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.

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

The City and its neighborhoods currently have approximately 66.2 million square feet of office space. By the third quarter of 2006 (through September) Boston’s overall vacancy rate according to CB Richard Ellis was 8.2% (12.4% availability when including space to sublet). Another realty firm, Spaulding & Slye, places the City’s office vacancy rate at 8.8%. (availability 13.9%). 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. The economic slowdown caused office vacancies to rise substantially from early 2001 through late-2004, and then several mergers, acquisitions, and real estate space consolidations among financial services firms in Boston in 2004 and 2005 also caused the office market to stagnate, with office space coming to the market as primary or sublease use. However, by early 2006 many of these concerns had ended.

Net absorption for the third quarter of 2006, according to CB Richard Ellis, increased by 11,780 square feet. As of mid-year 2006, CB Richard Ellis ranked Boston’s downtown office market with 3rd

lowest vacancy rate among the twenty largest downtown office markets in the U.S., with a rate of 9.4%. Spaulding & Slye said that total net absorption of office space in downtown Boston for the first three quarters of 2006 was 286,786 square feet with the Financial District taking 513,222 square feet, the South Boston Waterfront taking 159,643 square feet and other areas showing negative net absorption. Office rents have been gradually increasing and a number of large prospective office tenants are looking for space despite the consolidation of Gillette's headquarters freeing up considerable space in the Back Bay sub-market

### Boston Office Market—September 30, 2006

<u>Market</u>	<u>Total (SF)</u>	<u>Available (%)</u>	<u>Vacancy (%)</u>	<u>3rd Quarter Net Absorption*</u>	<u>Average "Asking" Rent</u>
Central Business District.....	34,501,746	13.2%	9.1%	+69,929	\$41.27
Back Bay.....	13,084,698	13.1	6.5	-129,601	\$42.09
South Boston Seaport District.....	5,069,966	13.8	9.4	+144,335	\$28.76
Charlestown/East Boston.....	2,800,958	11.0	9.0	-57,218	\$25.04
North Station/Waterfront.....	2,763,956	13.3	10.4	-50,911	\$28.01
Midtown.....	2,657,054	5.2	3.7	-585	\$24.96
South Station.....	1,240,839	14.3	10.2	-23,003	\$22.34
Dorchester/South Boston.....	898,387	8.3	8.3	+21,364	\$22.03
Allston/Brighton/Longwood Medical .	1,580,136	4.9	4.7	+16,300	\$24.59
Fenway/Kenmore Square.....	1,934,639	5.0	5.0	+20,000	\$23.53
<u>Total Boston Office Market.....</u>	<u>66,532,379</u>	<u>12.4%</u>	<u>8.2%</u>	<u>+11,780</u>	<u>\$38.19</u>

\* Columns may not add due to rounding.

Source: CB Richard Ellis, Third Quarter 2006.

### Comparative Office Vacancy Rates 20 Largest Downtown Office Markets as of June 30, 2006

<u>City</u>	<u>Vacancy Rate</u>	<u>City</u>	<u>Vacancy Rate</u>
Manhattan (Midtown).....	5.7%	Los Angeles.....	13.7%
Washington DC.....	7.1	Seattle.....	13.9
Boston.....	9.4	Oakland.....	14.6
Manhattan (Downtown).....	9.5	Chicago.....	16.8
San Diego.....	10.6	Minneapolis-St. Paul.....	19.5
San Francisco.....	10.7	Dallas.....	19.6
Phoenix.....	11.1	Kansas City.....	19.9
Denver.....	11.7	Houston.....	20.3
Philadelphia.....	11.8	Atlanta.....	20.3
Sacramento.....	12.6	Detroit.....	26.4
National Average <sup>(1)</sup> 13.4%			

(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, Second Quarter 2006.

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 and 2005, 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 2006 only one small downtown office project was completed: Lincoln Plaza, a renovation of an existing building to mixed uses with 119,000 square feet of office space..

As of February 15, 2007, there were no downtown office developments under construction but several had been approved by the BRA Board and/or had been proposed. Four approved projects likely to

start soon and be completed in the next three to five years or so include: Two Financial Center, a 214,000 square foot building near South Station; Russia Wharf at 540 Atlantic Avenue on the downtown waterfront with 660,000 square feet of new office space; the South Station tower, a new building of 1.375 million square feet; and the Filene's tower rebuild at One Franklin Street with 572,600 square feet of new space. In November 2006 Boston unveiled a proposal from developer Steve Belkin and architect Renzo Piano for a downtown skyscraper that would rise 1,000 feet on the city-owned Winthrop Square parcel located at 115 Federal Street. The BRA had formally requested development proposal in May. The proposed 75-story glass and steel tower with 1.3 million square feet of office space was given tentative designation by the BRA Board in January 2007. If built, the new tower would surpass the City's tallest building, at present, the 60-story John Hancock Tower.

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 250,000 square feet of office space, and Hood Business Park in Charlestown, a 775,000 square foot renovation to be completed over a period of five years.

### ***Retail Market***

For 2006 it is estimated that there are about 66,091 employees in retail stores and food service and eating and drinking establishments in the City, consisting of about 31,493 in retail and 34,598 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 with an 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 with \$1.7 billion in sales. The sector is rounded out by some 14,000 employees in the personal service businesses: ranging from repair and maintenance, hair and nail care, and laundry and dry cleaning service..

#### **Massachusetts, Metropolitan Boston, and Boston Retail Sales, 1992-2002<sup>(1)</sup> (In thousands, not adjusted for inflation)**

	<u>Massachusetts</u>	<u>Metropolitan Boston<sup>(2)</sup></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) 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.
- (2) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Source: 1992 data from the 1992 Economic Census for Retail Trade. 1997 data from the 1997 Economic Census for Retail Trade (for retail) and for the 1997 Census for Accommodations and Foodservices (for foodservices and drinking places). 2002 data from the 2002 Economic Census for Retail Trade (for retail) and for the 2002 Census for Accommodations and Foodservices (for foodservices and drinking places).

Recent major retail projects in downtown Boston include: Roche Bobois moved from their North End location leasing up the remaining space at the Ritz Carlton Towers at Millennium Place. In 2007, the redevelopment of the former Filene's site, called One Franklin Street, will commence and plans include roughly 200,000 square feet of retail space. In the Back Bay a major new retail development at the renovation of 501 Boylston Street was completed in 2006 with 97,464 square feet of store space adding H&M, Filene's Basement, Boston Sports Club and Border's Books among the major tenants. Barney's New York opened their first flagship store in more than a decade in 45,000 square feet at the Copley Mall.

In the neighborhoods, the very successful South Bay Center Mall is undergoing a phased expansion. Stop and Shop moved out of their inline space making room for Circuit City and Bed Bath Beyond. A 76,000 square foot Super Stop and Shop, which includes its own gas station, was built on a pad site which also includes a Bank of America and Famous Footware. Additionally, Best Buy moved in to the former Toys R Us site and Olive Garden and Applebee's are currently under construction. In the Fenway neighborhood, Trilogy, a mixed use development, made it's debut with retail tenants including Boston's first West Elm, Citibank, Starbucks, Emack and Bolio's Ice Cream and Burton's Grill. The Crosstown commercial complex in the South End is wrapping up phase II which will bring the square feet of retail

space up to 48,000; current retail tenants include Dunkin' Donuts, Ground Round, Quiznos and Enterprise Rental Cars. The 60,000 square feet of retail space at One Brigham Circle in the Mission Hill/Jamaica Plain neighborhoods is now fully leased with a newly opened TGI Fridays. Dudley Square's Warren Palmer building was completed and fully leased with a tenant roster that includes Ashley Stewart's first Massachusetts location and another branch for regional retailer Expressions.

There are now 19 neighborhood business districts operating within the City's Main Streets Program. This program is a public-private initiative of the City established in 1995 to revitalize neighborhood commercial districts through locally established organizations. The program, from its inception through the end of fiscal year 2006, has generated 576 net new and expanded businesses, created 3,987 net new jobs, assisted in 555 storefront improvement projects, and given design assistance to 695 businesses. Through fiscal year 2006, the Main Streets Program had leveraged more than \$9.8 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.

### ***Industrial Market and Recent Developments***

According to "The Co-Star Industrial Report, Year-End 2006", Boston has 25.2 million square feet of industrial space within the City limits. As of December 2006, there were 3.1 million square feet of industrial space vacant, a vacancy rate of 12.2%, with 120,234 square feet of absorption over the year. The average rent for quality industrial space was estimated to range from \$7.40 per square foot (triple net) for warehouse space and \$16.15 for flex space.

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 and 2005 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. In Brighton, the Nolan Brothers self-storage facility was completed.

As of February 2006 Cargo Ventures was almost finished with a 212,000 square foot building at One Harbor Street in the Boston Marine Industrial Park. Boston Freight Terminals will occupy most of the 110,000 square feet first floor while the upper floors will be available for life sciences and other uses.

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 grew by 1,072 from 1990, the date of the previous decennial census. The

composition of occupied housing has been changing. The number of occupied rental apartments increased between 1990 and 2000, going from 157,920 to 162,302, a gain of 4,382 or 2.8%. The number of owner-occupied units also increased between 1990 and 2000, going from 70,544 to 77,226, a gain of 6,682 or 9.5%. 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. 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.

An April 2005 study done by the City's Department of Neighborhood Development showed that the median rent for an apartment in Boston in 2005 as advertised in the newspapers was \$1,700 per month for a two-bedroom apartment. Rents are up slightly city-wide from 2004, when the average was \$1,450. Median rents for a two-bedroom apartment ranged from a high of \$2,450 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  
2004 and 2005**

<u>Neighborhood</u>	<u>Median Rent</u>			<u>Volume of Apartments</u>		
	<u>2004</u>	<u>2005</u>	<u>Percent</u>	<u>2004</u>	<u>2005</u>	<u>Percent</u>
Allston/Brighton .....	\$1,300	\$1,300	0%	514	242	-53%
Back Bay/Beacon Hill .....	2,250	2,450	9	742	420	-43
Central .....	2,200	2,200	0	684	597	-13
Charlestown.....	1,650	1,550	-6	154	107	-31
Dorchester .....	1,300	1,200	-8	153	97	37
East Boston.....	1,100	1,100	0	28	32	14
Fenway/Kenmore .....	1,498	1,225	-18	92	24	-74
Hyde Park.....	1,250	1,200	-4	43	15	-65
Jamaica Plain.....	1,325	1,400	6	165	97	-41
Mattapan.....	1,200	1,200	0	15	10	-33
Roslindale.....	1,225	1,225	0	109	36	-67
Roxbury.....	1,250	1,200	-4	29	24	-17
South Boston .....	1,400	1,400	0	163	63	-61
South End .....	1,950	2,200	13	115	42	-64
West Roxbury.....	1,225	1,250	2	89	39	-56
<u>Citywide .....</u>	<u>1,450</u>	<u>1,700</u>	<u>8</u>	<u>3,095</u>	<u>1,845</u>	<u>-40</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 2005." 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 2006).

Through mid-2005 home prices in the City rose at a very fast pace but some slowing in prices occurred through 2006. The National Association of Realtors reported that the median sales price of existing homes in Metropolitan Boston (the MSA but excluding the New Hampshire segment) was \$402,200 for 2006, a 2.7% decrease over the 2005 median sales price. The median price, not adjusted for inflation has more than doubled over the last decade despite the small fall in prices since mid-2005.

**Greater Boston Annual Median Sales Prices for Existing Homes, 2002-2006  
(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	397,500	413,200	6.0%
2006.....	390,400	421,100	412,300	388,000	402,200	-2.7%

Note: The data series previously used in this table ended in the year 2000. The series beginning in 2002 uses different source data so medians from the two series are not comparable. A completely revised unified series that was first made available in 2005 replaces this table from previous years' versions of the Boston Economy report.

Source: National Association of Realtors (January 2007).

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 \$390,000 in the second quarter of 2006, a 22% rise over a three-and-1/4 year period. Condominium prices also increased from \$294,000 in the first quarter of 2003 to \$359,000 in the second quarter of 2006, also a 22% rise.

**Median Residential Sales Prices for Boston  
First Quarter 2003 through Second Quarter 2006  
(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
2005	First.....	\$375,000	\$467,000	\$526,000	\$350,000
	Second.....	390,000	485,000	540,000	359,950
	Third.....	390,000	485,000	540,000	355,000
	Fourth.....	379,200	488,000	550,000	339,450
2006	First.....	\$365,000	\$485,000	\$535,000	\$355,000
	Second.....	390,000	490,000	530,000	359,000

Source: City of Boston, Department of Neighborhood Development using Banker & Tradesman data (January 2007).

Banker & Tradesman, a local trade journal, reported that during the full year 2006 there were 13% fewer total residential sales in the City than there were in the full year 2005 (10,238 versus 11,814). Sales of single-family homes fell 16% and sales of condominiums and multi-family non-condominiums fell by 10% and 21% respectively compared with 2003 sales.

**Annual Residential and Condominium Sales in Boston  
1996-2006**

<u>Year</u>	<u>Single-Family Sales</u>	<u>Percent Change</u>	<u>Multi-Family Residential Sales <sup>(1)</sup></u>	<u>Percent Change</u>	<u>Total Condominium Sales</u>	<u>Percent Change</u>	<u>Residential and Condo Sales <sup>(2)</sup></u>	<u>Percent Change</u>
1996.....	1,572	1	2,727	2	3,547	22	7,846	10
1997.....	1,626	2	2,806	4	4,063	13	8,495	8
1998.....	1,541	-7	2,947	6	4,478	10	8,966	6
1999.....	1,613	4	3,173	8	5,107	15	9,893	10
2000.....	1,361	-15	2,824	-10	4,722	-7	8,907	-9
2001.....	1,317	-4	2,301	-18	4,278	-10	7,896	-12
2002.....	1,433	7	2,295	0	5,091	20	8,819	12
2003.....	1,417	4	2,334	-6	5,242	3	9,003	1
2004.....	1,718	21	2,931	29	7,338	39	11,987	34
2005.....	1,570	-9	2,958	1	7,286	-1	11,814	-2
2006.....	1,317	-16	2,331	-21	6,590	-10	10,238	-13

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

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

Note: Data for previous years have been revised since the publication of last year's report.

Source: Banker and Tradesman (January 2007).

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 \$325,000 in Mattapan to \$2.1 million in the Back Bay with the city-wide median at \$386,995 and the typical house going for \$435,000 in West Roxbury, the most suburban-style single family neighborhood within the City limits. The median sales price was up 5% but the sales volume was down by 11% between 2004 and 2005.

**Short Term Trends in Housing Prices**  
**Median Sales Prices and Sales Volume of Single Family Homes**  
**In Boston's Neighborhoods, 2004 and 2005**  
**(Not inflation adjusted)**

<u>Neighborhood</u>	<u>2004 Single-Family Price</u>	<u>2005 Single-Family Price</u>	<u>Percent Change</u>	<u>2004 Sales Volume</u>	<u>2005 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton .....	\$439,000	\$479,000	9%	90	83	-8%
Back Bay/Beacon Hill ...	1,837,500	2,095,351	14	33	27	-18
Central .....	**	**	***	5	4	***
Charlestown.....	546,500	560,000	3	67	65	-3
Dorchester .....	350,000	374,950	7	233	204	-12
East Boston.....	280,000	329,500	18	67	64	-5
Fenway/Kenmore .....	**	**	***	6	5	***
Hyde Park.....	323,250	350,500	8	292	280	-4
Jamaica Plain.....	520,000	552,500	6	103	80	-22
Mattapan.....	295,000	325,000	10	103	112	9
Roslindale.....	370,000	377,750	2	203	176	-13
Roxbury.....	301,250	335,000	11	64	52	-19
South Boston .....	380,000	406,500	7	109	72	-34
South End .....	1,043,750	1,000,000	-4	24	35	46
West Roxbury.....	419,900	435,000	4	335	287	-14
<u>Citywide .....</u>	<u>370,000</u>	<u>386,995</u>	<u>5</u>	<u>1,734</u>	<u>1,546</u>	<u>-11</u>

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

\*\*\* Not meaningful.

Note 1: These prices exempt all sales of properties of less than \$25,000 because the low price sales are not considered to be "arms-length" transactions and the high price sales can distort averages.

Note 2: These are not "paired-sales" so the size, quality and type of houses sold vary from year-to-year.

Note 3: Sales volume eliminates those sales mentioned in note 1 and also eliminate sales for properties that were not able to be accurately "geo-coded" for location so actual neighborhood and city wide totals are higher.

Source: City of Boston, Department of Neighborhood Development, January 2007, Real Estate Trends, Annual Report 2005".

Condominium sales volume and prices also showed strength and diversity across the neighborhoods of Boston. The three most expensive neighborhoods for condominiums (median price greater than \$500,000) were the Back Bay/Beacon Hill, Central (comprising Downtown, the North End, the West End, and the Waterfront), and South End neighborhoods, which are the core residential pockets closest to downtown. Four neighborhoods had moderately priced condominiums (median price between \$300,000 and \$440,000): Charlestown, Fenway/Kenmore, Jamaica Plain and South Boston. Eight neighborhoods still had affordably-priced condominiums (with the median price of \$300,000 or below): Allston/Brighton, Dorchester, East Boston, Hyde Park, Mattapan, Roslindale, Roxbury, and West Roxbury. The median citywide condominium price as of year-end 2005 was \$350,000, unchanged from the \$349,025 price for year-end 2004. Sales volume was down by 1%.

**Short Term Trends in Housing Prices  
Median Sales Prices and Sales Volume of Condominiums  
In Boston's Neighborhoods, 2004 and 2005  
(Not inflation adjusted)**

<u>Neighborhood</u>	<u>2004 Condominium Price</u>	<u>2005 Condominium Price</u>	<u>Percent Change</u>	<u>2004 Sales Volume</u>	<u>2005 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton .....	\$253,000	\$285,550	13	878	874	-1
Back Bay/Beacon Hill ....	480,000	525,000	9	979	853	-13
Central .....	515,000	594,000	15	927	901	-3
Charlestown.....	405,000	442,000	9	556	498	-10
Dorchester .....	250,000	279,950	12	444	562	27
East Boston.....	219,000	260,287	19	85	318	274
Fenway/Kenmore .....	297,750	305,000	2	362	308	-15
Hyde Park .....	256,000	259,000	1	60	141	135
Jamaica Plain.....	323,000	324,900	0	424	479	12
Mattapan.....	220,000	237,500	8	67	48	-28
Roslindale.....	293,000	299,000	2	287	267	-7
Roxbury.....	250,000	280,000	12	199	326	64
South Boston .....	346,000	353,250	2	920	724	-21
South End .....	495,000	507,700	3	934	733	-22
West Roxbury.....	238,500	265,250	11	214	200	-7
Citywide .....	349,025	350,000	0	7,336	7,232	-1

Note 1: These prices exempt all sales of properties of less than \$25,000 because the low price sales are not considered to be “arms-length” transactions and the high price sales can distort averages.

Note 2: These are not “paired-sales” so the size, quality and type of houses sold vary from year-to-year.

Note 3: Sales volume eliminates those sales mentioned in note 1 and also eliminate sales for properties that were not able to be accurately “geo-coded” for location so actual neighborhood and city wide totals are higher.

Source: City of Boston, Department of Neighborhood Development, January 2007, “Real Estate Trends, Annual Report 2005.”

The Boston Housing Authority (“BHA”) is a public agency that provides subsidized housing to low- and moderate-income individuals and families. The Authority administers two distinct housing programs. First, the Authority manages conventional public housing within the City of Boston. The Authority manages 64 developments, a few of which have both state and federal components. The BHA owns and manages some scattered site properties throughout the City of Boston as well. Of the 64 developments, 37 are designated as elderly/disabled developments and 27 are designated as family developments. Three of the 27 family developments have elderly/disabled housing on site and one of the elderly developments has designated units for families. The BHA currently owns 14,744 units of housing in Boston and houses about 27,000 people under the public housing program. In addition, the Authority administers approximately 11,000 rental assistance vouchers that allow families to rent in the private market and apply a subsidy to their rent. With this assistance, residents are able to pay approximately 30-40 percent of their income toward rent and the BHA pays the remainder. The BHA helps provide housing to approximately 25,000 people under this program. See “Large Public Sector Projects” for BHA development activity.

Boston has a successful record of producing artists’ housing. Twenty-six permanent affordable artist live/work units were recently occupied by artists in the South End at Artblock, and fourteen permanent affordable artist live/work units were occupied by artists in Jamaica Plain at Brookside, bringing the total number of permanent artist units created through the BRA’s Artist Space Initiative to 165. Additionally, 110 more artists units are now in planning and development in the South Boston, Hyde Park, and Lower Roxbury neighborhoods. More than 1,000 artists have filed paperwork to be eligible for future artists’ space as it is developed.

Housing construction accelerated between 2000 and 2006 with the Leading The Way I and II housing strategy plans – Boston’s comprehensive strategy for intensive housing construction. The City has counted 10,516 housing units completed from 2000 through 2006 including more than 4,998 new “affordable rate” units. Almost 8,000 households were protected from displacement through City efforts to prevent their subsidized apartments from becoming market-rate. Currently in construction are 4,639 total units while

3,352 more units are in developments which are designated “pre-construction”. When completed Boston’s Leading the Way production will total 18,858 housing units added. Virtually all of the Boston Housing Authority’s vacant units are now being reclaimed to create new housing, particularly for the homeless.

The Boston Redevelopment Authority has approved 34 different private-sector housing developments around the city both downtown and in the neighborhoods with 3,562 new housing units that are presently under construction. In addition, many more developments, both those approved by the City’s Department of Neighborhood Development and those with only private building permits are under construction.

**Boston Redevelopment Authority  
Housing Developments under Construction  
January 2007**

<u>Project</u>	<u>Area</u>	<u>Total Units</u>	<u>Afford. Units</u>	<u>Market Units</u>	<u>Year Approved</u>
Jamaica Plain Co-Housing	Jamaica Plain	30	3	27	2003
5168-5178 Washington Street	West Roxbury	48	5	43	2003
80 Broad Street	Central	95	3	92	2004
Buckminster Hotel reuse	Fenway/Kenmore	22	2	20	2004
500 Atlantic Avenue	Central	141	0	141	2004
Atrium Lofts	East Boston	217	32	185	2004
Channel Center Phase I (Midway)	South Boston	89	36	53	2004
Trolley House Condos	South Boston	24	2	22	2004
Glenwood Avenue	Hyde Park	20	2	18	2004
Massport Parcels F2, G and J	South Boston	465	15	450	2004
244 Hanover Street	Central	9	1	8	2004
Stony Brook Farm Subdivision (I)	Hyde Park	5	0	5	2004
Harrison Commons	South End	196	20	176	2004
44 Prince Street	Central	57	6	51	2004
Sophia Snow House	West Roxbury	102	102	0	2004
1365 Boylston Street	Fenway/Kenmore	540	54	486	2005
Chestnut Hill Park	Allston/Brighton	47	6	41	2005
401 Mount Vernon Street	Dorchester	333	22	311	2005
76 Monroe Street	Roxbury	2	1	1	2005
VFW Parkway Condos	West Roxbury	15	1	14	2005
Deutsches Altenheim Addition	West Roxbury	62	2	60	2005
210 South Street	Central	54	6	48	2005
D4 Police Station Reuse	South End	26	3	23	2005
Harborview Point, Navy Yard	Charlestown	224	22	202	2005
4040 Washington Street	Roslindale	30	4	26	2005
Chestnut Hill Waterworks	Allston/Brighton	108	11	97	2005
Bigelow Court	Allston/Brighton	26	3	23	2005
One Linclon Plaza	Central	85	11	74	2005
197 State Street	Central	13	0	13	2005
301 Columbus Avenue	South End	50	5	45	2006
10 West Street	Central	72	0	72	2006
Court Square Press Phase 2	South Boston	143	20	123	2006
45 Province Street	Central	150	0	150	2006
Rivers Edge Condominiums	Mattapan	62	6	56	2006
<b>TOTAL</b>		<b>3,562</b>	<b>406</b>	<b>3,156</b>	

Source: Boston Redevelopment Authority, January 2007.

***The Linkage Program***

The City implemented its development linkage program in December 1983, in order to direct some of the benefits of downtown investment to the building of affordable housing in its neighborhoods, 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 \$9.44 per square foot of construction over 100,000 square feet, of which \$1.57 per square foot goes to a job training fund and \$7.87 per square foot goes for affordable housing purposes. The fee was last adjusted as of March 9, 2006.

Linkage payments to the NHT are amortized over a period of either seven or twelve years, depending on the date of the initial agreement. Under NHT policy, current agreements provide for a seven-year payment period. The seven-member NHT board holds public hearings and has the authority to approve linkage grants to selected projects, except for a separate “housing creation” option, which requires the additional approval by the BRA. Since the inception of the linkage program through December 2006, the NHT has awarded \$93.7 million in grant funds to various affordable housing projects.

Based on data through 2006, NHT funding contributed to the construction or renovation of 8,399 housing units in 132 projects in the City’s neighborhoods. Affordable housing units for low and moderate-income residents comprise 81% (6,777 units) of this total. Of these 132 housing developments created, linkage funds, for the most part, accounted for fewer than 7% of the total development costs of the projects. NHT grant awards are allocated to fund low and moderate-income housing through the renovation of old buildings and schools, as well as to assist in the creation of new housing. Projects have included rental units; single room occupancy units, such as housing for pregnant, homeless women and alcohol recovery programs; condominiums; housing cooperatives; and home ownership.

Between fiscal years 1988 and 2006 over \$19 million of funds were committed to the job training component of the City’s linkage program, and over \$16 million of funds had been awarded to a broad range of community-based job training and adult education programs. Services funded under this program include: model program designs for entry-level job training, adult education, English for Speakers of Other Languages, and workplace-based education. The NJT is particularly interested in supporting innovative education and training activities which result in high-wage employment, new or non-traditional employment opportunities, and community-based projects that respond to specific neighborhoods’ documented education and training needs. The NJT is committed to providing appropriate services to the residents of neighborhoods where, or adjacent to where, a given development project is located, while also ensuring that residents throughout the City have access to new jobs resulting from development.

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**APPENDIX B**

**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.

<u>Amount</u>	<u>Purpose Name</u>	<u>Statute</u>	<u>Effective Date</u>
\$92,403.56	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 21, 1988
7,615.38	Remodeling & Extraordinary Repairs	C44 s7 (3A)	December 26, 1986 amended on November 28, 1989
37,700.23	Remodeling & Extraordinary Repairs	C44 s7 (3A)	March 13, 1987
458,462.24	Remodeling & Extraordinary Repairs	C44 s7 (3A)	January 21, 1988
12,551.66	Construction of Public Ways	C44 s7 (5)	May 30, 1989
4,330.31	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 30, 1989
1,111.58	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 30, 1989 amended on November 28, 1989
108,025.65	Construction of Public Ways	C44 s7 (5)	June 27, 1990
185.72	Construction of Bridges	C44 s7 (4)	April 24, 1991
355,926.50	Construction of Sidewalks	C44 s7 (6)	April 23, 1992 amended on May 25, 1994
16,415.85	Remodeling & Extraordinary Repairs	C44 s7 (3A)	April 23, 1992
94,157.24	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
200.30	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 4, 1993
196,841.15	Construction of Bridges	C44 s7 (4)	June 4, 1993 amended on May 25, 1994, June 23, 1995, June 25, 1996

<u>Amount</u>	<u>Purpose Name</u>	<u>Statute</u>	<u>Effective Date</u>
\$43,559.47	Capital Improvements - Act '91	C642 s7B Act 1991	May 4, 1994
669,978.98	Construction of Public Ways	C44 s7 (5)	May 25, 1994 amended on June 25, 1996
8,022.52	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
83,726.77	Acquisition of Land; Landfill	C44 s8 (24)	May 4, 1994 amended on June 2, 1995, June 4, 1996, September 30, 1997, June 30, 1998
12,299.10	Capital Improvements - Act '91	C642 s7B Act 1991	June 2, 1995
169,189.14	Urban Renewal - All Areas	C121B s20	June 2, 1995 amended on June 4, 1996, September 30, 1997
91,008.93	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995 amended on October 21, 1997
82,521.13	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995
148,526.77	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
347,521.98	Capital Improvements - Act '91	C642 s7B Act 1991	June 4, 1996
128,156.56	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 25, 1996
257,975.35	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 25, 1996 amended on October 30, 1997
2,199.75	Engineering & Architectural Services/Planning School Dept.	C44 s7 (22)	July 9, 1996 amended on September 30, 1997, October 28, 1997, May 12, 1998

<u>Amount</u>	<u>Purpose Name</u>	<u>Statute</u>	<u>Effective Date</u>
\$386,959.45	Capital Improvements - Act '96 School Dept.	C642 s7C Act 1996	July 9, 1996 amended on September 30, 1997, October 28, 1997, May 12, 1998
47,827.13	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	August 26, 1996 amended on October 21, 1997
36,051.80	Capital Improvements - Act '96	C642 s7C Act 1996	August 5, 1996 amended on September 30, 1997
1,531,614.72	Construction of Buildings; Acquisition of Land	C44 s7 (3)	October 21, 1997
147,529.69	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
262,813.69	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
27,450.48	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
621,152.47	Departmental Equipment	C44 s7 (9)	July 21, 1998
46,986.69	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 21, 1998
220,556.17	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 21, 1998
270,112.42	Urban Redevelopment and Renewal	C121B s20	August 24, 1998
47,871.23	Capital Improvements - Act '96	C642 s7C Act 1996	July 22, 1999
365,434.99	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 12, 1999
239,619.48	Construction of Buildings; Acquisition of Land	C44 s7 (3)	August 12, 1999
380,620.94	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 7, 2000
362,749.45	Construction of Public Ways	C44 s7 (5)	August 7, 2000
215,947.71	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 7, 2000
1,085.44	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 28, 2000
1,364,113.81	Remodeling & Extraordinary Repairs	C44 s7 (3A)	September 7, 2001

<u>Amount</u>	<u>Purpose Name</u>	<u>Statute</u>	<u>Effective Date</u>
\$108,738.00	Construction of Bridges	C44 s7 (4)	August 16, 2001
981,710.67	Construction of Public Ways	C44 s7 (5)	September 7, 2001
436,691.07	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	September 7, 2001
1,610,306.94	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 5, 2002
639,719.19	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 5, 2002
235,161.81	Construction of Bridges	C44 s7 (4)	August 5, 2002
3,025,432.49	Construction of Public Ways	C44 s7 (5)	August 5, 2002
504,584.32	Traffic Signal and Public Lighting Installation	C44 s7 (14)	August 5, 2002
24,474.11	Acquisition of Land; Cemeteries	C44 s7 (20)	August 5, 2002
1,124,233.50	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 5, 2002
19,699.14	Capital Improvements - Act '96	C642 s7C Act 1996	July 15, 2002
1,140,456.27	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 28, 2003
48,493.77	Engineering & Architectural Services/Planning	C44 s7 (22)	July 28, 2003
2,689,212.44	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 28, 2003
227,856.05	Departmental Equipment	C44 s7 (9)	July 28, 2003
4,308.87	Engineering & Architectural Services/Planning	C44 s7 (22)	July 28, 2003
75,974.42	Engineering & Architectural Services/Planning	C44 s7 (22)	July 30, 2003
87,531.92	Construction of Buildings; Acquisition of Land	C44 s7 (3)	July 29, 2004
2,779,117.33	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 29, 2004
3,195,585.16	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 29, 2004
1,254,129.05	Construction/Re-Construction of Surface Drains, Sewers, Sewerage Systems, etc.	C44 s7 (1)	July 29, 2004
7,563.51	Water Mains Laying / Re-Laying	C44 s8 (5)	July 29, 2004
3,554,447.80	Construction of Bridges	C44 s7 (4)	July 29, 2004

<u>Amount</u>	<u>Purpose Name</u>	<u>Statute</u>	<u>Effective Date</u>
\$386,750.48	Engineering & Architectural Services/Planning	C44 s7 (22)	July 29, 2004
3,552,031.56	Construction of Public Ways	C44 s7 (5)	July 29, 2004
145,053.62	Traffic Signal and Public Lighting Installation	C44 s7 (14)	July 29, 2004
15,319.19	Acquisition of Land; Cemeteries	C44 s7 (20)	July 29, 2004
1,599,363.15	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 29, 2004
5,760,369.73	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 26, 2005
37,206.87	Engineering & Architectural Services/Planning	C44 s7 (22)	July 26, 2005
5,937,230.60	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	July 26, 2005
588,547.22	Engineering & Architectural Services/Planning School Dept.	C44 s7 (22)	July 26, 2005
2,838,009.29	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 26, 2005
5,163,772.02	Construction of Public Ways	C44 s7 (5)	July 26, 2005
7,264.90	Construction of Sidewalks (CityWalk)	C44 s7 (6)	July 26, 2005
51,102.73	Engineering & Architectural Services/Planning	C44 s7 (22)	July 26, 2005
881,839.17	Departmental Equipment	C44 s7 (9)	July 26, 2005
205,310.86	Firefighting Apparatus - Remodeling, Reconstruction, Rehabilitation	C44 s7 (9A)	July 26, 2005
368,006.69	Computer Software	C44 s7 (29)	July 26, 2005
254,057.31	Street Lighting Installation	C44 s7 (14)	July 26, 2005
71,205.31	Acquisition of Land; Cemeteries	C44 s7 (20)	July 26, 2005
3,511,947.78	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 26, 2005
119,275.92	Capital Improvements - Act '96	C642 s7C Act 1996	July 5, 2005
2,754,170.01	Construction of Buildings; Acquisition of Land	C44 s7 (3)	July 24, 2006

<u>Amount</u>	<u>Purpose Name</u>	<u>Statute</u>	<u>Effective Date</u>
\$14,472,178.66	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	July 24, 2006
4,497,593.78	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 24, 2006
1,569,248.49	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 24, 2006
3,549,298.43	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 24, 2006
16,562.08	Engineering & Architectural Services/Planning	C44 s7 (22)	July 24, 2006
709,645.89	Construction of Public Ways	C44 s7 (5)	July 24, 2006
3,047,011.10	Construction of Sidewalks (CityWalk)	C44 s7 (6)	July 24, 2006
4,063,783.39	Street Lighting Installation	C44 s7 (14)	July 24, 2006
44,304.36	Departmental Equipment	C44 s7 (9)	July 24, 2006
<b><u>\$100,000,000.00</u></b>	<b>New Money Bonds</b>		
\$1,560,000.00	Refunding	C643 s13 Act 1983	August 14, 2002
6,930,000.00	Refunding	C643 s13 Act 1983	November 19, 2002
61,485,000.00	Refunding	C643 s13 Act 1983	February 4, 2003
15,450,000.00	Refunding	C643 s13 Act 1983	December 17, 2003
<b><u>\$85,425,000.00</u></b>	<b>Refunding Bonds</b>		
<b><u>\$185,425,000.00</u></b>	<b>New Money plus Refunding Bonds</b>		

## EDWARDS ANGELL PALMER &amp; 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: City of Boston, Massachusetts  
\$100,000,000  
General Obligation Bonds, 2007 Series A  
and  
\$85,425,000  
General Obligation Bonds, 2007 Series B  
dated March 22, 2007

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

**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 \$100,000,000 General Obligation Bonds, 2007 Series A (the "Series A Bonds"), and \$85,425,000 General Obligation Bonds, 2007 Series B (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds"), dated March 22, 2007. 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 March 7, 2007 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 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: \_\_\_\_\_, 2007

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]

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**BOND INSURANCE—SERIES A INSURED BONDS**

*Financial Guaranty has supplied the following information for inclusion in this Official Statement. No representation is made by the issuer or the underwriter as to the accuracy or completeness of this information.*

**Payments Under the Policy**

Concurrently with the issuance of the Series A Insured Bonds, Financial Guaranty Insurance Company (“Financial Guaranty”) will issue its Municipal Bond New Issue Insurance Policy for the Series A Insured Bonds (the “Policy”). The Policy unconditionally guarantees the payment of that portion of the principal or accreted value (if applicable) of and interest on the Series A Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Series A Insured Bonds (the “Issuer”). Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the “Fiscal Agent”), on the later of the date on which such principal, accreted value or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Series A Insured Bonds or the trustee or paying agent (if any) of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Series A Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner’s right to receive payment of the principal, accreted value or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner’s rights to payment of such principal, accreted value or interest (as applicable) shall be vested in Financial Guaranty. The term “nonpayment” in respect of a Series A Insured Bond includes any payment of principal, accreted value or interest (as applicable) made to an owner of a Series A Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal (or accreted value, if applicable) of the Series A Insured Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Series A Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Series A Insured Bonds is accelerated, Financial Guaranty will only be obligated to pay principal (or accreted value, if applicable) and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Series A Insured Bond, appurtenant coupon or right to payment of principal or interest on such Series A Insured Bond and will be fully subrogated to all of the Bondholder’s rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Issuer, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Series A Insured Bonds, Financial Guaranty may be granted certain rights under the Series A Insured Bond documentation. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Series A Insured Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **Financial Guaranty Insurance Company**

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At December 31, 2006, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York’s comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders’ surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At December 31, 2006, Financial Guaranty had net admitted assets of approximately \$3.894 billion, total liabilities of approximately \$2.763 billion, and total capital and policyholders’ surplus of approximately \$1.131 billion, determined in accordance with statutory accounting practices (“SAP”) prescribed or permitted by insurance regulatory authorities.

The audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles (“GAAP”), as of December 31, 2006 and December 31, 2005, which have been filed with the Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading “APPENDIX E—BOND INSURANCE—SERIES A INSURED BONDS,” or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Series A Insured Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

**The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency**

**under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty's audited SAP financial statements.**

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

### **Recent Developments**

On November 15, 2006, Financial Guaranty received a subpoena from the Antitrust Division of the U.S. Department of Justice. Based upon press reports, Financial Guaranty believes that the subpoena relates to an ongoing criminal investigation of alleged bid rigging of awards of municipal guaranteed investment contracts ("Municipal GICs") and that several other companies (including other financial guarantors) have received similar subpoenas. Until December 18, 2003, when Financial Guaranty was acquired from General Electric Capital Corporation ("GE Capital") by its current owners, Financial Guaranty was affiliated with certain companies (the "Former Affiliates") that provided Municipal GICs. The Former Affiliates remained a part of GE Capital after the acquisition of Financial Guaranty, and the outstanding Municipal GICs remained with the Former Affiliates. The subpoena contains no allegations or statements concerning the activities of Financial Guaranty. Financial Guaranty intends to cooperate fully with the investigation.

### **Financial Guaranty's Credit Ratings**

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Series A Insured Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series A Insured Bonds. Financial Guaranty does not guarantee the market price or investment value of the Series A Insured Bonds nor does it guarantee that the ratings on the Series A Insured Bonds will not be revised or withdrawn.

**Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Series A Insured Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "APPENDIX E—BOND INSURANCE—SERIES A INSURED BONDS." In addition, Financial Guaranty makes no representation regarding the Series A Insured Bonds or the advisability of investing in the Series A Insured Bonds.**

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**Financial Guaranty Insurance Company**  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

**Municipal Bond  
 New Issue Insurance Policy**

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



**Financial Guaranty Insurance Company**  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

## **Municipal Bond New Issue Insurance Policy**

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.



SPECIMEN

**President**

**Effective Date:**

**Authorized Representative**

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.



**Authorized Officer**



**Financial Guaranty Insurance Company**  
 125 Park Avenue  
 New York, NY 10017  
 T 212-312-3000  
 T 800-352-0001

**Endorsement**  
**To Financial Guaranty Insurance Company**  
**Insurance Policy**

**Policy Number:**

**Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.



**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**



**Authorized Officer**  
**U.S. Bank Trust National Association, as Fiscal Agent**

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**BOND INSURANCE –SERIES B INSURED BONDS****The MBIA Insurance Corporation Insurance Policy**

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

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading “Bond Insurance”. Additionally, MBIA makes no representation regarding the Series B Insured Bonds or the advisability of investing in the Series B Insured Bonds.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series B Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless MBIA elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any Owner of the Series B Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law (a “Preference”).

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

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

Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series B Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

### **MBIA Insurance Corporation**

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

### **Regulation**

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **Financial Strength Ratings of MBIA**

Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.”

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

Fitch Ratings rates the financial strength of MBIA “AAA.”

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

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

## **MBIA Financial Information**

As of December 31, 2005, MBIA had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2006, MBIA had admitted assets of \$10.9 billion (unaudited), total liabilities of \$6.9 billion (unaudited), and total capital and surplus of \$4.0 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

## **Incorporation of Certain Documents by Reference**

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated by reference into this Official Statement:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series B Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

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**MBIA**  
**FINANCIAL GUARANTY INSURANCE POLICY**

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

Policy No. [NUMBER]

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

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

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

SPECIMEN

