

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. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Exemption" herein.

CITY OF BOSTON, MASSACHUSETTS

\$126,185,000

**GENERAL OBLIGATION BONDS
2008 SERIES A**

Dated: Date of Delivery

Due: April 1, as shown on page iii herein

\$28,155,000

**GENERAL OBLIGATION BONDS
2008 SERIES B**

Dated: Date of Delivery

Due: April 1, as shown on page iii herein

The City of Boston, Massachusetts \$126,185,000 General Obligation Bonds, 2008 Series A (the "Series A Bonds"), and the \$28,155,000 General Obligation Bonds, 2008 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. Interest on the Bonds will be payable on October 1, 2008 and semiannually on each April 1 and October 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 costs of various capital projects of the City, as more fully described herein under "Authorizations and Purposes." The Series B Bonds will be issued for the purpose of refunding certain outstanding general obligation bonds of the City 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 dated February 28, 2008, 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 in the Official Notice of Sale. 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.

March 6, 2008

† See "Credit Ratings."

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CITY OF BOSTON, MASSACHUSETTS

\$126,185,000 GENERAL OBLIGATION BONDS 2008 SERIES A

Dated: Date of Delivery

Due: April 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2009	\$6,360,000	5.00%	2.04%	100853DP2	2019	\$5,005,000	5.00%	4.05%	100853DZ0 [†]
2010	6,875,000	5.00	2.40	100853DQ0	2020	5,255,000	5.00	4.10	100853EA4 [†]
2011	7,215,000	5.00	2.63	100853DR8	2021	5,515,000	5.00	4.22	100853EB2 [†]
2012	7,575,000	5.00	2.86	100853DS6	2022	5,795,000	5.00	4.34	100853EC0 [†]
2013	7,955,000	5.00	3.03	100853DT4	2023	6,085,000	5.00	4.50	100853ED8 [†]
2014	5,760,000	5.00	3.26	100853DU1	2024	5,560,000	5.00	4.59	100853EE6 [†]
2015	6,045,000	5.00	3.36	100853DV9	2025	5,840,000	5.00	4.66	100853EF3 [†]
2016	6,350,000	5.00	3.60	100853DW7	2026	6,130,000	5.00	4.71	100853EG1 [†]
2017	6,665,000	5.00	3.74	100853DX5	2027	6,440,000	5.00	4.73	100853EH9 [†]
2018	7,000,000	5.00	3.88	100853DY3	2028	6,760,000	5.00	4.76	100853EJ5 [†]

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† Priced to the April 1, 2018 optional redemption date. See "The Bonds—Redemption Prior to Maturity—Optional Redemption."

\$28,155,000 GENERAL OBLIGATION BONDS 2008 SERIES B

Dated: Date of Delivery

Due: April 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2009	\$1,040,000	3.50%	2.30%	100853EK2
2010	5,180,000	3.50	2.43	100853EL0
2011	5,350,000	3.25	2.66	100853EM8
2012	5,515,000	3.25	2.88	100853EN6
2013	5,680,000	3.50	3.06	100853EP1
2014	2,645,000	3.50	3.24	100853EQ9
2015	2,745,000	4.00	3.40	100853ER7

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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.

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New Hampshire Residents:

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

OFFICIAL STATEMENT
of the
CITY OF BOSTON, MASSACHUSETTS
relating to
\$126,185,000
GENERAL OBLIGATION BONDS, 2008 SERIES A
and
\$28,155,000
GENERAL OBLIGATION BONDS, 2008 SERIES B

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the “City”), and the \$126,185,000 General Obligation Bonds, 2008 Series A (the “Series A Bonds”) and the \$28,155,000 General Obligation Bonds, 2008 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 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 refunding certain outstanding general obligation bonds of the City 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, 2008 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 April 1 of the years, and in the amounts, and will bear interest calculated on the basis of 30-day months and a 360-day year at the rates, shown on page iii of this Official Statement. Interest on the Bonds will be payable on October 1, 2008 and semiannually thereafter on each April 1 and October 1, provided that if such day is not a business day, interest will be payable on the next business day.

The Bonds will be issued by means of a book-entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York (“DTC”). Bond certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest on the Bonds will be paid on the interest payment dates or upon redemption, and principal of the Bonds will be paid at maturity or upon redemption, to DTC or its nominee as registered owner of the Bonds. Transfer of principal or redemption price and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal or redemption price and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The record date for principal or redemption price and interest payments will be the fifteenth day of the month next preceding a debt service payment date. 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 April 1, 2018 will not be subject to redemption prior to maturity. The Bonds of each series maturing on and after April 1, 2019 will be subject to redemption prior to maturity at the option of the City, on or after April 1, 2018, 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 Transfer System

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

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 and www.dtc.org.

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

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

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

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

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

PLAN OF REFUNDING

The Series B Bonds are being issued to refund, at par, the City's outstanding General Obligation Bonds, 1998 Series B (the "1998 Series B Refunded Bonds"), described below:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount to be Refunded</u>	<u>Redemption Date</u>	<u>CUSIP*</u>
04/01/2009	5.250%	\$ 910,000	04/07/2008	100852S94
04/01/2010	5.250	5,030,000	04/07/2008	100853AT7
04/01/2011	5.250	5,285,000	04/07/2008	100853AU4
04/01/2012	5.250	5,555,000	04/07/2008	100853AV2
04/01/2013	5.250	5,830,000	04/07/2008	100853AW0
04/01/2014	5.250	2,905,000	04/07/2008	100853AX8
04/01/2015	5.250	3,065,000	04/07/2008	100853AY6

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The City will apply proceeds of the Series B Bonds to pay the principal of the 1998 Series B Refunded Bonds upon their redemption on April 7, 2008. Interest due on the 1998 Series B Refunded Bonds on April 1, 2008 and April 7, 2008 will be paid by the City from amounts appropriated in the fiscal 2008 budget.

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, 2008, 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, 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)*

<u>Fiscal</u>	<u>Bonds Outstanding As of March 1, 2008 ⁽¹⁾</u>		<u>The Series A Bonds</u>		<u>The Series B Bonds</u>		<u>The Refunded Bonds</u>		<u>Total Principal and Interest</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2008	\$ 2,145	\$ 1,166	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,311
2009	81,838	35,603	6,360	6,502	1,040	1,002	(910)	(1,500)	129,934
2010	78,469	32,139	6,875	5,991	5,180	936	(5,030)	(1,453)	123,106
2011	73,580	28,501	7,215	5,647	5,350	754	(5,285)	(1,189)	114,573
2012	70,110	25,043	7,575	5,287	5,515	580	(5,555)	(911)	107,644
2013	64,280	21,764	7,955	4,908	5,680	401	(5,830)	(620)	98,539
2014	57,885	18,778	5,760	4,510	2,645	202	(2,905)	(313)	86,562
2015	53,650	15,994	6,045	4,222	2,745	110	(3,065)	(161)	79,540
2016	49,230	13,447	6,350	3,920	-	-	-	-	72,947
2017	44,900	11,125	6,665	3,603	-	-	-	-	66,293
2018	40,270	8,886	7,000	3,269	-	-	-	-	59,425
2019	36,795	6,999	5,005	2,919	-	-	-	-	51,718
2020	32,120	5,375	5,255	2,669	-	-	-	-	45,419
2021	27,530	3,894	5,515	2,406	-	-	-	-	39,345
2022	23,525	2,598	5,795	2,131	-	-	-	-	34,049
2023	18,905	2,038	6,085	1,841	-	-	-	-	28,869
2024	11,935	1,307	5,560	1,536	-	-	-	-	20,338
2025	9,535	820	5,840	1,259	-	-	-	-	17,454
2026	7,055	430	6,130	967	-	-	-	-	14,582
2027	4,690	164	6,440	660	-	-	-	-	11,954
2028	-	-	6,760	338	-	-	-	-	7,098
Totals	\$788,446	\$236,070	\$126,185	\$64,585	\$28,155	\$3,985	\$(28,580)	\$(6,147)	\$1,212,701

* Rows and columns may not add due to rounding.

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

Source: City of Boston Auditing Department.

Rate of Principal Retirement

The City will retire the following amounts of its outstanding general obligation bonds over the following respective periods. This table is stated in two ways, with scheduled principal retirement prior to the issuance of the Bonds of each series, and then subsequent to the issuance of the Bonds of each series:

<u>Term of Retirement</u>	<u>Debt Outstanding as of March 1, 2008 to be retired (in thousands)</u>	<u>Percentage of Debt Outstanding as of March 1, 2008 to be retired</u>	<u>Debt Outstanding After Issuance of the Bonds to be retired (in thousands)</u>	<u>Percentage of Debt Outstanding After Issuance of the Bonds to be retired</u>
Fiscal 2008-2013	\$370,421	47.0%	\$406,556	44.5%
Fiscal 2014-2018	245,935	31.2	277,175	30.3
Fiscal 2019-2023	138,875	17.7	166,530	18.2
Fiscal 2024-2028	33,215	4.1	63,945	7.0
Total	\$788,446	100.0%	\$914,206	100.0%

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 expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 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 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 expresses no opinion regarding any other Massachusetts tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Prospective Bondholders 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 the opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Bondholders 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.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds

("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 Bondholder. 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 Bondholder or the Bondholder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences and Bondholders should consult with their own tax advisors with respect to such consequences.

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

Prospective Bondholders should also be aware that the statutory framework on which the exemption from Massachusetts personal income taxes described above is based is similar to that at issue in *Department of Revenue of Kentucky v. Davis*, 197 S.W.3d 557 (Ky. App. 2006), cert. granted, 75 U.S.L.W. 3621 (May 21, 2007), in which the Kentucky court held that a statute that provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the commerce clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent Massachusetts judicial decisions, or statutory enactments intended to ensure the constitutionality of Massachusetts tax law, could, among other alternatives, adversely affect the Massachusetts tax exemption of outstanding municipal bonds, including the Bonds, to the extent constitutionally permissible, or result in the exemption from Massachusetts income tax of interest on non-Massachusetts municipal bonds, either of which could adversely affect the market price of the Bonds..

CREDIT RATINGS

FitchRatings ("Fitch"), One State Street Plaza, New York, New York, Moody's Investors Service Inc., ("Moody's"), 7 World Trade Center at 250 Greenwich Street, New York, New York, and Standard & Poor's Rating Services, a division of the McGraw-Hill companies ("Standard & Poor's"), 55 Water Street, New York, New York, have assigned the ratings of "AA," "Aa1," and "AA+," respectively, to the Bonds, reflecting the City's capacity to pay debt service. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the Bonds.

COMPETITIVE SALE OF BONDS

The Bonds were offered for sale by the City on March 6, 2008, in accordance with the Official Notice of Sale dated February 28, 2008 (the "Official Notice of Sale").

Lehman Brothers, Inc. ("Lehman Brothers") was the successful bidder for the Series A Bonds. Information provided by Lehman Brothers regarding the interest rates and reoffering yields of the Series A Bonds is set forth on page iii of this Official Statement. The Series A Bonds are being purchased from the City by Lehman Brothers at an

aggregate price of \$133,871,802.50, reflecting the principal amount of \$126,185,000, plus net original issue premium of \$7,857,152.25, less the underwriters' discount of \$170,349.75.

Robert W. Baird & Co., Inc. ("Baird & Co.") was the successful bidder for the Series B Bonds. Information provided by Baird & Co. regarding the interest rates and reoffering yields of the Series B Bonds is set forth on page iii of this Official Statement. The Series B Bonds are being purchased from the City by Baird & Co. at an aggregate price of \$28,610,215.71, reflecting the principal amount of \$28,155,000, plus net original issue premium of \$545,246.95 less the underwriters' discount of \$90,031.24.

Lehman Brothers and Baird & Co., 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."

INDEPENDENT AUDITORS

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

FINANCIAL ADVISOR

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

CONTINUING DISCLOSURE

In order to assist the underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), the City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 365 days after the end of each fiscal year (the "Annual Report"), and to provide notices of occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix D (the "Certificate"). The Certificate will be executed on the delivery date of the Bonds and incorporated by reference in the Bonds. The City has executed previous undertakings to provide annual reports or notices of material events in accordance with the Rule and has never failed to comply in all material respects with any such undertaking, except that, due to an administrative oversight, the annual reports required to be filed for fiscal years 2002, 2003 and 2004 were not filed within the time periods required under certain of such undertakings. The City has since filed a report to comply with such continuing disclosure undertakings, and it has implemented procedures to ensure timely filing of all future annual reports and notices of material events required thereunder.

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

CITY OF
BOSTON, MASSACHUSETTS



INFORMATION STATEMENT
Dated March 1, 2008

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, Director of Administration and Finance and Collector-Treasurer, Boston, Massachusetts.

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

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

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

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THE CITY

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

The Mayor is the chief executive officer of the City. Thomas M. Menino, the Mayor of the City, was reelected to serve a fourth four-year term from January 2006 through January 2010. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The portion of the City budget covering appropriations for all departments and operations of the City, except the School Department, the Boston Public Health Commission, and the Office of the Sheriff of Suffolk County, is prepared under the direction of the Mayor. Prior to his first elected term, Mayor Menino had served for approximately four months as acting Mayor. Prior to his service as acting Mayor, the Mayor served on the City Council. He served as Chairman of the City Council's Ways and Means Committee from 1988 to 1992, and was elected President of the City Council in 1993.

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

The members of the City Council, all of whose current terms will end in January 2010, are set forth below.

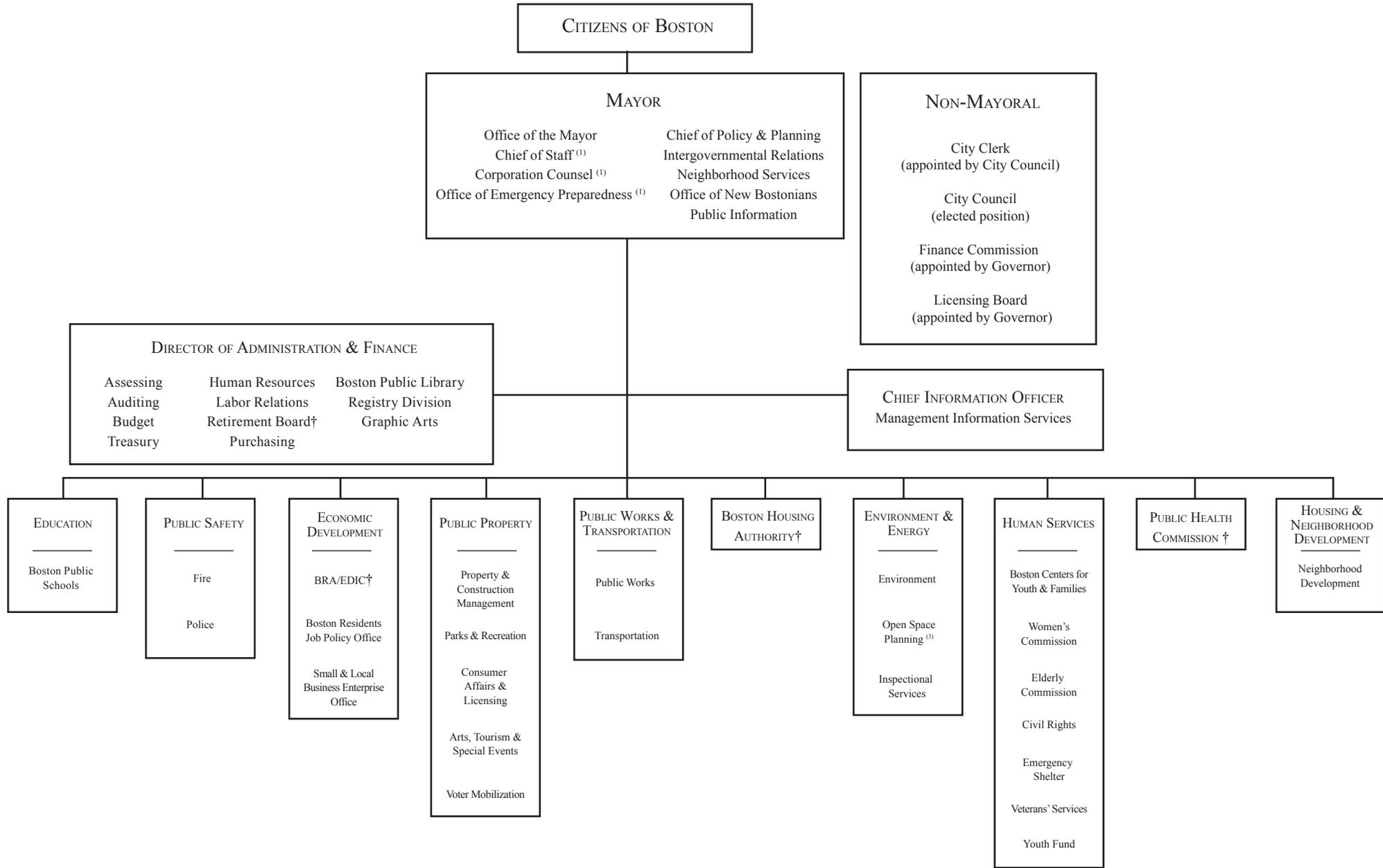
Maureen E. Feeney (President)	District 3
John R. Connolly	At Large
Michael F. Flaherty, Jr.	At Large
Stephen J. Murphy	At Large
S.H. Samuel Yoon.....	At Large
Salavatore J. LaMattina.....	District 1
William P. Linehan	District 2
Charles C. Yancey.....	District 4
Robert J. Consalvo	District 5
John M. Tobin	District 6
Charles H. Turner.....	District 7
Michael P. Ross.....	District 8
Mark B. Ciommo	District 9

Organization of City Government

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

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

ORGANIZATION OF CITY GOVERNMENT



A-2

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

(1) Has cabinet rank.
 (2) The Boston Public Health Commission is an independent authority created in June 1996.
 (3) Programmatically within this cabinet; financially in Parks & Recreation.

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

Chief of Staff

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

Chief Information Officer

William G. Oates was appointed Chief Information Officer in June 2006. Prior to his appointment Mr. Oates served as Senior Vice President and Chief Information Officer of Starwood Hotels and Resorts, Worldwide, Inc. The Chief Information Officer oversees the 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.

Director of Administration and Finance and Collector-Treasurer

Lisa Calise Signori was named Director of Administration & Finance in July 2007. She is a member of the Mayor's Cabinet and is responsible for the City's human and financial resources, including Human Resources, Labor Relations, Treasury, Assessing, Auditing, Budget, Purchasing, and the State-Boston Retirement Board. Ms. Signori continues to hold her previous title of Collector-Treasurer.

Serving with the City of Boston since 1994, Ms. Signori served as Budget Director from 1999 to 2003. In October 2003, Ms. Signori was appointed Chief Financial Officer and Collector-Treasurer. In addition to her other duties, the Collector-Treasurer is custodian of approximately 300 City trust funds, serving as trustee of nearly half of them. Ms. Signori is also an ex officio member of the Massachusetts Convention Center Authority.

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

Budget Director

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

City Auditor

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

Commissioner of Assessing

Ronald W. Rakow was appointed Commissioner of Assessing in March 1993. Prior to his appointment, Mr. Rakow served as the Acting Commissioner of Assessing from September 1992 to March 1993. Prior to his appointment as the Acting Commissioner of Assessing, Mr. Rakow served as the Director

of Research and Standards for the City's Assessing Department. The Commissioner of Assessing is responsible for supervision of the City's Assessing Department and the valuation for purposes of the tax levy of real and personal property located in the City.

Chief Economic Development Officer

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

Chief of Education

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

Chiefs of Public Safety

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

Director of the Office of Emergency Preparedness

Donald E. McGough was appointed Director of the City's Office of Emergency Preparedness in January 2008. Prior to his appointment Mr. McGough was employed as a Senior Homeland Security Consultant at the Public Consulting Group, Inc. Mr. McGough previously served as Assistant Chief of the Bureau of Administration and Technology for the Police Department, and as Chief of Staff to the Police Commissioner. The Office of Emergency 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 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

Dr. Barbara Ferrer was named Executive Director of the Boston Public Health Commission by its Board in March 2007. In that capacity, Dr. Ferrer joined the Mayor's cabinet as the Chief of Public Health. Prior to her appointment Dr. Ferrer served for five years as the Commission's Deputy Director where she played a key role in developing strategies to improve Boston's infant mortality rate and end racial and ethnic health disparities. The Commission, an independent agency, is a body politic and corporate and political subdivision of the Commonwealth. The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. The Commission is divided into six programmatic areas, including: the Emergency Medical Service, which includes the City's ambulances, EMTs and paramedics responding to the "911" emergency system; Homeless Services; Communicable Disease Control; Substance Abuse Services; Community Health; and Child and Family Health. For additional information concerning the Boston Public Health Commission see "The City—Principal Government Services—Public Health" below.

Chief of Public Property

Michael Galvin was appointed Chief of Public Property in August 1994. Prior to his appointment, Mr. Galvin was employed by NYNEX and had previously served as the City's first "Executive on Loan." The Public Property Cabinet consists of the Parks and Recreation Department, 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, and Boston's Recycling Program. The Chief of Environmental and Energy Services also serves as a liaison to the Boston Water and Sewer Commission, and as a Board member of the Massachusetts Water Resources Authority, the Boston Groundwater Trust and the Boston Harbor Islands Partnership.

Chief of Housing and Neighborhood Development

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

Chief of 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 table shows the distribution of the City’s fiscal 2008 appropriations by primary government functions and departments.

**Purposes of City Appropriations—Fiscal 2008 ⁽¹⁾
(Budgetary Accounting Basis) ⁽²⁾
(\$ in thousands)**

	<u>Amount</u>	<u>Percent of Total Appropriations</u>
General Government	\$ 104,520	4.5%
Public Safety	478,799	20.8
Public Works	102,503	4.5
Property and Development	29,259	1.3
Parks and Recreation	16,967	0.7
Library	29,246	1.3
Human Services.....	28,138	1.2
Schools	782,784	34.0
Boston Public Health Commission.....	67,484	2.9
Judgments and Claims	3,500	0.2
Employee Benefits	190,955	8.3
Current Period Retirement Contributions	207,105	9.0
Debt Requirements	122,017	5.3
State and District Assessments.....	<u>135,658</u>	<u>5.9</u>
Total.....	<u>\$2,298,935</u>	<u>100.0%</u>

(1) Represents the fiscal 2008 Budget amended by Mayoral Reallocations through January 28, 2008 and Supplemental Appropriations as of February 27, 2008.

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

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

A description of certain City principal governmental services follows:

Schools

The City’s School Department provides both basic education and college preparatory curricula as well as specialized vocational educational programs. The school system enrolled 56,980 students for the 2006-2007 school year, a decrease of approximately 824 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 2007, the Fire Department implemented a GPS system in its front line apparatus and chiefs' cars to enhance dispatch abilities and to aid department officers in the response to and command of an incident. The City also began construction of a \$3.3 million burn building in 2007 to enhance firefighter training at its Fire Training Academy.

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 2007. The estimated cost of these contracts in fiscal 2008 equals approximately \$44.2 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 38,000 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 2008) of the state-approved operating budget for the Sheriff's Office. The City's fiscal 2008 budget includes an appropriation for the remaining 4% of the state-approved budget.

City Employees

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

Full-Time Equivalent City Employees By Department ⁽¹⁾			
	<u>2006</u>	<u>2007</u>	<u>2008</u>
<i>City Funded:</i>			
Public Safety ⁽²⁾	4,421	4,554	4,737
Public Works.....	415	418	404
Other City Departments ⁽³⁾	2,772	2,747	2,770
Boston Public Health Commission ⁽⁴⁾	738	750	752
Subtotal	<u>8,346</u>	<u>8,469</u>	<u>8,663</u>
Schools	<u>8,087</u>	<u>8,283</u>	<u>8,451</u>
Total City Funded	<u>16,433</u>	<u>16,752</u>	<u>17,114</u>
<i>Grant Funded:</i>			
Schools	954	963	912
All Others ⁽⁵⁾	<u>1,491</u>	<u>1,429</u>	<u>1,351</u>
Total.....	<u>18,878</u>	<u>19,144</u>	<u>19,377</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. Since the publication of the CAFR, the 2007 number for this category has been adjusted to increase the total by 26 full-time equivalent employees.

Source: City of Boston Office of Budget Management.

Employee Relations

Under Massachusetts General Laws Chapter 150E, most municipal employees in the Commonwealth enjoy the right to join labor unions and bargain collectively over wages and other terms and conditions of employment. The Office of Labor Relations represents the Mayor and the City in all collective bargaining matters with all unions of City employees except School Department employee unions. The School Department's labor relations personnel similarly represent the School Committee and consult with the Office of Labor Relations regarding contract negotiations and other general labor matters. Additionally, the Office of Labor Relations has actively assisted the Boston Public Health Commission in collective bargaining negotiations with its eleven bargaining units and regularly interfaces with the Boston Public Health Commission on labor and employment matters. The Office of Labor Relations provides no such assistance to the Office of the Suffolk County Sheriff, which itself manages relations with its employees.

Nearly all of the City's non-school department employees are organized into bargaining units represented by various unions. Most of these unions are affiliated with the AFL-CIO. Three large unions, the American Federation of State, County, and Municipal Employees ("AFSCME") Council 93 (laborer

employees), the Service Employees International Union (“SEIU”) Local 285 (clerical employees), and the Salaried Employees of North America (“SENA”) Local 9158 (middle manager employees) represent the majority of City’s non-public safety employees.

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

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

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

Collective Bargaining Units (City and Schools)

<u>Union</u>	<u>Department</u>	<u>Number of Employees Represented</u> ⁽¹⁾	<u>Contract Expiration Date</u>
Boston Patrolmen's Association	Police	1,531	6/30/10
Boston Police Superior Officers	Police	260	6/30/06
Boston Police Detectives Benevolent Society	Police	287	6/30/10
Superior Detective Benevolent Society	Police	120	6/30/10
Police Cadet Association	Police	46	6/30/10
School Traffic Supervisors Assoc.	Police	210	8/31/10
International Association of Firefighters, Local 718	Fire	1,592	6/30/06
Municipal Police Patrolmen's Association	Property & Construction Mgmt	51	6/30/07
Municipal Police Superior Officers Association	Property & Construction Mgmt	6	6/30/07
SEIU, Local 888	Citywide	1,175	9/30/10
SENA, Locals 9158 and 9158E	Citywide	664	9/30/10
AFSCME C93 (Citywide & various locals)	Citywide	1,198	6/30/10
AFSCME Local 1526	Library	282	6/30/10
Professional Staff Association (BPL)	Library	141	9/30/06
Graphic Communications, Local 600	Graphic Arts	9	6/30/10
Other Graphic Arts Unions	Graphic Arts and Police	17	9/30/10
OPEIU AFL-CIO L16 (Housing Inspectors)	Inspectional Services	23	6/30/10
Other City Unions	Inspectional Services and Property & Construction Mgmt	16	6/30/10
Boston Teachers Union	School	7,987	8/31/10
BASAS (School Administrators & Supervisors)	School	292	8/31/06
Administrative Guild	School	448	11/30/06
Planning & Engineering	School	37	8/31/10
Boston School Police	School	62	8/31/10
School Police Superior Officers Assoc.	School	22	6/30/10
School Custodians Local 1952, Painters & Allied	School	506	8/31/08
Trades District Council #35			
Plant Administrators Association	School	13	8/31/08
School Bus Monitors USWA Local 8751	School	421	6/30/07
Lunch Hour Monitors Association	School	360	8/31/10
AFSCME C93, Local 230 Cafeteria Workers	School	426	8/31/06
AFSCME C93, Storekeepers & Deliverymen	School	19	8/31/06
		<u>18,221</u>	

(1) Number of members (not Full-Time Equivalents) as of January 1, 2008.

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

Over eighty percent of the collective bargaining agreements between the City and the unions have been successfully re-negotiated. The new contracts will remain in effect until various dates in 2010. The Boston Teacher’s Union and the three public safety unions that have concluded negotiations agreed to

roughly a 14% wage package over a four year period. The City was able to secure meaningful language reforms with each of these unions in exchange for this wage pattern. All of the civilian contracts that the City has settled included roughly an 11% wage increase over a four year period. Each of the contracts that have been settled has included a modest increase in the employee contribution to HMO premiums. Prior to the new contract period, employees paid 10% of the cost of an HMO premium; by the end of the new contract period the employee contribution will be 15%. The City continues to negotiate with those unions with whom it has not completed negotiations. In two circumstances, the parties have begun an arbitration process. The City does not anticipate any disruption in municipal services.

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 2008 were approved by the City Council on June 27, 2007. See “Financial Operations—Fiscal 2008 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 2008 portion of the Five-Year Capital Plan were submitted to the City Council on April 11, 2007, and were approved by the City Council on June 27, 2007.

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 2007, Mayor Menino released the fiscal 2008-2012 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 2004-2008

The table below shows the City’s legally adopted General Fund budget for fiscal 2008, together with budgetary actual results for fiscal 2004 through 2007. 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.

**Fiscal 2008 Budget Compared to
Fiscal 2004, Fiscal 2005, Fiscal 2006 and Fiscal 2007 Actual Results
General Fund—Budgetary Basis
(\$ in millions)***

	<u>Fiscal 2004 Actual Results</u>	<u>Fiscal 2005 Actual Results</u>	<u>Fiscal 2006 Actual Results</u>	<u>Fiscal 2007 Actual Results</u>	<u>Fiscal 2008 Budget ⁽¹⁾</u>
Revenues:					
Recurring Revenue					
Property Taxes	\$ 1,094.1	\$ 1,150.6	\$ 1,208.2	\$ 1,270.8	\$ 1,334.3
Overlay Reserve ⁽²⁾	(42.1)	(44.3)	(40.8)	(46.6)	(39.1)
Excises	59.6	82.5	89.7	80.2	87.6
Fines	66.7	65.6	68.0	67.4	67.9
Interest on Investments	7.8	17.8	30.0	43.5	37.5
Payments in Lieu of Taxes	22.3	23.4	32.1	32.4	30.8
Urban Redevelopment Chapter 121A	54.8	54.9	65.1	63.9	59.2
Misc. Department Revenue	40.8	43.1	44.5	53.6	44.1
Licenses and Permits	34.8	33.8	38.8	41.4	37.7
Penalties & Interest	9.8	9.8	9.2	8.7	8.1
Available Funds	2.9	5.5	3.1	3.2	12.1
State Aid	459.8	461.1	464.6	483.0	493.7
Teachers' Pension Reimbursement	61.4	76.5	85.2	93.3	93.3
Total Recurring Revenue	<u>\$ 1,872.8</u>	<u>\$ 1,980.4</u>	<u>\$ 2,097.6</u>	<u>\$ 2,194.7</u>	<u>\$ 2,267.3</u>
Non-Recurring Revenue ⁽³⁾	<u>20.0</u>	<u>0.0</u>	<u>6.7</u>	<u>7.5</u>	<u>31.7</u>
Total Revenues	<u>\$ 1,892.8</u>	<u>\$ 1,980.4</u>	<u>\$ 2,104.3</u>	<u>\$ 2,202.2</u>	<u>\$ 2,298.9</u>
Expenditures:					
Departmental Expenditures					
City Departments	\$ 779.4	\$ 849.4	\$ 891.9	\$ 936.8	\$ 953.4
Boston Public Health Commission	58.8	60.6	61.3	63.8	67.5
School Department	656.5	680.2	717.8	747.5	782.8
Collective Bargaining Reserve	21.3	-	-	10.0	14.2
OPEB Stabilization Fund	-	-	-	-	20.0
Total Department Expenditures	<u>\$ 1,516.0</u>	<u>\$ 1,590.1</u>	<u>\$ 1,671.0</u>	<u>\$ 1,758.1</u>	<u>\$ 1,837.9</u>
Fixed Costs					
Pensions ⁽⁴⁾	\$ 137.0	\$ 146.6	\$ 186.3	\$ 192.9	\$ 202.9
Debt Service ⁽⁵⁾	123.9	118.4	112.8	109.6	122.5
State Assessments	106.5	111.7	114.3	119.9	131.1
Suffolk County Sheriff Reserve	4.6	4.2	4.5	4.4	4.5
	0.4	1.1	1.5	2.2	0.0
Total Fixed Costs	<u>\$ 372.4</u>	<u>\$ 381.9</u>	<u>\$ 419.4</u>	<u>\$ 429.0</u>	<u>\$ 461.0</u>
Total Recurring Expenditures	<u>\$ 1,888.4</u>	<u>\$ 1,972.1</u>	<u>\$ 2,090.4</u>	<u>\$ 2,187.1</u>	<u>\$ 2,298.9</u>
Excess of Revenues Over Expenditures	<u>\$ 4.4</u>	<u>\$ 8.3</u>	<u>\$ 13.9</u>	<u>\$ 15.2</u>	<u>\$ 0.0</u>

* Columns may not add due to rounding.

- (1) Represents the budget at the time of the approval of the tax rate on December 14, 2007, 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 2008, the City has reserved 3.0% of the net levy for abatements.
- (3) Non-recurring revenue in fiscal 2004, 2006, 2007 and 2008 includes Budgetary Fund Balance (\$20 million, \$6.7 million, and \$7.5 million, and \$25.0 million respectively). Fiscal 2008 non-recurring revenue includes \$6.7 million in proceeds from the Surplus Property Disposition Fund.
- (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, \$4.6 million, and \$4.6 million respectively in fiscal, 2004, 2005, 2006, and 2007. For fiscal 2008, the City of Boston budget includes \$4.2 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 2003-2007." See "City Indebtedness-Debt Service Requirements."

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

Fiscal 2004-2007 Actual Results

In fiscal 2004, the City continued to absorb 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.

Between fiscal 2005 and 2007, 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 2008 Budget

The following is a summary of the City's fiscal 2008 budget on a budgetary accounting basis. The figures cited are from the fiscal 2008 tax rate budget at the time of certification of both the aggregate amount of and the rates of tax for the City's fiscal 2008 property tax levy by the Massachusetts Department of Revenue, plus supplemental appropriations. This certification was completed on December 14, 2007.

Expenditures

In fiscal 2008, the City's budgeted expenditures total \$2.30 billion including direct expenditures for departmental services and fixed expenses, representing an increase of \$111.9 million or 5.1% from fiscal 2007 actual expenditures. Budgeted fiscal 2008 departmental expenditures compare with actual fiscal 2007 expenditures as follows: City Departments increased \$16.6 million or 1.8%; the Public Health Commission increased \$3.7 million or 5.8%; and the School Department increased \$35.3 million or 4.7%. Budgeted fixed expenses for fiscal 2008 compare with fiscal 2007 actual expenses as follows: Pensions increased \$10.0 million or 5.2%; Debt Service increased \$12.9 million or 11.8%; State Assessments increased \$11.3 million or 9.4%; and City costs for the Office of the Suffolk County Sheriff increased \$.1 million or 2.9%. 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 to the cost increases in City Departments are salary increases scheduled for fiscal 2008 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 2008 equal \$2.30 billion, an increase of \$96.7 million or 4.4% from fiscal 2007 actual revenues. Selected fiscal 2008 budgeted revenues compare with fiscal 2007 actual revenues as follows: the Gross Property Tax Levy (including new growth) increased \$63.5 million or 5.0%; Excises increased \$7.4 million or 9.2%; Interest on Investments decreased \$6.0 million or 13.7%; Miscellaneous Department Revenue decreased \$9.4 million or 17.6%; Licenses and Permits decreased \$3.7 million or 9.0%; Available Funds from parking meter and cemetery fees increased \$8.9 million or 277%; State Aid increased \$10.7 million or 2.2%; and Non-Recurring Revenue increased by \$24.2 million or 322%.

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 \$63.5 million or 5.0% in fiscal 2008 after having increased by over \$55 million and more than 5.0% in each fiscal year between 2004 and 2007. The near-term outlook for the City's property tax levy is one of continued stable growth.

The increase in Excises is the result of an expected increase in both Motor Vehicle Excise receipts and room occupancy excise receipts. These increases are both due to low fiscal 2007 receipts as a result of the timing of Motor Vehicle Excise bills and a policy choice to leave Room Occupancy excise receipts in the Convention Center Fund (for a discussion of Room Occupancy Excise revenues, see "City Revenues—Excise Revenues"). The decrease in Interest on Investment is based on anticipated action by the Federal Reserve to reduce interest rates. The decrease in Miscellaneous Department Revenue is the result of

conservative estimation based on the possible absence of various unpredictable departmental reimbursements present in fiscal 2007. The decrease in Licenses & Permits is due to expected lower building permit activity associated with a slowing residential real estate market. The increase in Available Funds is due to the low amount of Parking Meter receipts actually used in fiscal 2007. The increase in State Aid is due to increases in school aid and related reimbursements.

The increase in Non-Recurring Revenue is largely due to the application of \$20 million in Budgetary Fund Balance to a newly established OPEB Stabilization Fund (for a discussion of OPEB, see “Employee Benefits – Other Post Employment Benefits”). In fiscal 2008, \$5.0 million in Budgetary Fund Balance and \$6.7 million in Surplus Property funds will be used for operations. Budgetary Fund Balance is available for appropriation after certification of its value by the Massachusetts Department of Revenue. Fiscal 2008 becomes the fourth 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 2007 audited financial statements, see Note 2 of such audited financial statements, which are attached hereto as Exhibit I. The City’s fiscal 2007 financial statements received an unqualified opinion.

GAAP accounting differs from the “statutory” accounting or “budgetary” accounting basis prescribed by the Bureau of Accounts of the Commonwealth, for the annual budget and property tax certification process. The major differences are explained in Note 4 of the fiscal 2007 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, 2007, 2006, 2005, 2004 and 2003 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 2003-2007

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 2003 through 2007 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 2003-2007 (GAAP Basis)
(\$ in millions)***

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total revenues	\$1,794.5	\$1,824.2	\$1,912.7	\$2,108.3	\$2,116.3
Total expenditures	<u>1,739.9</u>	<u>1,758.8</u>	<u>1,895.4</u>	<u>1,987.3</u>	<u>2,068.8</u>
Excess of revenues over expenditures	54.6	65.4	17.3	120.9	47.5
Total other financing (uses) sources	<u>34.6</u>	<u>16.5</u>	<u>22.5</u>	<u>(72.6)</u>	<u>23.1</u>
Excess of revenues and other financing sources over expenditures and other financing uses.....	<u>89.2</u>	<u>81.9</u>	<u>39.8</u>	<u>48.4</u>	<u>70.7</u>
Fund balance, beginning of year as previously reported	<u>402.1</u>	<u>491.4</u>	<u>573.3</u>	<u>613.0</u>	<u>661.4</u>
Fund balance, end of year ⁽¹⁾	<u>\$ 491.4</u>	<u>\$ 573.3</u>	<u>\$ 613.0</u>	<u>\$ 661.4</u>	<u>\$ 732.0</u>

* Columns may not add due to rounding.

(1) The undesignated fund balances for the General Fund for fiscal 2003, 2004, 2005, 2006 and 2007 were \$331.5 million, \$377.1 million, \$415.2 million, \$438.7 million and \$495.3 million, respectively.

Source: City of Boston Auditing Department.

The following is a summary analysis of the City's financial operations on a GAAP basis over the period fiscal 2005 through fiscal 2007. 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 Exhibit 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 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 .2%. 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 (Exhibit II to this Appendix A), and Note 2 in Notes to Basic Financial Statements (Exhibit I to this Appendix A) for a more in-depth explanation of these entries and the manner in which they impact the Fund equity balance calculation.

Fiscal 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 10.2% 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 (Exhibit II to this Appendix A), and Note 2 in Notes to Basic Financial Statements (Exhibit I to this Appendix A) for a more in-depth explanation of these entries and the manner in which they impact the Fund equity balance calculation.

Fiscal 2007

During fiscal year 2007, the City's revenues increased by 0.4% from fiscal year 2006. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes totaling \$1.41 billion (66.9% of total revenue). Property taxes increased \$68.5 million, an increase of 5.8% from fiscal 2006. Departmental and other increased by \$13.7 million, representing a 26.3% change from fiscal 2006. The main factors were: an increase in municipal Medicaid reimbursement of \$4.9 million, an increase in fringe retirement reimbursement from grants of \$4.6 million and an increase in street cut permits and fees of \$2.4 million. Investment income totaled \$43.1 million, a 33.1% increase from fiscal 2006. The primary factor for the increases in investment income was higher investment rates.

The increase in revenues allowed for an increase in expense categories. The City's expenses covered a range of services. The largest expenses were for schools (\$743.8 million), public safety (\$477.4 million), other employee benefits (\$175.9 million), state and district assessments (\$124.2 million), debt service (\$113.2 million), public works (\$97.9 million), and retirement costs (\$92.9 million). Public safety realized a \$30.6 million increase. The driving force behind the increased expenses for schools and public safety were increases in salaries. Even though public works represented a rather large expense, this category realized a decrease primarily due to less spending on snow removal. State and district assessments realized a nearly 5.0% increase due to increases in Charter School Sending Tuition and MBTA Assessments. Debt service expenses increased due to increases in scheduled principal and interest payments. Retirement costs expenses increased due to an increase in the City's actuarially required contribution.

The General Fund's equity balance as of June 30, 2007 was \$732.0 million, as compared to \$661.4 million in fiscal 2006. The increase of \$70.6 million or 10.7% 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 (Exhibit II to this Appendix A), and Note 2 in Notes to Basic Financial Statements (Exhibit I to this Appendix A) for a more in-depth explanation of these entries and the manner in which they impact the Fund equity balance calculation.

Cash Balances

The following table represents the end-of-month unaudited cash balances for the City's General Fund commencing with fiscal 2005 and ending with the most recent month for which data is available.

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

General Fund End-of-Month Cash Balances for Fiscal 2005-2008
(\$ in thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
July.....	\$683,229	\$714,211	\$872,949	\$964,125
August.....	723,471	788,747	860,760	931,790
September.....	786,818	755,123	823,615	906,303
October.....	771,963	788,120	868,799	950,603
November.....	761,412	735,438	947,222	867,062
December.....	636,217	629,052	855,483	786,370
January.....	693,799	806,564	879,069	876,276
February.....	727,636	804,065	830,317	
March.....	686,182	737,684	871,122	
April.....	686,583	786,062	873,483	
May.....	743,488	872,780	946,108	
June.....	788,497	838,120	936,891	

Source: City of Boston Treasury Department.

Financial Administration

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

Revenue Collections

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

Debt Management

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

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

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

Financial Management

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

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

Investment Policy

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

Performance Management and Program Evaluation

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

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

Risk Management

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

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

The City budgets 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 \$100 million all risk protection after a \$10 million deductible; boiler and machinery losses are insured up to \$10 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 \$11.8 million at the end of fiscal 2007.

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 Director of Administration and Finance 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 2008 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 2008 equals \$1.33 billion, or 58.0% 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 2008, the City will again levy taxes below the 2.5% ceiling on the overall effective tax rate. The City is not expected to reach the levy ceiling in the foreseeable future due to previous growth in the real estate market.

Proposition 2½

Proposition 2½ is a statewide tax limitation subject to amendment or repeal by the legislature that imposes two separate limits on the annual tax levy of a city or town.

The primary limitation of Proposition 2½ is that the property tax levy in any city or town in the Commonwealth cannot exceed 2.5% of the full and fair cash valuation of the taxable real estate and personal property in that city or town (the "2½ ceiling"). The only exception is the temporary exclusion of debt service or capital costs from the levy ceiling restrictions, as described below.

Within the limits of the 2½ ceiling, 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 2008 equals \$1.33 billion. In fiscal 2008, the allowable 2.5% increase is \$31.8 million, and "new growth" is \$31.1 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 2004-2008⁽¹⁾
(\$ in thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total Assessed Valuation	\$66,141,730	\$69,253,528	\$74,738,001	\$86,516,106	\$90,067,297
Growth Levy Limit	1,094,069	1,149,230	1,207,764	1,271,017	1,334,309
Levy Ceiling	1,653,543	1,731,338	1,868,450	2,162,903	2,251,682
Tax Levy ⁽²⁾	1,093,937	1,148,742	1,207,620	1,270,260	1,334,278
Under Levy Ceiling	559,606	582,596	660,830	892,643	917,404

(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 revaluations, the Commonwealth permits municipalities to establish new values on the basis of market changes, using the most recent revaluation as a basis. The City has adjusted certified property values in accordance with this procedure in years when market conditions indicated such adjustment was necessary.

In November 2006, the City concluded work on its ninth three-year revaluation for fiscal 2007. The assessment date for fiscal 2007 was January 1, 2006. For fiscal 2008, assessments were trended based on market activity leading up to the assessment date of January 1, 2007. Fiscal 2008 assessments for most residential properties are level with the prior year or have declined slightly, reflecting weakening market conditions. Conversely, the downtown commercial market, particularly office properties, experienced a surge in market values, resulting in an overall increase in value for businesses property classes. Legislation enacted in 2007 will provide savings for residential taxpayers in fiscal 2008 and in future years. See "City Revenues—Property Taxation—Taxation by Use; Tax Rates."

Certified Triennial Revaluations

<u>Assessment Date</u>	<u>Real and Personal Property Value</u>	<u>Applicable Years</u>
January 1, 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, 2007. The fiscal 2008 tax rates were applied to the January 1, 2007 valuation to determine levy and tax liability for fiscal 2008.

**Assessed Valuation of Taxable Real Property by
Real Estate Classes, Assessment Dated January 1, 2007**

<u>Real Estate Classes</u>	<u>Land Area (Square feet)</u>	<u>Land Valuation</u>	<u>Building Valuation</u>	<u>Total Valuation</u>
Apartments	32,284,465	\$1,207,168,374	\$3,062,978,795	\$4,270,147,169
Agricultural	546,757	55,100	203,900	259,000
Commercial	77,152,062	5,153,047,417	16,737,352,715	21,890,400,132
Commercial Condominium	7,721,000	2,991,300	1,393,555,500	1,396,546,800
Residential Condominium	53,282,226	64,500	21,773,592,715	21,773,657,215
Commercial Land	29,103,466	490,162,379	396,621,195	886,783,574
Condominium Main ⁽¹⁾	50,945,116	-	-	-
Condominium Parking	632,481	1,172,500	68,292,200	69,464,700
Industrial	45,568,545	666,602,170	825,595,853	1,492,198,023
Residential & Commercial	17,720,850	1,141,173,191	2,771,281,032	3,912,454,223
Residential Land	32,738,257	281,675,053	9,779,478	291,454,531
1-Family	156,270,696	4,640,547,335	7,636,209,655	12,276,756,990
2-Family	87,565,325	2,661,071,793	5,763,666,442	8,424,738,235
3-Family	53,998,419	1,970,852,076	5,503,821,099	7,474,673,175
4-Family (4-6 units)	9,643,004	<u>528,850,422</u>	<u>1,586,413,889</u>	<u>2,115,264,311</u>
TOTAL		\$18,745,433,610	\$67,529,364,468	\$86,274,798,078

(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 2004-2008
(per \$1,000 of assessed value)**

<u>Fiscal Year</u>	Commercial, Industrial and	
	Personal Property	Residential Property
2008.....	\$25.92	\$10.97
2007.....	26.87	10.99
2006.....	30.70	11.12
2005.....	32.68	10.73
2004.....	33.08	10.15

Source: City of Boston Assessing Department.

The City has five classes of property for taxation purposes: (i) residential real property, (ii) open space land, and (iii) commercial, (iv) industrial and (v) personal property. The City has utilized this classification in adopting its fiscal 1983 through fiscal 2008 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 legislation enacted in 2004, the amount of the tax levy that may be shifted to business properties – the commercial, industrial and personal classifications – was increased to mitigate increases in residential property taxes. Beginning in fiscal 2004, the legislation increased the taxable valuation limit for business properties from 175% to 200% of its share of total taxable value. The legislation originally contained a schedule that annually reduced the taxable valuation limit for business properties from 200% to 170% of its share of the total taxable value by fiscal 2009. An amendment to this legislation enacted in November 2007 restored the taxable value limit for business properties to 175% for fiscal 2008 and future years.

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 2008, qualifying residents who receive the residential exemption have their taxable assessed values reduced by \$135,695. The residential exemption has no impact on the overall tax rate.

Tax Base

The following table shows, for purposes of year-to-year comparison, the assessed valuations with respect to all property in the City subject to taxation, used for determining the tax levies and tax rates in fiscal years 2004 through 2008.

Assessed Valuations—Fiscal Years 2004-2008 ⁽¹⁾ (\$ 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>
2008.....	\$18,745,434	\$67,529,364	\$86,274,798	\$3,792,499	\$90,067,297
2007.....	18,931,722	64,068,735	83,000,457	3,515,648	86,516,105
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

* Rows may not add due to rounding.

(1) Represents assessed values determined as of January 1 in the prior fiscal year. For example, fiscal 2008 assessed values are as of January 1, 2007.

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 2008. Assessed valuations and fiscal 2008 taxes reflect the valuation of property as of January 1, 2007 and the tax liability using applicable tax rates.

Largest Taxpayers: City of Boston, Fiscal 2008 ⁽¹⁾

<u>Name</u>	<u>Personal Property ⁽²⁾</u>	<u>Real Property</u>	<u>Total Assessed Value</u>	<u>Fiscal 2008 Tax Liability</u>
Equity Office Properties ⁽³⁾	\$ 644,870	\$2,106,168,800	\$2,106,813,670	\$54,611,960
Boston Properties	2,991,430	1,545,502,700	1,548,494,130	40,174,450
NSTAR / Boston Edison Company	1,397,583,380	69,093,400	1,466,676,780	38,311,331
Tishman Speyer Properties	106,660	992,973,500	993,080,160	25,741,974
Fort Hill Associates	20,170	760,491,999	760,512,169	19,712,728
Brookfield Properties Corporation	64,240	751,661,000	751,725,240	19,485,523
Broadway Real Estate Partners	—	695,299,900	695,299,900	18,022,173
Beacon Properties	205,880	596,797,500	597,003,380	15,476,907
UIDC Of Massachusetts, Inc.	329,930	485,618,000	485,947,930	12,599,904
Manulife Financial	3,320,100	483,703,600	487,023,700	12,517,378
One Hundred Federal Street, LPS	—	457,855,000	457,855,000	11,867,602
Fortis Property Group	—	438,193,700	438,193,700	11,357,981
Dewey Square Tower Associates	18,400	432,034,000	432,052,400	11,199,029
	\$1,405,285,060	\$9,815,393,099	\$11,220,678,159	\$291,078,941

(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.

(3) In February 2007, the Blackstone Group LP completed the acquisition of office space held by Equity Office Properties. Equity Office Properties remained the owner of record for fiscal 2008 since the acquisition occurred after the January 1, 2007 assessment date.

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, 2007 and the total amount (net of refunds) of taxes (current and all prior levies) collected during fiscal 2003 through 2007. 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 2003-2007
(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, 2007</u>		
	<u>Gross</u> ⁽¹⁾	<u>Net</u>	<u>Net %</u>	<u>Gross Amount</u>	<u>%</u>		<u>Net Amount</u>	<u>%</u>	
					<u>Gross Levy</u>	<u>Net Levy</u>		<u>Gross Levy</u>	<u>Net Levy</u>
2007	\$1,270.8	\$1,223.9	96.3%	\$1,260.2	99.2%	103.0%	\$1,252.6	98.6%	102.3%
2006	1,208.2	1,167.0	96.6	1,202.2	99.5	103.0	1,192.5	98.7	102.0
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

(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 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 \$15.8 million, \$13.7 million, and \$12.3 million, respectively, in fiscal 2005, 2006 and 2007.

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> ⁽¹⁾	<u>Total</u>
2007	\$40,069	\$23,783	\$63,852
2006	36,528	28,522	65,050
2005	36,142	18,770	54,912

(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. 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 2008 state aid to the City is expected to increase by \$10.7 million to \$493.7 million, a 2.2% increase over the \$483.0 million received in fiscal 2007. The City received \$464.6 million in state aid in fiscal 2006. The City's state aid remains \$29.0 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 2008 state aid assessments are expected to amount to \$131.0 million. Total assessments amounted to \$114.3 million and \$119.9 million in fiscal years 2006 and 2007, respectively. State aid to the City in fiscal 2008 net of fiscal 2008 assessments is expected to decrease \$0.6 million, or 0.2%, to \$362.6 million. Net state aid totaled \$363.2 million in fiscal 2007 and \$350.3 million in fiscal 2006. The City's net state aid remains \$65.8 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 \$76.5 million, \$85.5 million, and \$93.3 million, respectively, in fiscal 2005, 2006 and 2007. The City expects to receive approximately \$93.3 million of reimbursement in fiscal 2008. 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, 2008, the City had approximately \$46.5 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.

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. Although construction has started, a final project funding agreement between the City and the Authority is not yet in place. The City filed a final application package with the Authority in June 2007. The Authority is currently reviewing the application package in order to determine the state's funding commitment and the elements of the project that are eligible for reimbursement. When the review is completed the City and the Authority will execute a project funding agreement.

The Authority recently promulgated new regulations with respect to the application and approval process for new projects. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. In addition, the Authority expects to pay grants for such projects as project costs are incurred 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 project costs. However, none of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

On July 1, 2007 the Authority began accepting statements of interest from municipalities and school districts describing proposed new projects. The City submitted seven statements of interest for the Authority's consideration. One of the City's project proposals was accepted by the Authority for further consideration. A study will be conducted to determine the feasibility of the project proposal. The study will also examine non-construction alternatives. The ongoing analysis and consideration of the City's project proposal by the Authority does not represent or imply a commitment by the Authority to fund the project. The Authority's financial commitment to the project is only determined through the project funding agreement after careful analysis and the development of architectural and engineering documents.

Excise Revenues

In addition to the major sources of revenue described above, the City receives various other types of revenues. See "Financial Operations—Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2003-2007" 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 \$28.0 million, \$30.5 million, and \$35.1 million, respectively, in fiscal 2005, 2006 and 2007.

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 \$35.1 million in room occupancy excise taxes collected in fiscal 2007, \$15.1 million was retained in the Excise Fund, and \$20.0 million was transferred into the General Fund as authorized by the Convention Center Act. In fiscal 2006, \$12.5 million of the \$30.5 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 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.

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 \$18.4 million, \$19.9 million, and \$24.3 million respectively, in fiscal 2005, 2006 and 2007. It should be noted that in fiscal 2005 the City received five quarterly excise payments. See "Summary and Comparison of Operating Budgets—Fiscal 2008—Revenues."

Motor Vehicle Excise

The Commonwealth assesses an excise on the registration of motor vehicles, the proceeds of which are received by the municipality where the vehicle is principally garaged. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. The City's annual motor vehicle excise receipts totaled \$44.7 million, \$50.1 million, and \$34.5 million respectively, in fiscal 2005, 2006 and 2007. See "Summary and Comparison of Operating Budgets—Fiscal 2008—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, 2007 was approximately \$10.3 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 \$62.2 million, \$64.0 million, and \$62.8 million respectively, in fiscal 2005, 2006 and 2007.

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 \$23.2 million, \$26.3 million and \$27.9 million respectively, in fiscal 2005, 2006 and 2007.

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 \$14.2 million, \$13.5 million, and \$18.4 million respectively, in fiscal 2005, 2006 and 2007.

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 2005, 2006 and 2007, \$1.4 million, \$0.8 million, and \$1.1 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, 2007, there was \$35.8 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 2007 included: the Community Development Block Grant (CDBG) entitlement program award of \$20.4 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 \$46.6 million; Special Education Entitlement Grant awards of \$19.4 million; and the School Lunch Program awards of \$24.4 million. The Boston Public Schools were also awarded \$34.2 million from a variety of other federal grants sources during the 2006 fiscal year. Homeland Security grant awards totaled \$21.5 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 \$84.5 million in fiscal 2007. The Police Department also received Community Services grant awards that totaled \$6.4 million from the Office of Public Safety. The Boston Public Schools were awarded approximately \$30.0 million. The three major programs supported by the state education grants are the Special Education Student 50/50 Program totaling \$12.1 million, the Community Partnership Grants totaling \$9.4 million and the Quality Full-Day Kindergarten Grant totaling \$2.6 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, 2007, the City had outstanding approximately \$870.4 million of general obligation long-term bonds, all of which bear fixed rates of interest. On March 1, 2008, the City had approximately \$788.4 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, 2007, the City had outstanding debt of \$650.2 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$452.0 million. In addition, as of March 1, 2008, the City had outstanding debt of \$588.0 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$601.4 million. Based on the City's current debt limit of \$4.39 billion, the City had the capacity to authorize an additional \$3.20 billion of debt as of March 1, 2008.

**Debt Incurring Capacity
As of March 1, 2008
(\$ in thousands)**

	<u>Debt Limit</u>
Normal Debt Limit as of June 30, 2007	\$4,387,466
Debt Outstanding as of June 30, 2007	(650,203)
Debt Authorized but Unissued as of June 30, 2007	<u>(451,980)</u>
Available Capacity under Debt Limit as of June 30, 2007	<u>3,285,283</u>
Debt Adjustments and New Authorizations approved in fiscal year 2008	149,466
Principal Paid through March 1, 2008	<u>62,188</u>
<u>Available Capacity under Debt Limit as of March 1, 2008.....</u>	<u>\$3,198,006</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, 2008, the City had outstanding long-term debt exempt from the debt limit of \$200.4 million, and authorized but unissued long-term debt exempt from the debt limit of \$90.2 million. As of March 1, 2008, outstanding debt exempt from the normal debt limit included: the following: Gardner Street Landfill – \$9.3 million, Economic Development and Industrial Corporation of Boston – \$2.9 million, Boston Redevelopment Authority – \$18.9 million, Capital Improvements Act of 1966 – \$0.1 million, Capital Improvements Act of 1973 – \$3.9 million, Capital Improvements Act of 1991 – \$60.7 million, Capital Improvements Act of 1996 – \$57.8 million, and School Project Loan Act of 1948 – M.G.L. Ch. 70B – \$46.5 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, 2008:

Authorized But Unissued Debt
As of June 30, 2007 and March 1, 2008 ⁽¹⁾

	<u>Statute</u>	<u>Authorized/ Unissued 6/30/07</u>	<u>New Authorizations & Adjustments 7/1/07 to 3/1/08</u>	<u>Authorized/ Unissued 3/1/08</u>
GENERAL PURPOSE:				
Acquisition of Land: Outdoor Facilities	C44 s7 (25)	\$ 46,225,345	\$ 5,938,160	\$ 52,163,505
Acquisition of Land: Cemetery Improvements	C44 s7 (20)	831,078	181,840	1,012,918
Acquisition of Land: Landfill Area	C44 s8 (24)	3,732,167	-	3,732,167
Departmental Equipment	C44 s7 (9)	16,944,513	3,145,065	20,089,578
Rem, Recon, Rehab - Firefighting App	C44 s7 (9A)	12,718	-	12,718
Energy Conservation & Alternative Energy Improvements	C44 s7 (3B)	-	1,540,156	1,540,156
Equipment - Fire Boat Acquisition	C44 s7 (13)	4,123,288	-	4,123,288
Computer Hardware	C44 s7 (28)	336,886	15,839,583	16,176,469
Computer Software	C44 s7 (29)	1,170,098	1,010,352	2,180,450
Construction/Re-Construction of Surface Drains, Sewers, etc.	C44 s7 (1)	-	-	-
Reservoir Constr/Enlargement: Water Treatment	C44 s8 (4)	619,280	-	619,280
Water Mains Laying &/Or Re-laying, Lining	C44 s8 (5)	6,108,683	-	6,108,683
Remodeling & Extraordinary Repairs	C44 s7 (3A)	212,147,448	56,398,122	268,545,570
Architectural Services for Plans and Specifications	C44 s7 (21)	101,000	-	101,000
Engineering & Architectural Services	C44 s7 (22)	5,121,993	5,750,000	10,871,993
Urban Redevelopment & Renewal	C121B s20	12,950,585	-	12,950,585
Economic Development & Industrial Corporation	C1097 s11 Acts'71	6,746,334	835,000	7,581,334
SCHOOLHOUSES and SITES:				
Construction of Buildings: Acquisition of Land	C44 s7 (3)	42,433,000	(866,496)	41,566,504
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.	5,027,273	413	5,027,686
School Project Loan: Act of 1948	C70B	15,693,073	(71,000)	15,622,073
PUBLIC BUILDINGS: Excluding Schools:				
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.	16,770,438	-	16,770,438
Capital Improvements: Act of 1996	C642 s7 Act'66 as am.	15,785,058	455,000	16,240,058
Construction of Buildings: Acquisition of Land	C44 s7 (3)	28,974,879	31,014,494	59,989,373
Convention & Exhibition Center	C152 Act'97	-	-	-
Boston City Hospital	C659 Acts of 1986	660,000	-	660,000
PUBLIC WORKS:				
Sidewalk Construction	C44 s7 (6)	7,458,449	1,750,000	9,208,449
Traffic Sig., Pub. Ltg. Fire Alarm Comm. Install.	C44 s7 (14)	12,501,146	9,144,405	21,645,551
Bridge Construction	C44 s7 (4)	22,761,069	7,980,000	30,741,069
Public Ways Construction	C44 s7 (5)	<u>50,836,713</u>	<u>10,625,000</u>	<u>61,461,713</u>
TOTAL:		<u>\$540,907,817</u>	<u>\$150,685,000</u>	<u>\$691,592,817</u>
"Within" Debt Limit =		\$451,979,623	\$149,465,587	\$601,445,210
"Outside" Debt Limit =		<u>\$ 88,928,194</u>	<u>\$ 1,219,413</u>	<u>\$ 90,147,607</u>
TOTAL:		<u>\$540,907,817</u>	<u>\$150,685,000</u>	<u>\$691,592,817</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, 2008.

**Debt Statement as of March 1, 2008
General Obligation Debt ⁽¹⁾**

<u>Purpose for Which Issued</u>	<u>Principal Outstanding as of June 30, 2007</u>	<u>Retired in Fiscal 2008 as of March 1, 2008</u>	<u>Principal Outstanding as of March 1, 2008</u>	<u>Deemed Payable from Related Revenues ⁽²⁾</u>	<u>Net Principal Amount</u>
General Purpose	\$428,643,947	\$(39,305,415)	\$389,338,532	\$(6,195,709)	\$383,142,822
MWPAT	9,458,415	(595,539)	8,862,876	(1,235,163)	7,627,713
Economic Development	3,247,951	(344,199)	2,903,753	-	2,903,753
State Urban Development Relocation	20,741,659	(1,815,490)	18,926,169	-	18,926,169
Schools	100,110,841	(8,805,162)	91,305,679	(54,783,408)	36,522,272
Public Buildings	199,920,539	(14,926,815)	184,993,724	(23,413,076)	161,580,648
Public Works	107,505,357	(15,943,978)	91,561,379	-	91,561,379
Cemeteries	744,704	(190,488)	554,216	-	554,216
Totals	<u>\$870,373,413</u>	<u>\$(81,927,086)</u>	<u>\$788,446,327</u>	<u>\$(85,627,356)</u>	<u>\$702,818,971</u>

(1) Columns may not add due to rounding.

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

- a. Receipts from the Boston Public Health Commission for debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals, and from the Fund for Parks and Recreation and rental income from a City-owned building at 1010 Massachusetts Avenue;
- b. Debt service subsidies on City debt issued to the 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, 2003 through 2007. The debt service requirements table shows the gross Debt Service Requirements, offset by revenues received from related sources.

Debt Service Requirements—Fiscal 2003-2007 ⁽¹⁾

	<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>	<u>Fiscal Year Ended June 30, 2007</u>
Gross Debt Service Requirements					
Bonded Debt:					
Principal.....	\$ 86,611,045	\$ 86,490,297	\$ 85,425,487	\$ 77,146,592	\$ 82,875,539
Interest.....	<u>38,960,072</u>	<u>40,530,338</u>	<u>37,935,112</u>	<u>38,004,782</u>	<u>38,676,232</u>
Total.....	<u>\$125,571,117</u>	<u>\$127,020,635</u>	<u>\$123,360,599</u>	<u>\$115,151,374</u>	<u>\$121,551,771</u>
Less Revenue Deemed Available From Related Sources: ⁽²⁾					
Boston Public Health					
Commission Payments	\$ 4,598,341	\$ 4,010,292	\$ 2,923,781	\$ 1,650,625	\$ 1,482,942
Fund for Parks & Recreation.....	106,997	269,511	278,102	273,154	267,875
1010 Massachusetts Ave	—	1,520,102	1,486,053	1,532,227	1,622,576
MWPAT Loan Subsidy					
Amounts.....	596,577	581,779	554,594	542,030	524,894
School Construction Assistance ..	<u>17,232,498</u>	<u>17,555,199</u>	<u>16,144,882</u>	<u>15,463,685</u>	<u>15,134,146</u>
Total Net Debt Service Requirements.....	<u>\$103,036,704</u>	<u>\$103,083,753</u>	<u>\$101,973,187</u>	<u>\$ 95,689,653</u>	<u>\$102,519,339</u>

(1) Columns may not add due to rounding.

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

- a. Receipts from the Boston Public Health Commission for debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals, and from the Fund for Parks and Recreation, and rental income from a City-owned building at 1010 Massachusetts Avenue;
- b. Debt service subsidies on City debt issued to the 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, 2008 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, 2008**

	<u>Amount</u>	<u>Per Capita</u> ⁽¹⁾	<u>Ratio to Assessed Property Value</u> ⁽²⁾	<u>Debt Per Capita as a % of Personal Income Per Capita</u> ⁽³⁾
Gross General Obligation Debt	\$788,446,327	\$1,323.57	0.9%	2.9%
Net General Obligation Debt	702,818,971	1,179.82	0.8	2.6

- (1) U.S. Census Bureau as of July 2006—Boston’s Estimated Population equaled 595,698.
- (2) Assessed Property Values equaled \$90.07 billion as of January 1, 2007. 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 2005, Revised Series-Suffolk County’s 2005 Per Capita Personal Income = \$45,845.

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 2005 - 2007 (Budgetary Basis)
(\$ in thousands)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Outstanding General Obligation Debt.....	\$846,326	\$849,179	\$870,373
Authorized But Unissued Debt.....	<u>\$584,968</u>	<u>\$525,523</u>	<u>\$540,908</u>
Debt Service.....	\$123,361	\$115,151	\$121,552
Debt Service as a % of Total General Fund Revenues, Transfers and Other Available Funds.....	6.2%	5.5%	5.5%
Debt Service as a % of Total Expenditures and Encumbrances	6.3%	5.5%	5.6%
Debt Service as a % of Total Net Tax Levy.....	11.7%	9.5%	9.6%
Bonds Issued			
General Obligation - New Money.....	\$ 75,000	\$80,000	\$100,000
General Obligation – Refunding Bonds	<u>\$ 52,775</u>	<u>\$ -</u>	<u>\$ 85,425</u>
Total Bonds Issued.....	<u>\$127,775</u>	<u>\$80,000</u>	<u>\$185,425</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, 2008 was \$94.8 million Special Obligation Refunding Bonds, Boston City Hospital Issue (the “BCH Bonds”) and \$103.7 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 2005 2006 and 2007, 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 \$18.0 million, \$18.0 million and \$20.0 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 \$2.9 million was outstanding as of March 1, 2008.

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, 2008 in the aggregate principal amount of \$7.7 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, 2008, the amount outstanding under the lease agreements equaled \$42.5 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 11, 2007, the Mayor submitted his fiscal 2008 budget to the City Council, which included approximately \$138.7 million in new authorizations to support the fiscal 2008 capital plan. All authorizations were approved by the City Council on June 27, 2007, and became effective in July 2007.

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 2008-2012 capital plan released in April 2007 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, \$1.5 billion from City and non-City sources are proposed to be spent on capital projects. These expenditures will be used for improvements to schools, libraries, parks 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 2008-2012 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. Construction also began on a new branch library in Mattapan, as well as a new police station in Charlestown.

The maintenance of the City's roadways and sidewalks is a significant part of the capital plan. In fiscal 2007, 32 miles of roads were reconstructed or resurfaced and 399,600 square feet of sidewalks were also repaired. Approximately 318 new street lights were installed to improve visibility and public safety.

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 for each year from fiscal 1999 through fiscal 2008. 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)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
January 1, 2007	\$4,138,146	\$6,223,154	\$2,085,008	66.5%	\$1,221,404	170.7%
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

Source: City of Boston Retirement Board.

For long-term investment performance, the SBRS recorded a five-year average annualized return (January 1, 2002 through December 31, 2006) equal to 9.2%, and a twenty-two year average annualized return (January 1, 1985 through December 31, 2006) equal to 10.4%. In calendar 2006 the rate of return for the SBRS equaled 15.1%, and the composite rate of return for all 106 Massachusetts public pension funds equaled 16.1%.

During 2007, the state passed “An Act to Reduce the Stress on Local Property Taxes through Enhanced Pension Investment” (Chapter 68 of the Acts of 2007). In accordance with Chapter 68, PERAC will annually assess investment performance and funded ratio of systems as of January 1st. If a system is: (i) less than 65% funded, and (ii) has trailed the performance of the Pension Reserve Investment Trust (“PRIT”) fund by 2% or more on an annualized basis over the previous ten year period, PERAC will declare the system underperforming and the system shall transfer its assets to the PRIT fund. Such transfer and control would be permanent. Currently, the SBRS retains full control of its assets.

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 203 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>
2008 Budgeted	\$202.9	\$4.2	\$(93.3)	\$113.8
2007	192.9	4.6	(93.3)	104.2
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

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 in accordance with state statute to approximately 12,400 participating retirees and their beneficiaries on a pay-as-you-go basis. Expenditures for such purposes were approximately \$76.6 million in fiscal 2005, \$78.3 million in fiscal 2006, and \$86.6 million in fiscal 2007.

For retirees and their beneficiaries, the City currently pays 75% of Blue Cross/Blue Shield of Massachusetts premiums and 90% of HMO premiums. In 2007, the City successfully negotiated a decrease in the employer contribution for HMO premiums with the majority of its active employees, gradually adjusting to an 85% contribution by 2009. No contribution changes were adopted for Medicare products, in which the majority of the City's retirees are enrolled. The City also pays 50% of the premiums for \$5,000 of life insurance for each eligible retiree.

GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, became effective June 30, 2007 and June 30, 2008, respectively. These statements require the City to account for and report the value of its future other post-employment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. In anticipation of these reporting requirements, the City commissioned an independent actuarial valuation of its OPEB obligations as of June 30, 2005. The report estimated that the City's total OPEB actuarial accrued liability as of that date 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 the estimates contained in the actuarial valuation as of June 30, 2005, the City's annual actuarially required contribution to OPEB 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. The City expects to receive an updated actuarial valuation of its OPEB obligations as of June 30, 2007 prior to the end of fiscal 2008.

Massachusetts General Laws (MGL) do not currently provide cities and towns with the legal authority to establish a trust fund for the purpose of prefunding OPEB liabilities in the same manner as traditional pension benefits. However, in recognition of its unfunded accrued OPEB obligation, the City established a \$20 million stabilization fund in the fiscal 2008 Budget for the purpose of paying a portion of these future costs.

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, 2007, which is available from the City. A copy of the CAFR has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and is also posted at the City's internet site at www.cityofboston.gov/auditing.

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



CITY OF BOSTON, MASSACHUSETTS

Basic Financial Statements and Required Supplementary Information

June 30, 2007

(With Independent Auditors' Report Thereon)

CITY OF BOSTON, MASSACHUSETTS

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston (the City), Massachusetts, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 3% and 3% of the assets and revenues, respectively, of the aggregate remaining fund information and 28% and 28% 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, 2007, 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 December 3, 2007 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 15 and the schedules of funding progress and employers' contributions on page 64 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
December 3, 2007

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2007

(Unaudited)

The City of Boston (the City) provides this Management's Discussion and Analysis to present additional information to the readers of the City's basic financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2007. 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, 2007

(Unaudited)

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

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

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

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

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2007

(Unaudited)

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

- 1. Governmental Fund Financial Statements** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are 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 *Statement of Revenues and Expenditures – Budgetary Basis* is presented on page 22. 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

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2007

(Unaudited)

and transactions in the general fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover for a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures. Additional information and a reconciliation of "budgetary" to GAAP statements is provided in note 4 to the financial statements.

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

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.

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, 2007

(Unaudited)

Government-Wide Financial Analysis

This analysis is based on the statement of net assets and the statement of activities found on pages 16 and 17, respectively, of the financial statements.

Government-Wide Highlights

Net Assets – Primary Government – The total assets of the City exceeded its liabilities at fiscal year ending June 30, 2007 by \$1.09 billion (presented as net assets). Of this amount, \$522.4 million was reported as “unrestricted net assets”. Unrestricted net assets represent the amount available to be used to meet the City’s ongoing obligations to citizens and creditors.

Changes in Net Assets – Primary Government – The City’s total net assets increased by \$114.0 million in fiscal year 2007. Net assets of governmental activities increased by \$105.8 million, while net assets of the business-type activities increased by \$8.2 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 \$1.09 billion at the end of 2007, compared to \$975.1 million at the end of the previous year.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – this amount is \$285.8 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 (24.2%) 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 \$114.7 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 2008, the amount to be received by the City to pay debt service is approximately \$13.7 million. Although this receivable increases unrestricted net assets, it will not affect the City’s free cash position.

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

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June 30, 2007

(Unaudited)

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)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Current assets	\$ 1,460,429	1,387,438	60,910	58,737	1,521,339	1,446,175
Capital assets	1,126,478	1,063,860	—	—	1,126,478	1,063,860
Other assets	7,138	4,830	2,613	2,801	9,751	7,631
Due from others	28,394	27,075	76,873	85,751	105,267	112,826
Total assets	\$ 2,622,439	2,483,203	140,396	147,289	2,762,835	2,630,492
Noncurrent liabilities	\$ 1,047,440	1,041,598	197,750	207,893	1,245,190	1,249,491
Other liabilities	415,869	388,260	12,654	17,647	428,523	405,907
Total liabilities	\$ 1,463,309	1,429,858	210,404	225,540	1,673,713	1,655,398
Invested in capital assets net of related debt	\$ 285,756	230,636	—	—	285,756	230,636
Restricted	280,949	276,769	—	—	280,949	276,769
Unrestricted	592,425	545,940	(70,008)	(78,251)	522,417	467,689
Total net assets	\$ 1,159,130	1,053,345	(70,008)	(78,251)	1,089,122	975,094

CITY OF BOSTON, MASSACHUSETTS

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June 30, 2007

(Unaudited)

Changes in Net Assets – Primary Government
(In thousands)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 188,914	167,596	—	—	188,914	167,596
Operating grants and contributions	594,457	614,685	1,152	3,537	595,609	618,222
Capital grants and contributions	19,306	24,746	—	—	19,306	24,746
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,261,159	1,195,564	—	—	1,261,159	1,195,564
Excises	111,079	94,743	35,092	30,503	146,171	125,246
Payment in lieu of taxes	56,146	60,584	—	—	56,146	60,584
Grants and contributions not restricted	246,538	225,731	—	—	246,538	225,731
Investment income	52,528	42,082	2,180	5,920	54,708	48,002
Miscellaneous	539	2,164	—	—	539	2,164
Total revenues	<u>2,530,666</u>	<u>2,427,895</u>	<u>38,424</u>	<u>39,960</u>	<u>2,569,090</u>	<u>2,467,855</u>
Program expenses:						
General government	82,793	82,040	—	—	82,793	82,040
Human services	41,697	39,956	—	—	41,697	39,956
Public safety	607,514	578,778	—	—	607,514	578,778
Public works	125,228	127,379	—	—	125,228	127,379
Property and development	112,857	112,875	—	—	112,857	112,875
Parks and recreation	20,371	21,985	—	—	20,371	21,985
Library	45,498	41,665	—	—	45,498	41,665
Schools	1,063,583	1,016,901	—	—	1,063,583	1,016,901
Public health programs	65,439	63,604	—	—	65,439	63,604
County	123,113	115,388	—	—	123,113	115,388
State and district assessments	124,243	118,817	—	—	124,243	118,817
Interest on long-term debt	28,725	33,312	—	—	28,725	33,312
Convention center	—	—	5,202	10,814	5,202	10,814
Hospital	—	—	4,979	4,915	4,979	4,915
Total program expenses	<u>2,441,061</u>	<u>2,352,700</u>	<u>10,181</u>	<u>15,729</u>	<u>2,451,242</u>	<u>2,368,429</u>
Excess before special items and transfers	89,605	75,195	28,243	24,231	117,848	99,426
Loss on disposal	(3,820)	—	—	—	(3,820)	—
Transfers	20,000	18,000	(20,000)	(18,000)	—	—
Change in net assets	105,785	93,195	8,243	6,231	114,028	99,426
Net assets – beginning 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>
Net assets – end of year	<u>\$ 1,159,130</u>	<u>1,053,345</u>	<u>(70,008)</u>	<u>(78,251)</u>	<u>1,089,122</u>	<u>975,094</u>

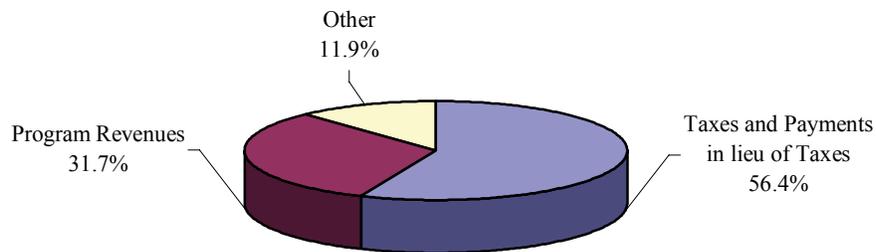
CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information
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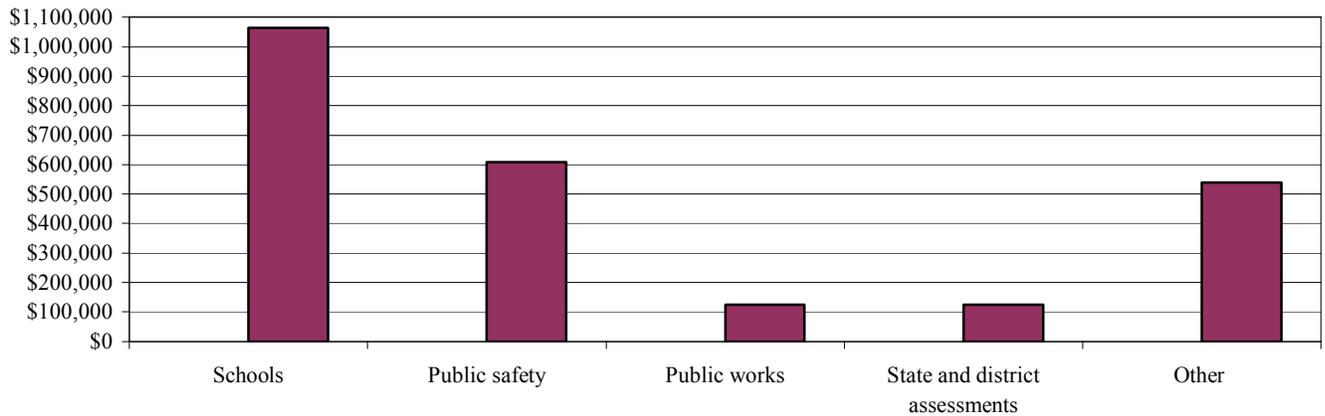
June 30, 2007

(Unaudited)

**Revenues – Governmental Activities
Fiscal Year 2007**



**Expenses – Governmental Activities
Fiscal Year 2007
(In thousands)**



CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2007

(Unaudited)

Governmental Activities

The City's governmental activities net assets increased by \$105.8 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal 2007: In the assets accounts, cash and investments increased by \$81 million, receivables increased by \$39 million, capital assets increased by \$62.6 million. In the liability accounts, there were increases in warrants payable of \$12.3 million, current long-term debt of \$2.4 million, unearned revenue of \$7.0 million and accrued liabilities of \$5.8 million.

During fiscal year 2007, the City's revenues increased by 4.2%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.43 billion (56.4% of total revenue) and \$802.7 million of program revenues (31.7% of total revenue). The increase in tax revenue was attributed to a change in property tax commitments and a growth in room occupancy. A rise in federal and state grants was the source for the increase in grants and contributions not restricted. Investment income and other miscellaneous revenues totaled \$53.1 million. The primary factor for the increase in investment income was higher investment rates.

The increase in revenues allowed for an increase in expense categories. The City's expenses cover a range of services. The largest expenses were for schools (\$1.06 billion), public safety (\$607.5 million), public works (\$125.2 million), state and district assessments (\$124.2 million), county (\$123.1 million), property and development (\$112.9 million), and general government (\$82.8 million). The primary reason behind the increased expenses for schools and public safety (police) was an increase in salaries. Even though public works represented the third largest expense, this function realized a decrease primarily due to less spending on snow removal. State and district assessments realized a nearly 5.0% increase due to a change in Charter School Sending Tuition and MBTA Assessments. County expenses increased due to a rise in deeds excise activity.

In 2007, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.64 billion. This shortfall was covered primarily through taxes (\$1.43 billion) and unrestricted grants and contributions (\$246.5 million).

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 \$8.2 million during fiscal 2007. This change in net assets resulted primarily from a decrease in land taking expenses of \$5.6 million and an increase in excise tax revenues of \$2.5 million.

Financial Analysis of the City's Fund Statements

This analysis is based on the Governmental and Proprietary Fund Financial Statements on pages 18 through 25.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2007

(Unaudited)

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 2007, the City's governmental funds reported a combined ending fund balance of \$1.01 billion, an increase of \$74.8 million from the prior year. Of this total amount, \$504.9 million represents the "unreserved and undesignated fund balances" with \$495.3 million of this amount in the general fund. The increase in fund balance is largely due to an increase in tax receipts.

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 2007 was \$495.3 million, which represents approximately 23.9% of GAAP general fund operating expenditures.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of undesignated fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash". Free cash is the amount of statutory fund balance in the general fund, as certified by the Commonwealth 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.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

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(Unaudited)

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

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 2007 special revenue fund balance is reported at \$220.3 million, a \$3.4 million increase from fiscal year 2006.

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 2007 capital projects fund balance is \$12.3 million, a \$2.5 million decrease from fiscal year 2006.

Other Governmental Funds – Fund Balance – Other Governmental Funds account for assets held by the City in permanent trust funds. The fiscal year 2007 other governmental funds fund balance is \$48.3 million, a \$3.3 million increase from fiscal year 2006.

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 2007 was \$70 million. 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.

Budgetary Highlights

The general fund budgetary highlights include ending fiscal year 2007 with a \$15.2 million dollar surplus. This represents the City's 22nd consecutive year with a balanced budget. Changes to the original budget resulted in an increase of \$20.9 million to the overall budget. Supplemental appropriations totaling \$17.2 million were primarily for salaries and wages for collective bargaining citywide. Other supplemental appropriations totaling \$3.7 million, consisted of Police department technology of \$1.5 million and Boston Housing Authority public safety services of \$2.2 million. 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. The departmental and other revenue favorable variance of \$17.9 million was primarily comprised of \$6.1 million for municipal Medicaid reimbursement, \$4.6 million for retirement reimbursement, a \$1.5 million increase in street and sidewalk permits, \$1.5 million for administrative fees, and a \$1.2 million increase in penalties and interest for property tax and motor vehicle. The \$10.7 million favorable variance in investment income was driven by strong interest on investment returns. The other available funds unfavorable variance of \$18.5 million fell short of fiscal year 2007 receipts. A majority of the shortfall consisted of sale of City Surplus of \$5.3 million and a drop in parking meter collections of \$9 million. Police and Fire Department overtime personnel wages, exceeding the budget by \$21.1 million, was the main factor in Public Safety's overspending.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2007

(Unaudited)

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2007, included \$2.29 billion of cost and accumulated depreciation of \$1.16 billion, leaving a net book value of \$1.13 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 6% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$126.9 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 \$60.4 million. Additional information on the City's capital assets can be found in note 8 of the Notes to Basic Financial Statements.

Long-Term Obligations

Debt Administration – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year-end, the City had \$860.9 million in General Obligations Bonds principal outstanding – an increase of \$21.8 million over last year.

The key factor in this increase was the issuance of the March 1, 2007 Series A and B general obligation and refunding bonds totaling \$185.4 million. Of this amount, \$100 million (Series A) was new money issued for the purpose of funding various municipal capital projects and \$85.4 million (Series B) was issued for the purpose of refunding certain outstanding general obligations of the City. The Series A and B bonds were rated Aa1 and AA+ by Moody's and S&P, respectively.

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 \$12.2 million, or 3.9% during the current fiscal year. The key factors were net decrease in compensated absences of \$20.8 million, which was offset by an increase in workers' compensation of \$20.5 million, and a decrease of \$16.8 million in notes payable.

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 No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* is effective June 30, 2008.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

June 30, 2007

(Unaudited)

This statement 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 unaudited 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 unaudited 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, 2007

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Assets:				
Current assets:				
Cash and investments	\$ 961,982	272	962,254	160,361
Cash and investments held by trustees	50,805	60,638	111,443	4,998
Receivables, net:				
Property taxes	19,871	—	19,871	—
Intergovernmental	231,798	—	231,798	—
Other	39,712	—	39,712	23,456
Other assets	7,138	2,613	9,751	11,884
Internal balances	20,000	(20,000)	—	—
Due from BMC	—	—	—	221
Due from primary government	—	—	—	256
Due from component units	8,394	—	8,394	—
Total current assets	1,339,700	43,523	1,383,223	201,176
Noncurrent assets:				
Intergovernmental receivables	100,997	—	100,997	—
Notes and other receivables	55,264	—	55,264	80,088
Other assets	—	—	—	120,856
Capital assets:				
Nondepreciable	151,221	—	151,221	24,490
Depreciable, net	975,257	—	975,257	42,593
Due from component units	—	96,873	96,873	—
Total noncurrent assets	1,282,739	96,873	1,379,612	268,027
Total assets	2,622,439	140,396	2,762,835	469,203
Liabilities:				
Current liabilities:				
Warrants and accounts payable	66,384	—	66,384	17,735
Accrued liabilities – current:				
Tax abatement liability	24,500	—	24,500	—
Compensated absences	42,194	—	42,194	—
Judgments and claims	8,103	—	8,103	—
Payroll and related costs	108,086	—	108,086	—
Deposits and other	51,615	2,734	54,349	2,268
Current portion of long-term debt and leases	94,743	9,920	104,663	1,094
Due to component units	256	—	256	—
Due to BMC	—	—	—	13,766
Due to primary government	—	—	—	8,562
Unearned revenue	19,988	—	19,988	38,531
Total current liabilities	415,869	12,654	428,523	81,956
Noncurrent liabilities:				
Bonds due in more than one year	799,758	197,750	997,508	19,154
Notes and leases payable due in more than one year	47,273	—	47,273	—
Other noncurrent liabilities	200,409	—	200,409	133,262
Due to primary government	—	—	—	96,705
Total noncurrent liabilities	1,047,440	197,750	1,245,190	249,121
Total liabilities	1,463,309	210,404	1,673,713	331,077
Net assets:				
Investment in capital assets, net of related debt	285,756	—	285,756	41,747
Restricted for:				
Capital projects	12,316	—	12,316	—
Expendable trust	48,301	—	48,301	—
Federal and state grants	220,332	—	220,332	61,813
Unrestricted	592,425	(70,008)	522,417	34,566
Total net assets	\$ 1,159,130	(70,008)	1,089,122	138,126

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2007

(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	\$ 82,793	19,610	6,006	10,009	(47,168)		(47,168)	
Human services	41,697	31	7,782	—	(33,884)		(33,884)	
Public safety	607,514	120,887	37,921	213	(448,493)		(448,493)	
Public works	125,228	16,748	25	8,375	(100,080)		(100,080)	
Property and development	112,857	5,167	64,963	100	(42,627)		(42,627)	
Parks and recreation	20,371	338	638	608	(18,787)		(18,787)	
Library	45,498	571	5,148	1	(39,778)		(39,778)	
Schools	1,063,583	25,562	354,680	—	(683,341)		(683,341)	
Public health programs	65,439	—	—	—	(65,439)		(65,439)	
County	123,113	—	117,294	—	(5,819)		(5,819)	
State and district assessments	124,243	—	—	—	(124,243)		(124,243)	
Interest on long-term debt	28,725	—	—	—	(28,725)		(28,725)	
Total governmental activities	<u>2,441,061</u>	<u>188,914</u>	<u>594,457</u>	<u>19,306</u>	<u>(1,638,384)</u>		<u>(1,638,384)</u>	
Business-type activities:								
Convention Center	5,202	—	1,152	—	—	(4,050)	(4,050)	
Hospital Bonds	4,979	—	—	—	—	(4,979)	(4,979)	
Total business-type activities	<u>10,181</u>	<u>—</u>	<u>1,152</u>	<u>—</u>	<u>—</u>	<u>(9,029)</u>	<u>(9,029)</u>	
Total primary government	<u>\$ 2,451,242</u>	<u>188,914</u>	<u>595,609</u>	<u>19,306</u>	<u>(1,638,384)</u>	<u>(9,029)</u>	<u>(1,647,413)</u>	
Component units:								
Boston Public Health Commission	\$ 123,830	—	49,067	559				(74,204)
Boston Redevelopment Authority	25,544	8,906	7,761	—				(8,877)
Trustees of the Public Library of the City of Boston	17,331	848	12,862	—				(3,621)
Economic Development and Industrial Corporation of Boston	36,204	15,121	16,541	—				(4,542)
Total component units	<u>\$ 202,909</u>	<u>24,875</u>	<u>86,231</u>	<u>559</u>				<u>(91,244)</u>
General revenues:								
Taxes:								
Property taxes, levied for general purposes					1,261,159	—	1,261,159	—
Excises					111,079	35,092	146,171	—
Payments in lieu of taxes					56,146	—	56,146	—
Grants and contributions not restricted					246,538	—	246,538	—
Investment income					52,528	2,180	54,708	14,805
City appropriation					—	—	—	63,571
Miscellaneous					539	—	539	17,453
Loss on disposal					(3,820)	—	(3,820)	—
Transfers					20,000	(20,000)	—	—
Total general revenues and transfers					<u>1,744,169</u>	<u>17,272</u>	<u>1,761,441</u>	<u>95,829</u>
Change in net assets					105,785	8,243	114,028	4,585
Net assets – beginning of year					1,053,345	(78,251)	975,094	133,289
Prior period adjustment					—	—	—	252
Net assets – end of year					<u>1,159,130</u>	<u>(70,008)</u>	<u>1,089,122</u>	<u>138,126</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2007

(In thousands)

Assets	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Cash and investments	\$ 738,650	153,759	25,926	229	918,564
Cash and investments held by trustees	—	—	2,828	47,977	50,805
Receivables, net:					
Property taxes	19,871	—	—	—	19,871
Intergovernmental	218,856	102,359	11,578	—	332,793
Departmental and other	38,960	55,264	—	471	94,695
Total receivables	<u>277,687</u>	<u>157,623</u>	<u>11,578</u>	<u>471</u>	<u>447,359</u>
Due from other funds	22,773	4,863	1,591	—	29,227
Due from component units	8,279	—	—	—	8,279
Total assets	<u>\$ 1,047,389</u>	<u>316,245</u>	<u>41,923</u>	<u>48,677</u>	<u>1,454,234</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 39,735	14,549	11,677	376	66,337
Accrued liabilities:					
Payroll and related costs	106,741	1,345	—	—	108,086
Deposits and other	8,278	21,963	6,352	—	36,593
Deferred revenue	153,341	55,264	11,578	—	220,183
Due to other funds	6,989	2,792	—	—	9,781
Due to component unit	256	—	—	—	256
Total liabilities	<u>315,340</u>	<u>95,913</u>	<u>29,607</u>	<u>376</u>	<u>441,236</u>
Fund balances:					
Reserved for:					
Encumbrances	38,617	65,928	121,437	200	226,182
Future appropriations	—	—	35,756	—	35,756
Unreserved:					
Designated for subsequent years' expenditures	198,098	—	—	—	198,098
Undesignated	495,334	154,404	(144,877)	—	504,861
Reported in permanent funds	—	—	—	48,101	48,101
Total fund balances	<u>732,049</u>	<u>220,332</u>	<u>12,316</u>	<u>48,301</u>	<u>1,012,998</u>
Total liabilities and fund balances	<u>\$ 1,047,389</u>	<u>316,245</u>	<u>41,923</u>	<u>48,677</u>	<u>1,454,234</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, 2007

(In thousands)

Total fund balance – governmental funds	\$	1,012,998
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		17,825
Construction in progress		133,396
Land improvements		112,963
Buildings and improvements		1,455,724
Furniture and equipment		204,738
Infrastructure		362,300
Less accumulated depreciation		<u>(1,160,468)</u>
		<u>1,126,478</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis		196,285
Internal service funds are included in the government-wide statements		41,406
Bond issuance costs are capitalized in the government-wide statements		7,138
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		(895,085)
Capital leases		(24,386)
Bond issue premiums		(33,872)
Deferred bond gains (losses)		11,569
Accrued interest on bonds		(14,822)
Compensated absences		(163,474)
Landfill		(9,381)
Judgments and claims		(71,224)
Tax abatements		<u>(24,500)</u>
		<u>(1,225,175)</u>
Net assets of governmental activities	\$	<u><u>1,159,130</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, 2007

(In thousands)

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:					
Real and personal property taxes	\$ 1,258,878	—	—	—	1,258,878
Excises	99,816	—	—	—	99,816
Payments in lieu of taxes	56,146	—	—	—	56,146
Fines	67,546	11	—	—	67,557
Investment income	43,068	482	—	268	43,818
Licenses and permits	40,694	65	—	—	40,759
Departmental and other	65,661	48,699	—	10,009	124,369
Intergovernmental	484,510	348,816	10,177	—	843,503
Total revenues	<u>2,116,319</u>	<u>398,073</u>	<u>10,177</u>	<u>10,277</u>	<u>2,534,846</u>
Expenditures:					
Current:					
General government	65,223	7,394	—	4,773	77,390
Human services	26,475	8,556	—	—	35,031
Public safety	477,403	28,578	—	—	505,981
Public works	97,897	9,042	—	—	106,939
Property and development	35,506	66,893	—	—	102,399
Parks and recreation	17,000	354	—	—	17,354
Library	31,225	5,166	—	—	36,391
Schools	743,848	154,774	—	—	898,622
Public health programs	64,559	774	—	—	65,333
County	—	114,218	—	—	114,218
Judgments and claims	2,257	—	—	—	2,257
Retirement costs	92,873	—	—	—	92,873
Other employee benefits	175,862	—	—	—	175,862
State and district assessments	124,243	—	—	—	124,243
Capital outlays	1,200	2,353	127,860	—	131,413
Debt service	113,212	—	—	—	113,212
Total expenditures	<u>2,068,783</u>	<u>398,102</u>	<u>127,860</u>	<u>4,773</u>	<u>2,599,518</u>
Excess (deficiency) of revenues over expenditures	<u>47,536</u>	<u>(29)</u>	<u>(117,683)</u>	<u>5,504</u>	<u>(64,672)</u>
Other financing sources (uses):					
Long-term debt and capital leases issued	—	76	114,975	—	115,051
Refunding bonds issued	—	—	85,425	—	85,425
Payments to escrow agent	(105)	—	(85,245)	—	(85,350)
Premiums on long-term debt issued	—	4,378	—	—	4,378
Transfers in (out)	23,221	(1,000)	—	(2,221)	20,000
Total other financing sources (uses)	<u>23,116</u>	<u>3,454</u>	<u>115,155</u>	<u>(2,221)</u>	<u>139,504</u>
Net change in fund balances	70,652	3,425	(2,528)	3,283	74,832
Fund balance – beginning of year	661,397	216,907	14,844	45,018	938,166
Fund balance – end of year	\$ <u>732,049</u>	<u>220,332</u>	<u>12,316</u>	<u>48,301</u>	<u>1,012,998</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, 2007

(In thousands)

Net change in fund balances – total governmental funds	\$	74,832
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 (\$126,876) exceeded depreciation expense (\$60,438) and disposals (\$3,820).		62,618
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.		13,545
Proceeds of long-term debt (\$200,476) 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 (\$92,795) and payment to the escrow agent (\$85,350) are expenditures in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments and escrow payments.		(22,331)
Bond premiums net (\$1,489) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Deferred losses on refunding (\$1,687) decrease long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$511) are expenditures in the governmental funds, but are deferred assets in the statement of assets. This is the amount by which premiums and deferred losses on refundings exceeded issuance costs.		(2,665)
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds		(34,246)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the increase in liabilities for judgments and claims (\$23,823), offset by a decrease in liabilities for landfill (\$4,992), interest payable (\$1,222) and compensated absences (\$20,802).		3,193
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds.		10,839
Change in net assets of governmental activities	\$	<u>105,785</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, 2007
(with comparative actual amounts for 2006)

(In thousands)

	2007		Variance	2006	
	Original	Final	over	Actual	
	budget	budget	(under)		
	Actual				
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,223,656	1,223,656	1,224,171	515	1,167,342
Excises	109,988	113,910	120,234	6,324	126,208
Commonwealth of Massachusetts	572,332	572,332	576,372	4,040	549,777
Departmental and other revenue	41,650	44,761	62,676	17,915	54,116
Fines	66,010	66,010	66,975	965	67,611
Payments in lieu of taxes	47,554	47,554	56,146	8,592	60,584
Investment income	24,000	32,800	43,471	10,671	30,049
Licenses and permits	31,340	32,727	41,432	8,705	38,755
Other available funds	25,551	29,202	10,721	(18,481)	9,810
Total revenues and other available funds	<u>2,142,081</u>	<u>2,162,952</u>	<u>2,202,198</u>	<u>39,246</u>	<u>2,104,252</u>
Expenditures:					
General government	64,506	79,011	78,366	645	60,933
Human services	25,659	26,413	26,394	19	24,950
Public safety	452,068	456,705	477,595	(20,890)	451,997
Public works	101,910	98,792	98,748	44	101,996
Property and development	29,326	34,096	33,991	105	36,225
Parks and recreation	15,995	16,972	16,707	265	15,629
Library	28,448	28,607	28,550	57	27,712
Schools	734,500	747,486	747,462	24	717,793
Boston Public Health Commission	63,571	63,798	63,798	—	61,300
Judgments and claims	3,500	3,500	7,107	(3,607)	10,497
Other employee benefits	176,195	176,391	177,087	(696)	159,058
Retirement costs	197,626	197,574	197,574	—	190,885
State and district assessments	129,436	124,243	124,243	—	118,817
Debt requirements	119,341	109,364	109,364	—	112,599
Total expenditures	<u>2,142,081</u>	<u>2,162,952</u>	<u>2,186,986</u>	<u>(24,034)</u>	<u>2,090,391</u>
Excess of revenues and other available funds over expenditures	\$ <u>—</u>	<u>—</u>	<u>15,212</u>	<u>15,212</u>	<u>13,861</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets – Proprietary Funds

June 30, 2007

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Assets:				
Current assets:				
Cash and investments	\$ 272	—	272	43,417
Cash and investments held by trustees	44,353	16,285	60,638	—
Receivables, net	—	—	—	283
Intergovernmental receivables	—	—	—	—
Total current assets	44,625	16,285	60,910	43,700
Noncurrent assets:				
Due from other funds	—	—	—	554
Due from component units	—	96,873	96,873	115
Other assets	1,244	1,369	2,613	3,910
Total noncurrent assets	1,244	98,242	99,486	4,579
Total assets	45,869	114,527	160,396	48,279
Liabilities:				
Current liabilities:				
Warrants and accounts payable	—	—	—	46
Accrued liabilities	—	—	—	6,827
Due to other funds	20,000	—	20,000	—
Accrued interest payable	840	1,894	2,734	—
Current portion of long-term debt	3,230	6,690	9,920	—
Total current liabilities	24,070	8,584	32,654	6,873
Noncurrent liabilities:				
Special obligation bonds	100,485	—	100,485	—
Revenue bonds	—	97,265	97,265	—
Total noncurrent liabilities	100,485	97,265	197,750	—
Total liabilities	124,555	105,849	230,404	6,873
Net assets:				
Unrestricted	(78,686)	8,678	(70,008)	41,406
Total net assets	\$ (78,686)	8,678	(70,008)	41,406

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, 2007

(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Operating revenues:				
Contributions	\$ —	—	—	99,894
State aid – pledged for debt service	35,092	—	35,092	—
Intergovernmental revenue	—	—	—	—
Total operating revenues	<u>35,092</u>	<u>—</u>	<u>35,092</u>	<u>99,894</u>
Operating expenses:				
Payments made on behalf of State	—	—	—	—
Health benefits	—	—	—	89,055
Total operating expenses	<u>—</u>	<u>—</u>	<u>—</u>	<u>89,055</u>
Operating income	<u>35,092</u>	<u>—</u>	<u>35,092</u>	<u>10,839</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	1,152	—	1,152	—
Investment earnings – pledged for debt service	—	730	730	—
Investment earnings – other	1,450	—	1,450	—
Interest expense	<u>(5,202)</u>	<u>(4,979)</u>	<u>(10,181)</u>	<u>—</u>
Total nonoperating expense	<u>(2,600)</u>	<u>(4,249)</u>	<u>(6,849)</u>	<u>—</u>
Income (loss) before transfers	32,492	(4,249)	28,243	10,839
Transfer to general fund	<u>(20,000)</u>	<u>—</u>	<u>(20,000)</u>	<u>—</u>
Change in net assets	12,492	(4,249)	8,243	10,839
Total net assets – beginning of year	<u>(91,178)</u>	<u>12,927</u>	<u>(78,251)</u>	<u>30,567</u>
Total net assets – end of year	\$ <u><u>(78,686)</u></u>	<u><u>8,678</u></u>	<u><u>(70,008)</u></u>	<u><u>41,406</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2007
(In thousands)

	Enterprise funds			Internal service
	Convention center bonds	Hospital revenue bonds	Total	
Cash flows from operating activities:				
Cash received from state aid	\$ 37,233	—	37,233	—
Cash received from employees and employee	—	—	—	99,685
Cash paid to vendors	—	—	—	(90,892)
Cash payments on behalf of state	(5,240)	—	(5,240)	—
Net cash provided by operations	31,993	—	31,993	8,793
Cash flows from noncapital financing activities:				
Grants received from state	1,152	—	1,152	—
Interest paid on debt	(5,166)	(5,158)	(10,324)	—
Lease receipts	—	6,878	6,878	—
Transfers to other funds	(18,000)	—	(18,000)	—
Repayment of long-term debt	(3,070)	(6,495)	(9,565)	—
Net cash used in noncapital financing activities	(25,084)	(4,775)	(29,859)	—
Cash flows from investing activities:				
Investment income	1,450	730	2,180	—
Net cash provided by investing activities	1,450	730	2,180	—
Increase (decrease) in cash and cash equivalents	8,359	(4,045)	4,314	8,793
Cash and cash equivalents, beginning of year	36,266	20,330	56,596	34,624
Cash and cash equivalents, end of year	\$ 44,625	16,285	60,910	43,417
Reconciliation of operating income to cash provided by operating activities:				
Operating income	\$ 35,092	—	35,092	10,839
Reconciliation of operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	2,141	—	2,141	(176)
Other assets	—	—	—	(2,085)
Due from component units	—	—	—	(33)
Accounts payable and accrued liabilities	(5,240)	—	(5,240)	248
Net cash provided by operating activities	\$ 31,993	—	31,993	8,793

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2007

(Except for Employee Retirement Plan, which is as of December 31, 2006)

(In thousands)

	<u>Employee retirement plan</u>	<u>Private purpose trusts</u>	<u>Agency funds</u>
Assets:			
Cash and cash equivalents	\$ 30,130	84,427	5,244
Receivables:			
Interest and dividends	18,532	—	—
Securities sold	49,458	—	—
Employer contributions	111,516	—	—
Other	110	3,492	—
Total receivables	<u>179,616</u>	<u>3,492</u>	<u>—</u>
Investments, at fair value:			
Short-term:			
Domestic	20,791	—	—
International	10,266	—	—
Equity:			
Domestic	1,852,353	—	—
International	861,366	—	—
Fixed-income:			
Domestic	557,184	—	—
International	223,275	—	—
Real estate	315,961	—	—
Venture capital funds	299,854	—	—
Total investments	<u>4,141,050</u>	<u>—</u>	<u>—</u>
Securities lending short-term collateral investment pool	339,602	—	—
Other assets	—	30	—
Total assets	<u>4,690,398</u>	<u>87,949</u>	<u>5,244</u>
Liabilities:			
Accounts payable	14,011	858	—
Securities purchased	70,299	—	—
Collateral held on securities lending	339,602	—	—
Refunds payable and other	491	—	5,244
Total liabilities	<u>424,403</u>	<u>858</u>	<u>5,244</u>
Net assets – held in trust for pension benefits and other purposes	\$ <u>4,265,995</u>	<u>87,091</u>	<u>—</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, 2007

(Except for Employee Retirement Plan, which is for the year ended December 31, 2006)

(In thousands)

	Employee retirement plan	Private purpose trusts
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Employers	\$ 221,747	—
Employees	112,135	—
Donations and other	—	17,495
Total contributions	<u>333,882</u>	<u>17,495</u>
Investment earnings:		
Net appreciation in the fair value of investments	423,715	4,469
Interest and dividends	97,159	3,321
Less investment expenses	<u>(11,920)</u>	<u>(147)</u>
Net investment earnings	<u>508,954</u>	<u>7,643</u>
Securities lending activities:		
Securities lending income	15,502	—
Less borrower rebates and fees	<u>(14,610)</u>	<u>—</u>
Net income from securities lending activities	<u>892</u>	<u>—</u>
Total net investment income	509,846	7,643
Intergovernmental	<u>18,207</u>	<u>—</u>
Total additions	<u>861,935</u>	<u>25,138</u>
Deductions:		
Benefits	358,719	—
Reimbursement to other systems	9,192	—
Refunds of contributions	15,766	—
Administrative expenses and other	<u>3,890</u>	<u>18,680</u>
Total deductions	<u>387,567</u>	<u>18,680</u>
Change in net assets	474,368	6,458
Net assets, beginning of year	<u>3,791,627</u>	<u>80,633</u>
Net assets, end of year	\$ <u><u>4,265,995</u></u>	<u><u>87,091</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

(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, 2006 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, 2007

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, 2007.

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, 2007

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, 2007

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, 2007

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 funds* are 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, 2007

(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, 2007 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, 2007

(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.

(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, 2007, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. While most of the landfill closure construction was completed in prior years, there still remains 12 acres of the landfill to be capped as of June 30, 2007.

The total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the general fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the government-wide statement of net assets. Expenditures related to the Gardner Street landfill site postclosure care in fiscal year 2007 were approximately \$400,000.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

(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 2007, 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 \$20.9 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, 2007

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, 2007 (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	\$ 2,202,198	2,186,986	—	15,212
Adjustments:				
Revenues to modified accrual basis	30,672	—	—	30,672
Expenditures, encumbrances, and accruals, net	—	(24,873)	(105)	24,768
Reclassifications:				
State-funded teachers’ retirement costs	(93,330)	(93,330)	—	—
Convention Center fund revenue	(20,000)	—	20,000	—
Transfers	(3,221)	—	3,221	—
As reported on a GAAP basis	<u>\$ 2,116,319</u>	<u>2,068,783</u>	<u>23,116</u>	<u>70,652</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

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

Primary Government (except the pension trust fund)

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are fully insured by FDIC insurance, collateralized and deposits that are not collateralized and are uninsured. As of June 30, 2007, the bank balances of uninsured and uncollateralized deposits totaled approximately \$5.8 million. All of the City's investments are held by third parties in the City's name.

(b) Investment Policy

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

(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, 2007:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1-5</u>
External investment pool	\$ 207,720	207,720	—
Mutual funds	82,390	82,390	—
U.S. Treasury notes and bonds	10,587	—	10,587
Domestic corporate	4,456	—	4,456
	<u>\$ 305,153</u>	<u>290,110</u>	<u>15,043</u>

(d) Credit Risk

The City's fixed income investments as of June 30, 2007 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	\$ 82,390	AAA
External investment pool	207,720	Not Rated
Domestic corporate	4,456	AAA to BBB+
	<u>\$ 294,566</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, 2006, all of the System's deposits were insured or collateralized.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

(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, 2006:

<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	\$ 36,529	—	5,310	10,099	21,120
U.S. agencies	106,468	651	43,360	29,043	33,414
Domestic corporate	374,732	9,032	146,010	166,655	53,035
International corporate	19,026	—	11,435	5,636	1,955
International government	112,498	10,681	50,435	29,365	22,017
Short-term investment funds	31,057	31,057	—	—	—
Asset-backed:					
CMOs	29,896	2,385	—	3,038	24,473
Mortgage-backed	83,143	—	977	4,826	77,340
Other	18,167	18	8,080	8,697	1,372
	<u>\$ 811,516</u>	<u>53,824</u>	<u>265,607</u>	<u>257,359</u>	<u>234,726</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, 2006 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, 2007

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

Investment type	Fair value	AAA	AA	A	BBB	BB	B	Not rated
U.S. agencies	\$ 106,468	106,468	—	—	—	—	—	—
Domestic corporate	374,732	36,686	42,433	130,551	29,499	51,082	58,364	26,117
International corp.	19,026	13,572	—	1,045	—	25	—	4,384
International gov't	112,498	70,906	14,495	3,806	935	1,505	1,057	19,794
Short-term investment funds	31,057	—	—	—	—	—	—	31,057
Asset-backed:								
CMOs	29,896	28,231	512	451	—	—	—	702
Mortgage-backed	83,143	73,405	—	—	—	—	—	9,738
Other	18,167	17,943	—	—	224	—	—	—
	<u>\$ 774,987</u>	<u>347,211</u>	<u>57,440</u>	<u>135,853</u>	<u>30,658</u>	<u>52,612</u>	<u>59,421</u>	<u>91,792</u>

In addition to the above schedule, the System has approximately \$36,529,000 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, 2006.

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.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

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	\$ 119	3,117	34,313	—	37,549
Brazilian real	36	1,100	8,496	—	9,632
Canadian dollar	6	4,197	8,247	—	12,450
Chilean Pesa	—	—	38	—	38
Columbian Peso	—	1,019	—	—	1,019
Danish krone	—	—	8,626	—	8,626
Egyptian Pound	46	—	511	—	557
Euro currency	9,073	75,296	240,030	7,002	331,401
Hong Kong dollar	160	—	12,971	—	13,131
Indian Rupee	117	—	2,365	—	2,482
Indonesian rupiah	6	1,192	2,202	—	3,400
Japanese yen	3,641	61,785	188,681	—	254,107
Malaysian ringgit	4	—	1,989	—	1,993
Mexican peso	184	4,846	5,077	—	10,107
New Taiwan dollar	75	—	1,076	—	1,151
Turkish Lira	2	—	94	—	96
New Zealand dollar	101	1,045	—	—	1,146
Norwegian krone	275	9,072	10,742	—	20,089
Philippine peso	—	—	504	—	504
Pound sterling	1,050	12,490	143,327	—	156,867
Singapore dollar	140	6,708	9,504	—	16,352
South African rand	7	2,135	8,217	—	10,359
South Korean won	—	1,828	7,099	—	8,927
Swedish krona	116	4,606	13,509	—	18,231
Swiss franc	88	—	43,506	—	43,594
Thailand baht	13	2,421	—	—	2,434
International equity pooled funds (various currencies)	—	—	85,265	—	85,265
Total securities subject to foreign currency risk	15,259	192,857	836,389	7,002	1,051,507
United States dollars (securities held by international investment managers)*	10,067	30,418	24,977	—	65,462
Total international investment securities	\$ 25,326	223,275	861,366	7,002	1,116,969

* Short-term investments include cash of approximately \$(199).

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

(g) Derivatives

The System trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The System uses forward foreign currency contracts to hedge against the risk of future foreign currency fluctuations. Forward foreign currency contracts open at December 31, 2006 were as follows (in thousands):

	<u>Fair value</u>	<u>Aggregate face value</u>	<u>Delivery date(s)</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>
Forward foreign currency contracts purchased:					
Euro	\$ 2,337	2,273	1/2/07 – 1/5/07	\$ 64	—
Mexican peso	2,435	2,453	6/1/07	(18)	(18)
Pound sterling	632	632	1/2/07	—	—
Singapore dollar	8	8	1/3/07	—	—
South African rand	1,731	1,706	5/29/07	25	—
South Korean won	4,165	4,170	6/11/07	—	(5)
Forward foreign currency contracts sold:					
Australian dollar	3,109	3,044	1/9/07 – 2/26/07	—	(65)
Colombian peso	1,359	1,333	2/15/07	—	(26)
Euro	2,282	2,213	1/5/07	—	(69)
Indian rupee	3,287	3,265	6/21/07	—	(22)
Mexican peso	7,406	7,244	3/16/07 – 6/1/07	—	(162)
New Zealand dollar	1,062	1,009	2/9/07	—	(53)
South African rand	6,884	6,905	2/14/07 – 5/29/07	21	—
South Korean won	4,191	4,120	1/3/07 – 6/11/07	—	(71)
Total				\$ <u>92</u>	<u>(491)</u>

(6) Property Taxes

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

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

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On August 8, all properties with unpaid fiscal year 2007 property taxes were liened. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

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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	\$ 20,694	—	—	—	—	20,694
Other taxes	152,625	—	—	—	—	152,625
Intergovernmental	218,856	102,359	11,578	—	—	332,793
Other	42,999	55,264	—	471	283	99,017
	<u>435,174</u>	<u>157,623</u>	<u>11,578</u>	<u>471</u>	<u>283</u>	<u>605,129</u>
Gross receivables						
	435,174	157,623	11,578	471	283	605,129
Less allowance for uncollectibles	<u>(157,487)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(157,487)</u>
Net total receivables	<u>\$ 277,687</u>	<u>157,623</u>	<u>11,578</u>	<u>471</u>	<u>283</u>	<u>447,642</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, 2007, under this program, the City was due funds totaling \$114.7 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

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, 2007 through 2012, and in five-year increments thereafter:

	<u>Anticipated revenue</u>
Fiscal year(s):	
2008	\$ 13,712
2009	13,199
2010	12,956
2011	11,158
2012	9,848
2013 – 2016	32,827
2017 – 2020	<u>21,009</u>
Total	<u>\$ 114,709</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, 2007, under this program, the City determined that \$55.3 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)	\$ 30,222	—
Due from component units	—	8,279
Section 108 receivable	55,264	—
School building assistance receivable	114,709	11,578
Other	<u>—</u>	<u>131</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 200,195</u>	<u>19,988</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

(8) Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

Primary Government

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 15,902	1,923	—	17,825
Construction in progress	<u>178,724</u>	<u>82,799</u>	<u>(128,127)</u>	<u>133,396</u>
Total capital assets not being depreciated	<u>194,626</u>	<u>84,722</u>	<u>(128,127)</u>	<u>151,221</u>
Capital assets being depreciated:				
Land improvements	105,908	7,055	—	112,963
Buildings and improvements	1,349,059	109,948	(3,284)	1,455,723
Furniture and equipment	191,816	21,533	(8,611)	204,738
Infrastructure	<u>330,555</u>	<u>31,745</u>	<u>—</u>	<u>362,300</u>
Total capital assets being depreciated	<u>1,977,338</u>	<u>170,281</u>	<u>(11,895)</u>	<u>2,135,724</u>
Less accumulated depreciation for:				
Land improvements	12,553	5,256	—	17,809
Buildings and improvements	830,660	25,245	(473)	855,432
Furniture and equipment	151,142	18,616	(7,602)	162,156
Infrastructure	<u>113,749</u>	<u>11,321</u>	<u>—</u>	<u>125,070</u>
Total accumulated depreciation	<u>1,108,104</u>	<u>60,438</u>	<u>(8,075)</u>	<u>1,160,467</u>
Total capital assets being depreciated, net	<u>869,234</u>	<u>109,843</u>	<u>(3,820)</u>	<u>975,257</u>
Governmental activities capital assets, net	\$ <u><u>1,063,860</u></u>	<u><u>194,565</u></u>	<u><u>(131,947)</u></u>	<u><u>1,126,478</u></u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

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

Governmental activities:		
General government	\$	740
Human services		987
Public safety		9,043
Public works, including depreciation of general infrastructure assets		12,161
Property and development		1,774
Parks and recreation		4,299
Library		2,871
Schools		28,252
County		199
Public health		112
		<hr/>
Total depreciation expense – governmental activities	\$	<u><u>60,438</u></u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2007, are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 22,773	6,989
Special revenue	4,863	2,792
Capital projects	1,591	—
Convention Center	—	20,000
Internal service	554	—
	<hr/>	<hr/>
Balances at June 30, 2007	\$ <u><u>29,781</u></u>	<u><u>29,781</u></u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

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	\$ 8,279	256
Hospital revenue bond	96,873	—
Internal service	115	—
	<u>105,267</u>	<u>256</u>
Discretely presented component units:		
TPL	—	447
PHC	256	104,820
	<u>256</u>	<u>105,267</u>
Balances at June 30, 2007	\$ <u><u>105,523</u></u>	<u><u>105,523</u></u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

(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, 2007 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds and notes payable:						
General obligation refunding bonds dated 3/1/07	0.125-5.0%	\$ —	85,425	—	85,425	395
General obligation bonds dated 3/1/07	3.0-5.0%	—	100,000	—	100,000	5,625
General obligation bonds dated 1/31/06	4.0-5.0%	80,000	—	6,235	73,765	6,235
General obligation refunding bonds dated 2/1/05	2.5-5.0%	122,650	—	5,125	117,525	5,125
General obligation refunding bonds dated 4/1/04	2.0-5.0%	30,475	—	5,725	24,750	6,110
General obligation refunding bonds dated 2/1/04	3.0-5.0%	91,980	—	9,345	82,635	9,715
General obligation refunding bonds dated 2/1/03	2.25-5.0%	137,600	—	30,145	107,455	9,885
General obligation refunding bonds dated 11/15/02	4.0-5.0%	16,115	—	4,660	11,455	5,160
General obligation refunding bonds dated 8/15/02	2.875-5.0%	47,250	—	285	46,965	295
General obligation bonds dated 2/1/02	3.0-5.0%	75,640	—	29,415	46,225	5,645
General obligation refunding bonds dated 4/11/01	3.50-5.0%	42,800	—	350	42,450	2,900
General obligation bonds dated 2/1/01	4.25-5.0%	78,200	—	32,020	46,180	6,890
General obligation bonds dated 2/1/00	5.0-5.75%	24,100	—	6,025	18,075	6,025
General obligation bonds dated 10/15/98	3.25-5.0%	33,990	—	11,330	22,660	6,685
General obligation refunding bonds dated 4/15/98	4.5-5.25%	35,860	—	5,135	30,725	2,145
General obligation bonds dated 1/15/98	4.5%	17,065	—	12,440	4,625	4,625
General obligation bonds dated 11/15/96	5.0%	5,400	—	5,400	—	—
		\$ 839,125	185,425	163,635	860,915	83,460
Total governmental obligation bonds payable						
Add (deduct):						
Unamortized bond premiums					33,872	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(11,569)	
Current portion of long-term debt					(83,460)	
					\$ 799,758	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

(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, 2007 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Notes and leases payable:						
MWPAT note payable	4.25-5.75%	\$ 7,086	—	446	6,640	454
Notes payable – Section 108	5.44-7.18%	44,314	76	16,860	27,530	3,345
Leases		17,620	14,975	8,209	24,386	7,484
		69,020	15,051	25,515	58,556	11,283
Total notes and leases payable						
Other long-term obligations:						
Judgments and claims		4,101	6,667	3,357	7,411	1,276
Workers' compensation		43,300	51,738	31,225	63,813	—
Health and life claims		6,593	89,289	89,055	6,827	6,827
Compensated absences		184,276	32,765	53,567	163,474	42,194
Landfill closure and postclosure care costs		14,373	—	4,992	9,381	200
		252,643	180,459	182,196	250,906	50,497
Total other long-term obligations						
		\$ 321,663	195,510	207,711	309,462	61,780

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

A. General Obligation Bonds

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2007, are as follows (in thousands):

	Principal	Interest	Total
Year ending June 30:			
2008	\$ 83,460	38,520	121,980
2009	81,210	35,159	116,369
2010	77,825	31,710	109,535
2011	72,920	28,159	101,079
2012	69,430	24,711	94,141
2013 – 2017	266,220	79,954	346,174
2018 – 2022	157,730	27,564	185,294
2023 – 2027	52,120	4,759	56,879
	\$ 860,915	270,536	1,131,451

On March 1, 2007, the City issued \$185,425,000 of general obligation and refunding bonds, \$100,000,000 for various municipal capital projects, and \$85,425,000 for the purpose of refunding certain outstanding general obligation bonds of the City totaling \$81.4 million. Interest on the bonds are payable semiannually each March 1, and September 1, until maturity in fiscal years 2027 and 2023, respectively. The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from the refunding were \$4,280,218 and \$3,440,620, respectively. The refunding transaction generated an accounting loss of \$3.6 million.

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, 2007, the City may issue \$3.3 billion of additional general obligation debt under the debt limit. General obligation debt of \$451.7 million, subject to the debt limit, and \$89.2 million, exempt from the debt limit, are authorized but unissued as of June 30, 2007.

B. Notes and Leases Payable

At June 30, 2007, the City had various notes outstanding totaling \$34.1 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

The annual debt of the City's notes payable as of June 30, 2007, is as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2008	\$ 3,799	1,632	5,431
2009	2,809	1,483	4,292
2010	2,676	1,365	4,041
2011	3,178	1,215	4,393
2012	2,701	1,072	3,773
2013 – 2017	10,570	3,171	13,741
2018 – 2022	7,147	819	7,966
2023	1,290	39	1,329
	<u>\$ 34,170</u>	<u>10,796</u>	<u>44,966</u>

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, 2007 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
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	11,700	7,652	19,352
2013-2017	66,415	30,085	96,500
2018-2022	48,940	14,353	63,293
2023-2027	35,805	5,545	41,350
	<u>\$ 205,205</u>	<u>92,748</u>	<u>297,953</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 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,

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

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 \$7.7 million at June 30, 2007.

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.
- In March 2007, the City issued \$185.4 million of general obligation refunding bonds, of which \$100.0 million were general obligation and \$85.4 million was used to advance refund \$81.4 million of 1998A, 1998C, 2001A, 2002A, and 2003A Series Bonds.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2007 was approximately \$209.4 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

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 2007 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	\$ 1,641	—	1,432	209
April 21, 2004	1,530	—	907	623
November 5, 2004	4,410	—	1,902	2,508
March 11, 2005	760	—	302	458
November 10, 2005	5,953	—	1,222	4,731
April 13, 2006	3,326	—	961	2,365
November 11, 2006	—	14,975	1,483	13,492
	<u>\$ 17,620</u>	<u>14,975</u>	<u>8,209</u>	<u>24,386</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, 2007 are as follows (in thousands):

2008	\$ 8,311
2009	6,741
2010	4,055
2011	2,872
2012	2,298
2013-2014	<u>2,286</u>
Total minimum lease payments	26,563
Less amount representing interest	<u>2,177</u>
Total minimum principal lease payments	24,386
Less current portion	<u>7,484</u>
Long-term portion	<u>\$ 16,902</u>

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

(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.

(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, 2007

(c) Membership

Membership in the System consisted of the following at December 31, 2006, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,874
Terminated plan members entitled to but not receiving benefits	9,440
Active plan members	<u>21,473</u>
Total membership	<u>44,787</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, 2007, 2006 and 2005 were \$193 million, \$186 million, and \$147 million, or \$99 million, \$101 million, and \$71 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, 2007

(e) Legally Required Reserve Accounts

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2006 are as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,205,634	Active members' contribution balance
Annuity reserve fund	394,461	Retired members' contribution account
Military service credit	49	Members' contribution account while on military leave
Pension reserve fund	2,168,263	Amounts appropriated to fund future retirement benefits
Pension fund	<u>497,588</u>	Remaining net assets
	<u>\$ 4,265,995</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 year ended December 31, 2006. 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, 2006, 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 year ended December 31, 2006 was \$1.2 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

At December 31, 2006, the fair value of securities loaned by the System amounted to \$342.8 million, against which was held collateral of \$353.4 million, as follows (in thousands):

Short-term collateral investment pool	\$	339,602
Noncash collateral		<u>13,774</u>
Total	\$	<u><u>353,376</u></u>

(g) Commitments

At December 31, 2006, the System had contractual commitments to provide approximately \$58 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 \$86.6 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal year 2007.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* is effective June 30, 2007. The City sponsors an agent multi-employer OPEB plan. As of June 30, 2007, the City is required to report their OPEB plan as an agency fund in their fiduciary financial statements. However, the City determined that this fund is immaterial to the City's financial statements and did not present the fund as of June 30, 2007.

GASB Statement No. 45, *Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* is effective June 30, 2008. This statement 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 unaudited 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 unaudited 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, 2007

(13) Transfers

Transfers and their purposes during the year ended June 30, 2007 were as follows (in thousands):

	Governmental funds			Proprietary fund
	General	Special revenue	Other governmental	Convention center
Primary government:				
Excess hotel/motel excise taxes	\$ 20,000	—		(20,000)
Cemetery fees/fund appropriation	2,221	—	(2,221)	—
Parking meter fees/fund appropriation	1,000	(1,000)		—
payment	—	—		—
Total	\$ 23,221	(1,000)	(2,221)	(20,000)

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2007 in the following categories (in thousands):

Public safety:	
Police Department	\$ 12,667
Fire Department	8,400
Judgments and claims:	
Execution of courts	3,607
Other employee benefits:	
Worker's compensation fund	714
State and district assessments:	
Parking Surcharge	7
Special Education Chapter 766	38
School Choice	83
	\$ 25,516

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

(15) Public Health System

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

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

The PHC receives the majority of its funding from Federal and state grants, lease agreements with BMC and a City appropriation. During fiscal year 2007, the City appropriated \$63.6 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$65.4 million for the PHC for fiscal year 2008.

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 \$7.7 million at June 30, 2007. These bonds pertain to the property and operations of the BCH Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations, and the Long Island Campus.

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

Payments to BMC

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

(16) Risk Management

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

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

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

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, 2007 and 2006 are as follows (in thousands):

	Internal service fund	
	<u>2007</u>	<u>2006</u>
Health and life claims, beginning of year	\$ 6,593	6,465
Incurred claims	89,289	86,386
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	<u>(89,055)</u>	<u>(86,258)</u>
Health and life claims, end of year	<u>\$ 6,827</u>	<u>6,593</u>
	Government-wide statements	
	<u>2007</u>	<u>2006</u>
Judgments and claims, beginning of year	\$ 47,401	45,748
Incurred claims	61,553	31,818
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(31,225)	(14,293)
Unemployment compensation	(3,148)	(2,757)
Court judgments	<u>(3,357)</u>	<u>(13,115)</u>
Judgments and claims, end of year	<u>\$ 71,224</u>	<u>47,401</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, 2007

(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, 2007					
(In thousands)					
	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Assets:					
Current assets:					
Cash and investments	\$ 32,191	43,829	64,903	19,438	160,361
Cash and investments held by trustee	—	—	—	4,998	4,998
Receivables, net:					
Other	9,414	4,141	2,074	7,827	23,456
Other assets	8,586	201	2,131	966	11,884
Due from BMC	221	—	—	—	221
Due from primary government	256	—	—	—	256
	<u>50,668</u>	<u>48,171</u>	<u>69,108</u>	<u>33,229</u>	<u>201,176</u>
Total current assets					
Noncurrent assets:					
Notes receivable	4,600	75,488	—	—	80,088
Other assets	94,157	26,656	43	—	120,856
Capital assets:					
Nondepreciable	12,550	10,520	—	1,420	24,490
Depreciable	11,257	3,567	814	26,955	42,593
	<u>122,564</u>	<u>116,231</u>	<u>857</u>	<u>28,375</u>	<u>268,027</u>
Total noncurrent assets					
Total assets	<u>173,232</u>	<u>164,402</u>	<u>69,965</u>	<u>61,604</u>	<u>469,203</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2007

Condensed Statement of Net Assets

June 30, 2007

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Liabilities:					
Current liabilities:					
Warrants and accounts payable	\$ 11,426	1,498	1,218	3,593	17,735
Accrued liabilities:					
Other	—	—	176	2,092	2,268
Current portion of long-term debt and leases	—	—	—	1,094	1,094
Due to BMC	13,766	—	—	—	13,766
Due to primary government	8,115	—	447	—	8,562
Deferred revenue	1,603	30,071	77	6,780	38,531
Total current liabilities	<u>34,910</u>	<u>31,569</u>	<u>1,918</u>	<u>13,559</u>	<u>81,956</u>
Noncurrent liabilities:					
Bonds notes and leases due in more than one year	—	—	50	19,104	19,154
Other noncurrent liabilities	7,257	125,289	—	716	133,262
Due to primary government	96,705	—	—	—	96,705
Total noncurrent liabilities	<u>103,962</u>	<u>125,289</u>	<u>50</u>	<u>19,820</u>	<u>249,121</u>
Total liabilities	<u>138,872</u>	<u>156,858</u>	<u>1,968</u>	<u>33,379</u>	<u>331,077</u>
Net assets:					
Invested in capital assets, net of related debt	21,805	6,003	764	13,175	41,747
Restricted	—	—	61,813	—	61,813
Unrestricted	12,555	1,541	5,420	15,050	34,566
Total net assets	\$ <u>34,360</u>	<u>7,544</u>	<u>67,997</u>	<u>28,225</u>	<u>138,126</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, 2007

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Expenses	\$ 123,830	25,544	17,331	36,204	202,909
Program revenues:					
Charges for services	—	8,906	848	15,121	24,875
Operating grants and contributions	49,067	7,761	12,862	16,541	86,231
Capital grants and contributions	559	—	—	—	559
Total program revenues	<u>49,626</u>	<u>16,667</u>	<u>13,710</u>	<u>31,662</u>	<u>111,665</u>
Net (expenses) revenues	<u>(74,204)</u>	<u>(8,877)</u>	<u>(3,621)</u>	<u>(4,542)</u>	<u>(91,244)</u>
General revenues:					
Investment income	3,961	1,130	8,589	1,125	14,805
City appropriation	63,571	—	—	—	63,571
Miscellaneous income	5,656	7,815	—	3,982	17,453
Total general revenues	<u>73,188</u>	<u>8,945</u>	<u>8,589</u>	<u>5,107</u>	<u>95,829</u>
Change in net assets	(1,016)	68	4,968	565	4,585
Net assets – beginning of year	35,376	7,476	63,184	27,253	133,289
Prior period adjustment	—	—	(155)	407	252
Net assets – end of year	\$ <u><u>34,360</u></u>	<u><u>7,544</u></u>	<u><u>67,997</u></u>	<u><u>28,225</u></u>	<u><u>138,126</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)
01/01/07	\$ 4,138,146	6,223,154	2,085,008	66.5%	\$ 1,221,404	170.7%
01/01/06	3,836,807	5,957,373	2,120,566	64.4	1,168,808	181.4
01/01/05	3,587,118	5,664,288	2,077,170	63.3	1,115,529	186.2
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

Schedule of Employers' Contributions

Year ended December 31:	Annual required contribution	Percentage contributed
2006	\$ 217,088	100%
2005	191,132	100
2004	164,069	100
2003	157,064	100
2002	152,882	100
2001	146,882	100

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2007
Actuarial cost method	Entry age normal cost
Amortization method	Payment increase at 4.5% per year
Remaining amortization period	16 years remaining as of January 1, 2007
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 2007 - 2003

The following schedules of Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Fund Equity for the fiscal years ended June 30, 2007, 2006, 2005, 2004 and 2003 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, 2007, 2006, 2005, 2004 and 2003
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS					
Cash and investments.....	\$ 738,650	\$ 663,547	\$ 692,679	\$ 609,638	\$ 529,315
Cash and investments held by trustee.....	-	-	-	-	-
Receivables :					
Property taxes.....	20,694	21,401	32,666	40,600	41,175
Motor vehicle excise.....	74,520	62,328	73,855	65,370	58,263
Intergovernmental.....	218,856	239,719	343,686	77,414	79,528
Departmental and other.....	42,999	33,146	31,742	34,361	43,726
Tax title and possession.....	78,105	76,178	75,379	79,641	82,925
Total receivables.....	<u>435,174</u>	<u>432,772</u>	<u>557,328</u>	<u>297,386</u>	<u>305,617</u>
Allowance:					
Abatement res/property tax allow.....	(823)	(3,891)	(16,950)	(28,001)	-
Tax title and possession.....	(78,105)	(76,178)	(75,379)	(79,641)	(82,925)
Motor vehicle excise.....	(58,280)	(56,876)	(56,179)	(54,611)	(58,263)
Other.....	(20,279)	(20,217)	(20,336)	(23,371)	(23,340)
Total allowances.....	<u>(157,487)</u>	<u>(157,162)</u>	<u>(168,844)</u>	<u>(185,624)</u>	<u>(164,528)</u>
Net receivable.....	277,687	275,610	388,484	111,762	141,089
Due from other funds.....	22,773	24,221	20,690	25,201	18,000
Due from component units.....	8,279	9,021	10,065	12,285	15,679
Other assets.....	-	-	-	333	-
Total assets.....	<u>\$ 1,047,389</u>	<u>\$ 972,399</u>	<u>\$ 1,111,918</u>	<u>\$ 759,219</u>	<u>\$ 704,083</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 39,735	\$ 36,295	\$ 94,107	\$ 52,187	\$ 33,603
Accrued liabilities:					
Tax abatement refunds.....	-	-	-	-	-
Judgements and claims.....	-	-	-	-	-
Compensated absences.....	-	-	-	-	10,259
Payroll and related costs.....	106,741	88,189	100,798	94,784	104,670
Other.....	8,278	9,653	4,508	4,596	4,174
Due to other funds.....	6,989	3,266	1,945	2,144	1,765
Due to component units.....	256	250	84	180	-
Matured interest and bonds payable.....	-	-	-	-	306
Deferred revenue.....	153,341	173,349	297,452	32,108	57,952
Total liabilities.....	<u>\$ 315,340</u>	<u>\$ 311,002</u>	<u>\$ 498,894</u>	<u>\$ 185,999</u>	<u>\$ 212,729</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances.....	38,617	44,573	33,155	56,132	20,787
Debt Service.....	-	-	-	-	-
Unreserved:					
Designated for subsequent year expenditures....	198,098	178,157	164,621	139,986	139,028
Undesignated.....	495,334	438,667	415,248	377,102	331,539
Total fund balance.....	<u>732,049</u>	<u>661,397</u>	<u>613,024</u>	<u>573,220</u>	<u>491,354</u>
Total liabilities and fund balance....	<u>\$ 1,047,389</u>	<u>\$ 972,399</u>	<u>\$ 1,111,918</u>	<u>\$ 759,219</u>	<u>\$ 704,083</u>

City of Boston

General Fund

Statement of Revenues, Expenditures, Other Financing
Sources (Uses) and Changes in Fund Balance
Fiscal Years Ending June 30, 2007, 2006, 2005, 2004 and 2003
Partially Restated for Comparative Purposes
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES:					
Local:					
Real and personal property taxes, net.....	\$ 1,258,878	\$ 1,190,347	\$ 1,138,254	\$ 1,082,574	\$ 1,053,945
Excises.....	99,816	107,361	93,906	85,354	94,133
Payments in lieu of taxes.....	56,146	60,584	42,218	42,373	40,910
Fines.....	67,546	67,876	65,280	66,342	59,187
Investment income.....	43,068	32,351	17,970	8,253	8,951
Licenses and permits.....	40,694	40,353	33,491	33,900	30,217
Departmental and other revenue.....	65,661	51,992	60,704	45,556	62,373
Total local revenues.....	<u>1,631,809</u>	<u>1,550,864</u>	<u>1,451,823</u>	<u>1,364,352</u>	<u>1,349,716</u>
Intergovernmental:					
Intergovernmental.....	484,510	557,418	460,898	459,836	444,751
Total intergovernmental revenues.....	<u>484,510</u>	<u>557,418</u>	<u>460,898</u>	<u>459,836</u>	<u>444,751</u>
Total revenues.....	<u>2,116,319</u>	<u>2,108,282</u>	<u>1,912,721</u>	<u>1,824,188</u>	<u>1,794,467</u>
EXPENDITURES:					
Current:					
General government.....	65,223	57,262	57,471	30,061	53,343
Human services.....	26,475	24,875	23,821	22,642	24,738
Public safety.....	477,403	446,784	457,541	390,854	394,692
Public works.....	97,897	101,441	106,749	87,045	86,819
Property and development.....	35,506	33,322	29,836	31,088	29,260
Parks and recreation.....	17,000	15,723	15,708	11,260	14,622
Library.....	31,225	28,365	27,594	24,089	27,715
Schools.....	743,848	719,715	673,009	656,291	654,958
Public Health Programs.....	64,559	61,282	60,586	58,762	63,897
County.....	-	-	-	-	4,539
Judgments and claims.....	2,257	11,590	6,620	(3,544)	2,880
Retirement costs.....	92,873	96,853	59,419	87,934	74,720
Other employee benefits.....	175,862	157,885	142,721	129,937	114,512
State and district assessments.....	124,243	118,817	115,894	111,061	69,009
Capital outlays.....	1,200	815	2,683	393	2,971
Debt Service.....	113,212	112,600	115,769	120,938	121,184
Total expenditures.....	<u>2,068,783</u>	<u>1,987,329</u>	<u>1,895,421</u>	<u>1,758,811</u>	<u>1,739,859</u>
Excess of revenues over expenditures.....	<u>47,536</u>	<u>120,953</u>	<u>17,300</u>	<u>65,377</u>	<u>54,608</u>
OTHER FINANCING SOURCES (USES):					
Payments to escrow agent to refund debt	(105)	-	(1,025)	(511)	-
Transfers in.....	23,221	(72,580)	23,529	17,000	34,637
Transfers out.....	-	-	-	-	-
Total other financing uses, net.....	<u>23,116</u>	<u>(72,580)</u>	<u>22,504</u>	<u>16,489</u>	<u>34,637</u>
Net change in fund balances.....	<u>70,652</u>	<u>48,373</u>	<u>39,804</u>	<u>81,866</u>	<u>89,245</u>
Fund balance, beginning of year, as previously reported	661,397	613,024	573,220	491,354	402,109
Cumulative change in accounting principle.....	-	-	-	-	-
Fund balance, beginning of year.....	<u>661,397</u>	<u>613,024</u>	<u>573,220</u>	<u>491,354</u>	<u>402,109</u>
Fund balance, end of year.....	<u>\$ 732,049</u>	<u>\$ 661,397</u>	<u>\$ 613,024</u>	<u>\$ 573,220</u>	<u>\$ 491,354</u>

City of Boston

General Fund - Budgetary Basis

Statement of Revenues, Transfers, Available Funds, Expenditures,
Encumbrances and Prior Years' Deficit Raised - Budget to Actual
Fiscal Years Ending June 30, 2007, 2006, 2005, 2004 and 2003
Partially Restated for Comparative Purposes
(in thousands)

	<u>2007</u>		<u>2006</u>		<u>2005</u>		<u>2004</u>		<u>2003</u>	
	Actual	Variance Fav. (Unfav.)								
Revenues, Transfers and Other Available Funds:										
Real and personal property taxes, net.....	\$ 1,224,171	\$ 515	\$ 1,167,342	\$ 559	\$ 1,106,336	\$ 1,307	\$ 1,052,067	\$ 205	\$ 996,030	\$ 577
Motor vehicle excise.....	34,500	(3,550)	50,178	11,628	44,763	12,713	33,207	(647)	45,611	7,605
Other excises.....	85,734	9,874	76,030	9,130	73,894	6,994	61,062	1,312	72,794	7,794
Commonwealth of Massachusetts.....	576,372	4,040	549,777	3,615	537,655	14,313	521,231	16,612	498,217	(23,520)
Departmental and other revenue.....	62,676	17,915	54,116	13,128	53,142	14,660	50,960	13,766	54,720	7,999
Fines.....	66,975	965	67,611	3,011	65,280	3,436	66,342	6,392	58,985	(2,512)
Payments in lieu of taxes.....	56,146	8,592	60,584	13,769	42,218	2,219	42,373	4,763	40,910	6,786
Investment income.....	43,471	10,671	30,049	7,243	17,787	10,487	7,792	3,412	8,552	(2,198)
Licenses and permits.....	41,432	8,705	38,755	11,575	33,821	8,471	34,821	13,791	30,146	4,928
Transfers from other available funds.....	10,721	(18,481)	9,810	(31,526)	5,529	(23,376)	22,932	(18,876)	24,849	(1,876)
Sale of property.....	-	-	-	-	-	-	-	-	-	-
Total revenues, transfers and other available funds.....	<u>2,202,198</u>	<u>39,246</u>	<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>
Expenditures and Encumbrances:										
General government.....	78,366	645	60,933	1,418	59,837	598	75,925	(13,317)	65,401	3,833
Human services.....	26,394	19	24,950	69	23,853	133	22,945	173	24,936	893
Public safety.....	477,595	(20,890)	451,997	(21,815)	429,376	(20,714)	393,826	(5,025)	408,849	(4,933)
Public works.....	98,748	44	101,996	(1,324)	106,699	(14,247)	87,639	(2,330)	86,599	(4,058)
Property and development.....	33,991	105	36,225	150	25,425	55	26,400	114	34,744	318
Parks and recreation.....	16,707	265	15,629	230	15,179	292	13,437	270	14,680	105
Library.....	28,550	57	27,712	1	26,600	1	24,086	-	27,726	282
Schools.....	747,462	24	717,793	16	680,181	26	656,539	8	650,600	17
Boston Public Health Commission.....	63,798	-	61,300	-	60,568	-	58,762	-	63,897	-
County.....	-	-	-	-	-	-	4,553	-	4,737	-
Judgments and claims.....	7,107	(3,607)	10,497	(6,997)	10,884	(7,384)	18,842	(15,342)	2,166	-
Other employee benefits.....	177,087	(696)	159,058	(56)	147,803	(1,648)	133,206	(830)	115,164	259
Retirement costs.....	197,574	-	190,885	100	151,463	-	141,867	-	139,325	-
State and district assessments.....	124,243	-	118,817	(416)	115,894	(25)	106,509	(66)	69,009	(510)
Debt requirements.....	109,364	-	112,599	353	118,330	22	123,866	-	121,184	8
Total expenditures.....	<u>2,186,986</u>	<u>(24,034)</u>	<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>
Excess of revenues available for appropriation over expenditures.....	<u>\$ 15,212</u>	<u>\$ 15,212</u>	<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>

City of Boston

Special Revenue Fund

BALANCE SHEETS
June 30, 2007, 2006, 2005, 2004 and 2003
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS					
Cash and investments.....	\$ 153,759	\$ 158,601	\$ 123,608	\$ 116,283	\$ 67,535
Restricted cash and investments.....	-	-	-	-	-
Receivables (net, where applicable, of allowances for estimated uncollectible amounts)					
Intergovernmental.....	102,359	103,307	103,493	116,216	83,769
Departmental and other.....	55,264	73,689	75,439	-	165
Total receivables.....	<u>157,623</u>	<u>176,996</u>	<u>178,932</u>	<u>116,216</u>	<u>83,934</u>
Due from other funds.....	4,863	2,682	1,363	1,499	1,044
Other assets.....	-	-	-	1	-
Total assets.....	<u>\$ 316,245</u>	<u>\$ 338,279</u>	<u>\$ 303,903</u>	<u>\$ 233,999</u>	<u>\$ 152,513</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 14,549	\$ 11,452	\$ 14,752	\$ 32,532	\$ 9,230
Accrued liabilities:					
Payroll and related costs.....	1,345	1,366	1,534	-	-
Other.....	21,963	28,646	28,162	34,401	31,557
Due to component units.....	-	-	-	-	214
Deferred revenue.....	55,264	73,689	75,439	-	-
Due to other funds.....	2,792	6,219	2,690	8,201	-
Total liabilities.....	<u>95,913</u>	<u>121,372</u>	<u>122,577</u>	<u>75,134</u>	<u>41,001</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances and other.....	65,928	67,116	51,090	34,738	49,019
Unreserved:					
Designated.....	-	-	-	-	-
Undesignated.....	154,404	149,791	130,236	124,127	62,493
Total fund balance.....	<u>220,332</u>	<u>216,907</u>	<u>181,326</u>	<u>158,865</u>	<u>111,512</u>
Total liabilities and fund balance.....	<u>\$ 316,245</u>	<u>\$ 338,279</u>	<u>\$ 303,903</u>	<u>\$ 233,999</u>	<u>\$ 152,513</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, 2007, 2006, 2005, 2004 and 2003
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES:					
Local:					
Fines.....	\$ 11	\$ 18	\$ 17	\$ 19	\$ 19
Investment income.....	482	351	282	175	479
Licenses and permits.....	65	71	74	70	57
Departmental and other revenue.....	48,699	45,894	52,882	26,374	13,170
Total local revenues.....	<u>49,257</u>	<u>46,334</u>	<u>53,255</u>	<u>26,638</u>	<u>13,725</u>
Intergovernmental:					
Intergovernmental.....	348,816	377,471	332,331	356,555	311,347
Total intergovernmental revenues.....	<u>348,816</u>	<u>377,471</u>	<u>332,331</u>	<u>356,555</u>	<u>311,347</u>
Total revenues.....	<u>398,073</u>	<u>423,805</u>	<u>385,586</u>	<u>383,193</u>	<u>325,072</u>
EXPENDITURES:					
Current operations:					
General government.....	7,394	4,684	22,548	3,175	8,385
Human services.....	8,556	10,009	8,678	9,337	7,231
Public safety.....	28,578	30,004	24,338	21,052	23,119
Public works.....	9,042	8,961	2,719	286	186
Parks and recreation.....	354	384	1,001	1,230	831
Libraries.....	5,166	5,670	5,579	5,409	5,186
Schools.....	154,774	149,685	134,992	124,356	131,383
County.....	114,218	106,270	101,832	102,044	96,452
Public health.....	774	1,985	1,710	86	-
Property & development.....	66,893	71,749	57,154	86,599	63,851
Capital outlays.....	2,353	1,695	805	1,891	-
Debt service.....	-	-	3,879	3,054	13,841
Total expenditures.....	<u>398,102</u>	<u>391,096</u>	<u>365,235</u>	<u>358,519</u>	<u>350,465</u>
Excess (deficiency) of revenues over expenditures.....	<u>(29)</u>	<u>32,709</u>	<u>20,351</u>	<u>24,674</u>	<u>(25,393)</u>
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	76	-	1,381	15,000	4,094
Premiums on long-term debt issued.....	4,378	3,872	10,409	11,775	12,100
Payments to escrow agents.....	-	-	(6,180)	(4,096)	-
Transfers out, net.....	(1,000)	(1,000)	(3,500)	-	-
Total other financing sources (uses), net.....	<u>3,454</u>	<u>2,872</u>	<u>2,110</u>	<u>22,679</u>	<u>16,194</u>
Net change in fund balances.....	3,425	35,581	22,461	47,353	(9,199)
Fund balance, beginning of year	216,907	181,326	158,865	111,512	120,711
Fund balance, end of year.....	<u>\$ 220,332</u>	<u>\$ 216,907</u>	<u>\$ 181,326</u>	<u>\$ 158,865</u>	<u>\$ 111,512</u>

City of Boston

Capital Projects Fund

BALANCE SHEETS
June 30, 2007, 2006, 2005, 2004 and 2003
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS					
Cash and investments.....	\$ 25,926	\$ 24,221	\$ 31,910	\$ 82,694	\$ 62,761
Cash and investments held by trustees.....	2,828	4,209	2,429	3,094	3,788
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	11,578	4,016	3,005	-	-
Departmental and other.....	-	-	-	-	-
Total receivables.....	<u>11,578</u>	<u>4,016</u>	<u>3,005</u>	<u>-</u>	<u>-</u>
Due from other funds.....	1,591	-	-	-	101
Other assets.....	-	-	-	-	-
Total assets.....	<u>\$ 41,923</u>	<u>\$ 32,446</u>	<u>\$ 37,344</u>	<u>\$ 85,788</u>	<u>\$ 66,650</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 11,677	\$ 5,786	\$ 3,493	\$ 4,560	\$ 9,845
Other accrued liabilities.....	6,352	8,510	15,219	25,951	-
Other liabilities.....	-	-	-	-	35
Deferred revenue.....	11,578	3,306	-	-	-
Due to other funds.....	-	-	-	-	-
Due to other governments.....	-	-	-	-	-
Total liabilities.....	<u>29,607</u>	<u>17,602</u>	<u>18,712</u>	<u>30,511</u>	<u>9,880</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances and other.....	121,437	71,727	84,471	50,821	84,184
Future appropriations.....	35,756	43,756	43,724	50,374	42,875
Unreserved:					
Undesignated (deficit).....	<u>(144,877)</u>	<u>(100,639)</u>	<u>(109,563)</u>	<u>(45,918)</u>	<u>(70,289)</u>
Total fund balance.....	<u>12,316</u>	<u>14,844</u>	<u>18,632</u>	<u>55,277</u>	<u>56,770</u>
Total liabilities and fund balance.....	<u>\$ 41,923</u>	<u>\$ 32,446</u>	<u>\$ 37,344</u>	<u>\$ 85,788</u>	<u>\$ 66,650</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, 2007, 2006, 2005, 2004 and 2003
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES:					
Local:					
Investment income.....	\$ -	\$ -	\$ -	\$ -	\$ -
Departmental and other revenue.....	-	3,864	3,065	7,985	-
Total local revenues.....	-	3,864	3,065	7,985	-
Intergovernmental:					
Intergovernmental.....	10,177	9,538	8,800	10,917	13,095
Total intergovernmental revenues.....	10,177	9,538	8,800	10,917	13,095
Total revenues.....	10,177	13,402	11,865	18,902	13,095
EXPENDITURES:					
Capital outlays.....	127,860	103,305	87,974	132,562	164,891
Debt Service.....	-	97,446	-	-	25,000
Total expenditures.....	127,860	200,751	87,974	132,562	189,891
Excess (deficiency) of revenues over expenditures.....	(117,683)	(187,349)	(76,109)	(113,660)	(176,796)
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	200,400	89,871	136,003	147,986	304,440
Payments to escrow agent to refund debt.....	(85,245)	-	(96,539)	(35,819)	(130,740)
Transfers out.....	-	93,690	-	-	(14,788)
Total other financing sources, net.....	115,155	183,561	39,464	112,167	158,912
SPECIAL ITEM:					
Proceeds from sale of capital assets.....	-	-	-	-	-
Net change in fund balances.....	(2,528)	(3,788)	(36,645)	(1,493)	(17,884)
Fund balance, beginning of year	14,844	18,632	55,277	56,770	74,654
Fund balance, end of year.....	<u>\$ 12,316</u>	<u>\$ 14,844</u>	<u>\$ 18,632</u>	<u>\$ 55,277</u>	<u>\$ 56,770</u>

City of Boston

Internal Service Fund

BALANCE SHEETS

June 30, 2007, 2006, 2005, 2004 and 2003

(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS					
Cash and cash equivalents.....	\$ 43,417	\$ 34,624	\$ 30,555	\$ 19,702	\$ 14,133
Receivables:					
Departmental and other receivables....	283	107	154	295	279
Due from other funds and sources.....	554	582	582	645	620
Due from component units.....	115	54	-	41	-
Other assets.....	3,910	1,825	1,873	1,980	240
Total assets.....	<u>\$ 48,279</u>	<u>\$ 37,192</u>	<u>\$ 33,164</u>	<u>\$ 22,663</u>	<u>\$ 15,272</u>
LIABILITIES					
Accrued Liabilities:					
Warrants and accounts payable.....	\$ 46	\$ 32	\$ 39	\$ 17	\$ 17
Accrued liabilities.....	6,827	6,593	6,465	6,114	7,325
Total liabilities.....	<u>6,873</u>	<u>6,625</u>	<u>6,504</u>	<u>6,131</u>	<u>7,342</u>
FUND EQUITY					
Unrestricted.....	41,406	30,567	26,660	16,532	7,930
Total fund equity.....	41,406	30,567	26,660	16,532	7,930
Total liabilities and fund equity...	<u>\$ 48,279</u>	<u>\$ 37,192</u>	<u>\$ 33,164</u>	<u>\$ 22,663</u>	<u>\$ 15,272</u>

City of Boston

Internal Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Equity
Fiscal Years Ending June 30, 2007, 2006, 2005, 2004 and 2003
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES					
Employer contributions.....	\$ 72,933	\$ 67,786	\$ 68,861	\$ 61,406	\$ 53,853
Employee contributions.....	26,962	22,379	23,951	22,886	18,773
Miscellaneous.....	-	-	-	36	167
Total operating revenues.....	99,894	90,165	92,812	84,328	72,793
EXPENDITURES					
Administrative and general.....	-	-	-	-	-
Benefits.....	89,055	86,258	82,684	75,726	72,323
Total operating expenditures...	89,055	86,258	82,684	75,726	72,323
Changes in net assets	10,839	3,907	10,128	8,602	470
Net assets (deficit), beginning of year.....	30,567	26,660	16,532	7,930	7,460
Net assets, end of year.....	\$ 41,406	\$ 30,567	\$ 26,660	\$ 16,532	\$ 7,930

City of Boston
Enterprise Funds
BALANCE SHEETS
Fiscal Years Ending June 30, 2007, 2006, 2005, 2004 and 2003
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS					
Current assets:					
Cash and investments.....	\$ 272	\$ -	\$ -	\$ 525	\$ 841
Cash and investments held by trustees.....	60,638	56,596	50,010	45,985	56,286
Receivables, net.....	-	-	-	-	1,140
Due from component units.....	96,873	103,751	110,370	116,739	122,869
Due from other governments.....	-	2,141	-	-	-
Other assets.....	2,613	2,801	2,987	3,174	3,360
Total current assets.....	<u>160,396</u>	<u>165,289</u>	<u>163,367</u>	<u>166,423</u>	<u>184,496</u>
Total assets.....	<u>\$ 160,396</u>	<u>\$ 165,289</u>	<u>\$ 163,367</u>	<u>\$ 166,423</u>	<u>\$ 184,496</u>
LIABILITIES					
Current liabilities:					
Warrants and accounts payable.....	\$ -	\$ 5,240	\$ -	\$ -	\$ -
Accrued liabilities.....	-	-	-	-	3,127
Due to other funds.....	20,000	18,000	18,000	17,000	18,000
Other liabilities.....	2,734	2,842	2,946	3,046	-
Current portion of long-term debt.....	9,920	9,565	9,220	8,905	9,695
Total current liabilities.....	<u>32,654</u>	<u>35,647</u>	<u>30,166</u>	<u>28,951</u>	<u>30,822</u>
Noncurrent liabilities:					
Special obligation bonds.....	100,485	103,715	106,785	109,700	112,480
Revenue bonds.....	97,265	104,178	110,898	117,426	123,776
Total noncurrent liabilities.....	<u>197,750</u>	<u>207,893</u>	<u>217,683</u>	<u>227,126</u>	<u>236,256</u>
Total liabilities.....	<u>230,404</u>	<u>243,540</u>	<u>247,849</u>	<u>256,077</u>	<u>267,078</u>
NET ASSETS					
Unrestricted.....	<u>(70,008)</u>	<u>(78,251)</u>	<u>(84,482)</u>	<u>(89,654)</u>	<u>(82,582)</u>
Total net assets.....	<u>\$ (70,008)</u>	<u>\$ (78,251)</u>	<u>\$ (84,482)</u>	<u>\$ (89,654)</u>	<u>\$ (82,582)</u>

City of Boston

Enterprise Funds

**Statement of Revenues, Expenditures, and Changes in Net Assets
Fiscal Years Ending June 30, 2007, 2006, 2005, 2004 and 2003**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues:					
Excise taxes - pledged for debt service.....	\$ 35,092	\$ 30,503	\$ 28,028	\$ 23,845	\$ 23,348
Departmental and other - pledged for debt service.....	-	2,141	-	3,326	-
Total operating revenues.....	<u>35,092</u>	<u>32,644</u>	<u>28,028</u>	<u>27,171</u>	<u>23,348</u>
Operating expenditures:					
Contributions to State.....	-	5,240	84	32,890	33,845
Total operating expenses.....	<u>-</u>	<u>5,240</u>	<u>84</u>	<u>32,890</u>	<u>33,845</u>
Operating (loss) income.....	<u>35,092</u>	<u>27,404</u>	<u>27,944</u>	<u>(5,719)</u>	<u>(10,497)</u>
Nonoperating revenue (expenditure):					
Intergovernmental - state grants.....	1,152	1,396	297	20,930	12,877
Investment earnings - pledged for debt service.....	730	5,145	5,293	5,595	7,725
Investment earnings - other.....	1,450	775	823	58	652
Interest expense.....	<u>(10,181)</u>	<u>(10,489)</u>	<u>(11,185)</u>	<u>(10,936)</u>	<u>(15,822)</u>
Total nonoperating revenue (expense)....	<u>(6,849)</u>	<u>(3,173)</u>	<u>(4,772)</u>	<u>15,647</u>	<u>5,432</u>
Income before transfers.....	28,243	24,231	23,172	9,928	(5,065)
Transfer to general fund.....	<u>(20,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>(17,000)</u>	<u>(18,000)</u>
Change in net assets.....	<u>8,243</u>	<u>6,231</u>	<u>5,172</u>	<u>(7,072)</u>	<u>(23,065)</u>
Total net assets - beginning.....	<u>(78,251)</u>	<u>(84,482)</u>	<u>(89,654)</u>	<u>(82,582)</u>	<u>(59,517)</u>
Total net assets - ending.....	<u>\$ (70,008)</u>	<u>\$ (78,251)</u>	<u>\$ (84,482)</u>	<u>\$ (89,654)</u>	<u>\$ (82,582)</u>

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SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION

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

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

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

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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 2006 the City had a population of 595,698, as estimated by the U.S. Department of Commerce Bureau of the Census (the “Bureau of the Census”), and had 657,838 jobs, as stated in a series for Boston consistent with the U.S. Department of Commerce, Bureau of Economic Analysis (the “Bureau of Economic Analysis”) for Suffolk County pro-rated for Boston. (See the source for the table on page 6 for a detailed description.) 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

After slow economic growth from 2000 through 2003, evidence of a turnaround in the U.S. and Massachusetts economies first became apparent in late 2003 and persisted through the 2004 to 2007 period. In Boston, through mid-2007, signs of an improving economy in Massachusetts, Metropolitan Boston (defined under “Population” below) and the City remained evident. The latest data for the second half of 2007 is only partly available for Boston and shows some deterioration of economic conditions, particularly evident in the housing market, but still remains to show basic strength in job growth, unemployment rates and the office and hotel markets.

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 of 5.8%, 5.7% and 6.5% in 2003 but remained relatively good at 4.1%, 3.7% and 4.0%, respectively, in December 2007. 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, 2006 and 2007. Hotel occupancy fell to 69.6% in 2001 from 78.4% the previous year, but has increased to 75.4%, 76.1%, and 76.6% in 2005, 2006, and 2007, respectively. The total number of residential home sales had been strong through 2005, with steady volume due to low interest rates, and sales prices in most cases holding firm or even increasing. Housing data from 2005 through 2007, however, shows slower sales volume and a slight fall in median sales prices in the housing market; a -4.3% decline in the price of a single family home in the City over the two year time span.

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 December 2007 on certain topics for the region, the Commonwealth, and Metropolitan Boston. 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, and Metropolitan Boston are for 2006. The most recent annual figures for Suffolk County are for 2005. The most recent

quarterly statistics are for the third quarter of 2007. 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 2006 are the most recent annual data available. The most recent monthly data are for December 2007.

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 14.3 million people and 9.2 million jobs in 2006 according to Bureau of Economic Analysis annual data. Total personal income in New England grew at an annual average compound rate of 3.8% from 2001 through 2006, below the 4.7% national rate for the same period. Employment in New England grew by 375,362 jobs from 2001 through 2006, an annual average of 0.8%.

Massachusetts had a population of 6.4 million people and 4.2 million jobs in 2006, according to Bureau of Economic Analysis annual data. Total personal income in Massachusetts grew at a 3.6% annual average rate from 2001 through 2006, slightly less than the 3.9% rate of increase for New England, and below the national rate of 4.7%. Massachusetts gained 89,138 jobs between 2001 and 2006, an annual average of 0.4%.

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 2005. Total personal income from 2001 through 2005 grew at an annual average rate of 3.9%, below the national mark of 4.2%. The most recent employment data show a loss of 25,159 jobs for the 2001-2005 period, an annual rate of -0.2%. Although 2006 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 at rates slightly higher than in 2005.

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 2007 population data for states. The population of Massachusetts as of July 1, 2007 is estimated to have been 6,449,755, a gain of 1.6% over that for April 2000. The Bureau of the Census has released 2006 population data for cities. The population estimate for Boston as of July 1, 2006 was 595,698, a 1.2% rise from the population total of April 2000.

**Population of Massachusetts, Metropolitan Boston
and the City of Boston 1980, 1990, 2000 and 2006**

	<u>1989</u>	<u>1990</u>	<u>2000</u>	<u>2006</u>	<u>1980-90</u>		<u>1990-2000</u>		<u>2000-06</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	6,434,389	279,388	4.9%	332,672	5.5%	85,292	1.3%
Metropolitan Boston ⁽¹⁾	N/A	4,133,895	4,391,344	4,455,217	N/A	N/A	257,449	6.2	63,873	1.5
City of Boston	562,994	574,283	589,141	595,698	11,289	2.0%	14,858	2.6	6,827	1.2

(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 2001-2006 population, income and employment trends for the U.S., New England, Massachusetts, and Metropolitan Boston.

**Population, Income and Employment
2001-2006
(Income in current year dollars)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
United States						
Total Personal Income (\$000)	\$8,716,992,000	\$8,872,871,000	\$9,150,908,000	\$9,711,271,000	\$10,284,378,000	\$10,966,808,000
Per Capita Income	\$30,562	\$30,795	\$31,466	\$33,072	\$34,685	\$36,629
Population	285,226,284	288,125,973	290,796,023	293,638,158	296,507,061	299,398,484
Employment	167,014,700	166,633,100	167,553,500	170,521,700	174,183,400	178,342,900
New England						
Total Personal Income (\$000)	\$524,401,681	\$528,029,789	\$539,412,941	\$569,318,255	\$595,814,721	\$631,474,719
Per Capita Income	\$37,308	\$37,330	\$37,894	\$39,976	\$41,797	\$44,252
Population	14,056,147	14,144,765	14,208,386	14,241,495	14,255,073	14,269,989
Employment	8,835,470	8,775,999	8,755,319	8,898,792	9,035,135	9,210,832
Massachusetts						
Total Personal Income (\$000)	\$249,094,962	\$249,954,238	\$253,993,468	\$266,818,043	\$280,502,181	\$297,754,674
Per Capita Income	\$38,880	\$38,866	\$39,442	\$41,457	\$43,601	\$46,255
Population	6,407,631	6,431,788	6,438,510	6,433,676	6,429,137	6,434,389
Employment	4,125,438	4,064,943	4,032,093	4,074,283	4,135,212	4,214,576
Metropolitan Boston ⁽¹⁾						
Total Personal Income (\$000)	\$188,442,089	\$188,434,021	\$190,707,890	\$201,089,445	\$219,846,749	N/A
Per Capita Income	\$42,440	\$42,325	\$42,835	\$45,195	\$47,168	N/A
Population	4,440,182	4,452,043	4,452,149	4,449,334	4,448,884	4,455,217
Employment	3,070,248	3,012,650	2,977,001	2,995,632	3,045,089	N/A

(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 Economic Analysis, January 2008. Bureau of the Census, population figures for Massachusetts and Metropolitan Boston.

The following table shows Boston's employment growth by industry category for 2005, 2006, and 2007. 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 data from the U.S. Bureau of Economic Analysis is through 2005. Suffolk County data is mathematically reduced to the Boston geography using unemployment insurance coverage data (ES-202) from the Massachusetts Department of Workforce Development ("DWD").

Employment trends for 2005 through 2007 for Boston show that 28,349 jobs have been added in two years, a 4.4% rate of change. Health care, finance, administrative and support and waste management and remediation services, accommodation and food services, professional services, and education show the largest gains.

City of Boston Employment 2005 – 2007
NAICS (North American Industry Classification System)

Industry	2005	2006*	2007**	Absolute Change	Percent Change
Fishing/Mining/Agriculture.....	117	101	78	-40	-33.7
Utilities	2,159	2,109	2,174	15	0.7
Construction	16,623	16,711	16,639	16	0.1
Manufacturing.....	13,314	11,842	10,053	-3,262	-24.5
Wholesale Trade.....	9,552	9,522	10,339	787	8.2
Retail Trade (excludes food service)	31,329	31,098	30,391	-937	-3.0
Transportation and Warehousing.....	18,897	17,925	19,623	726	3.8
Transportation.....	17,368	16,911	18,593	1,225	7.1
Information	16,376	17,407	16,640	263	1.6
Finance and Insurance	77,689	81,172	83,942	6,099	7.8
Banking.....	15,211	15,240	16,112	901	5.9
Securities and other Financial Investment Activities... 46,258	48,882	51,053	4,794	10.4	
Insurance Carriers and Related Activities.....	16,374	17,050	16,778	404	2.5
Real Estate and Rental and Leasing	20,224	20,540	20,173	-51	-0.3
Professional, Scientific, and Technical Services.....	71,428	73,508	75,086	3,660	5.1
Legal Services	20,585	20,738	21,100	515	2.5
Accounting, Tax Preparation, Bookkeeping.....	9,773	9,868	9,986	213	2.2
Architectural, Engineering, Design, and Related.....	9,979	9,365	9,744	-234	-2.3
Computer Systems Design and Related Services.....	5,336	6,195	6,975	1,639	30.7
Management, Scientific, and Technical.....	11,982	13,179	12,339	357	3.0
Scientific Research and Development Services.....	7,397	7,616	8,004	607	8.2
Other Professional, Scientific and Technical Serv. .	6,375	6,544	6,938	563	8.8
Management of Companies and Enterprises .	7,649	7,650	7,735	85	1.1
Admin. & Support and Waste Mgmt. and Remediation Service	41,193	42,850	46,451	5,258	12.8
Educational Services	48,826	50,349	50,809	1,983	4.1
Colleges and Universities	41,715	42,843	42,974	1,260	3.0
Health Care and Social Assistance	108,129	111,079	115,341	7,212	6.7
Hospitals.....	73,525	75,914	79,469	5,944	8.1
Arts, Entertainment, and Recreation.....	12,982	12,677	13,230	248	1.9
Accommodation and Food Services	44,379	46,707	47,901	3,725	8.4
Accommodation.....	10,533	11,158	11,677	1,144	10.9
Food Service and Drinking Places.....	33,643	35,549	36,224	2,581	7.7
Other Services (except public administration) ⁽¹⁾	26,772	27,626	28,452	1,679	6.3
Government.....	76,739	76,966	77,621	882	1.1
Total	644,329	657,838	672,678	28,349	4.4

* 2006 is an estimate based upon final year-end data from the Massachusetts Department of Workforce Development (“DWD”) and using the benchmark 2005 annual estimate from the Bureau of Economic Analysis.

** 2007 is an estimate based on the 1st and 2nd Quarter of data from DWD and consistent with previous years using the benchmark 2005 annual estimate for the Bureau of Economic Analysis.

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

Source: The 2005 employment figures are 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. The 2006 and 2007 employment figures are in a series consistent with the 2005 BEA series (Suffolk County data pro-rated for Boston) but are based upon data from the Massachusetts Department of Workforce Development (“DWD”). See the footnotes above.

A more recent picture of employment trends for the Commonwealth and Metropolitan Boston is available from the Bureau of Labor Statistics non-agricultural employment data. As of late January 2008 these data were available through the month of December 2007, and are presented in the following tables. Data from the following tables shows that employment has grown every month relative to the same month from the previous year since January 2005. In fact, the historical data shows this to be the case since June 2004. In December 2007 an increase of 22,200 jobs in Metropolitan Boston was evident over December of the previous year. Since January 2005, there has been an increase of 146,100 jobs.

Metropolitan Boston ⁽¹⁾
Total Non-Agricultural Employment
Monthly, 2005-2007
(Not seasonally adjusted, employment in 000's)

<u>Month</u>	<u>2005 Employment</u>	<u>Change from</u> <u>Same month</u> <u>of Previous</u> <u>Year</u>	<u>2006 Employment</u>	<u>Change from</u> <u>same month</u> <u>of Previous</u> <u>Year</u>	<u>2007 Employment</u>	<u>Change from</u> <u>same month</u> <u>of Previous</u> <u>Year</u>
January	2,370.7	+0.7%	2,398.5	+1.2%	2,428.0	+1.2%
February	2,379.7	+0.9	2,403.8	+1.0	2,433.8	+1.2
March	2,385.6	+0.5	2,417.9	+1.4	2,446.8	+1.2
April	2,421.4	+0.8	2,441.9	+0.8	2,469.7	+1.1
May	2,431.1	+0.8	2,452.5	+0.9	2,483.3	+1.3
June	2,443.3	+0.8	2,472.2	+1.2	2,500.1	+1.1
July	2,422.7	+0.7	2,445.4	+0.9	2,476.4	+1.3
August	2,415.8	+0.9	2,439.9	+1.0	2,469.4	+1.2
September	2,439.2	+0.9	2,465.9	+1.1	2,492.8	+1.1
October	2,447.9	+0.7	2,478.2	+1.2	2,507.1	+1.2
November	2,462.1	+1.0	2,491.5	+1.2	2,518.9	+1.1
December	2,468.4	+1.0	2,494.6	+1.1	2,516.8	+0.9
ANNUAL	2,424.0	+0.8	2,450.2	+1.1	N/A	N/A

(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 2008).

The industry composition of employment comparing December 2006 to December 2007 shows that most job losses over the previous year occurred in retail trade, construction, other services, and manufacturing. Gains were evident in wholesale trade, information services, financial activities, professional & business services, education & health services, leisure and hospitality services, and government.

Metropolitan Boston ⁽¹⁾
Non-Agricultural Wage and Salary Employment by Industry
December 2006 and December 2007
(Seasonally unadjusted, employment in 000's)

<u>Industry</u>	<u>Dec. 2006</u>	<u>Dec. 2007</u>	<u>Change</u>	<u>Percent</u>
Non-Agricultural Total	2,494.6	2,516.8	+22.2	+0.9
Natural Economic Resources	1.2	1.2	0.0	0.0
Construction	101.7	99.2	-2.5	-2.5
Manufacturing	222.4	221.2	-1.2	-0.5
Durable Goods	157.8	157.3	-0.5	-0.3
Non-Durable Goods	64.6	63.9	-0.7	-1.1
Trade, Transportation & Utilities	435.6	434.0	-1.6	-0.4
Wholesale Trade	105.3	106.8	+1.5	+1.4
Retail Trade	267.8	265.0	-2.8	-1.0
Transport, Warehousing & Utilities ..	62.5	62.2	-0.3	-0.5
Information Services	75.1	76.1	+1.0	+1.3
Financial Activities	190.0	190.9	+0.9	+0.5
Professional & Business Services	403.7	414.6	+10.9	+2.7
Education & Health Services	464.3	476.1	+11.8	+2.5
Leisure & Hospitality Services	209.2	213.5	+4.3	+2.1
Other Services	86.3	84.3	-2.0	-2.3
Government	305.1	305.7	+0.6	+0.2

(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, January 2008).

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 and service occupations continued to decline, with the exception of production, transportation and related workers who showed a modest increase between 1990 and 2000.

Occupational Change in the City's Resident Labor Force

	<u>1960</u>		<u>1970</u>		<u>1980</u>		<u>1990</u>		<u>2000</u>	
	<u>Number</u>	<u>%</u>								
White-Collar	126,471	44	146,657	55	154,456	60	191,251	67	197,049	69
Manag'l., Profess'l & 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

Percentages may not add due to rounding.

Source: Bureau of the Census.

Unemployment

In 2006, Boston's unemployment rate was 5.3%, seven-tenths greater than the 4.6% national rate. Metropolitan Boston, Massachusetts and New England had slightly better rates at 4.6%, 5.0%, and 4.6%, respectively. All of these rates were still above the historically low rates reached in the year 2000.

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 ⁽¹⁾	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	5.0
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 2007 show unemployment rates that are still down considerably for all regions over 2006. In December 2007, Boston's unemployment rate registered 4.0% compared with the 4.9% mark one year earlier in December 2006, and the 4.7% rate two years earlier in January 2005.

**Monthly Unemployment Rates for City of Boston, Metropolitan Boston ⁽¹⁾, Massachusetts,
New England and the United States for 2005, 2006 and 2007⁽²⁾**

	<u>City of Boston</u>			<u>Metropolitan Boston ⁽¹⁾</u>			<u>Massachusetts</u>			<u>New England</u>			<u>United States</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Jan.	5.4%	5.3%	5.7%	5.0%	4.8%	5.2%	5.5%	5.4%	6.0%	5.3%	5.1%	5.4%	5.7	5.1%	5.0%
Feb.	5.3	5.4	5.4	5.0	4.8	5.2	5.4	5.4	5.8	5.3	5.1	5.2	5.8	5.1	4.9
Mar.	5.1	5.4	4.4	4.8	4.7	4.3	5.2	5.2	4.8	5.1	4.9	4.6	5.4	4.8	4.5
Apr.	4.9	5.1	4.3	4.3	4.4	4.0	4.6	4.8	4.4	4.6	4.5	4.3	4.9	4.5	4.3
May.....	5.1	5.3	5.1	4.4	4.5	4.6	4.6	4.7	4.9	4.5	4.4	4.5	4.9	4.4	4.3
Jun.	5.7	5.9	5.5	4.7	4.8	4.8	4.9	5.0	5.0	4.7	4.6	4.7	5.2	4.8	4.7
Jul.	5.7	5.6	5.6	4.6	4.8	4.8	4.9	5.2	5.2	4.7	4.8	4.8	5.2	5.0	4.9
Aug.	5.3	5.5	4.6	4.4	4.6	4.0	4.5	4.9	4.3	4.4	4.5	4.3	4.9	4.6	4.6
Sep.	5.5	5.7	4.7	4.6	4.7	4.1	4.8	5.0	4.4	4.5	4.4	4.2	4.8	4.4	4.5
Oct.	5.0	4.9	4.0	4.2	4.2	3.5	4.4	4.5	3.8	4.2	4.1	3.9	4.6	4.1	4.4
Nov.	5.1	5.1	4.0	4.3	4.4	3.6	4.6	4.8	3.9	4.4	4.3	4.2	4.8	4.3	4.5
Dec.....	4.7	4.9	4.0	4.2	4.4	3.7	4.6	4.9	4.1	4.3	4.3	4.3	4.6	4.3	5.0

(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. 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.

Large Employers

The following table lists the fifty largest private employers in Boston, the total list of organizations with more than 1,000 employees, aggregating approximately 21% of total 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	Shaw's 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 an employment series consistent with the Bureau of Economic Analysis, there were an estimated 76,966 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 and 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% between 1980 and 1990. 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 English-as-a-Second Language (ESL) 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) ⁽¹⁾	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

(1) 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 \$45,845 in 2005, 32% above the national per capita personal income of \$34,685, 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 2000-2006
(In current year dollars not adjusted for inflation)**

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metropolitan Boston</u> ⁽¹⁾	<u>Suffolk County</u> ⁽²⁾
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	38,137
2001	30,562	37,308	38,880	42,440	40,092
2002	30,795	37,330	38,866	42,325	39,634
2003	31,466	37,894	39,442	42,835	40,730
2004	33,072	39,976	41,457	45,195	43,600
2005	34,685	41,797	43,601	47,168	45,845
2006	36,629	44,252	46,255	N/A	N/A

(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.

Data from the Bureau of Economic Analysis indicate that the average annual earnings per job for 1970 through 2006 by place of work have been consistently higher over time in Suffolk County than in Metropolitan Boston and the Commonwealth. In 2005, Suffolk County's average wage per job (\$79,346) was 33% greater than that in the Boston metropolitan area (\$59,775) and 46% greater than the average state earnings level (\$54,374). 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, 2000-2006
(In current year dollars not adjusted for inflation)**

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metropolitan Boston</u> ⁽¹⁾	<u>Suffolk County</u> ⁽²⁾
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	42,428	47,540	50,527	55,089	70,616
2004	44,378	49,784	53,226	58,457	77,922
2005	45,803	51,034	54,374	59,775	79,346
2006	47,275	52,430	56,027	N/A	N/A

(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 2008.

During the years 2000-2006, based on the Bureau of Labor Statistics Consumer Price Index, the cost of living index rose at an annual average rate of 3.4% in Metropolitan Boston, while the national index increased at a 2.8% annual rate. From November 2006 to November 2007, the cost of living in Metropolitan Boston increased 3.4%, slightly below the rate for the U.S. as a whole.

**Consumer Price Index for All Urban Consumers
For 2000 through 2007
(CPI-U) ⁽¹⁾**

	United States	Percent	Metropolitan Boston ⁽²⁾	Percent
	<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
2006.....	201.6	3.2	223.1	3.1
2006 (Nov.).....	201.8	-	223.1	-
2007 (Nov.).....	210.0	4.1	230.7	3.4

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

(2) Includes 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

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 Medical Center, Children’s Hospital, the New England Medical Center and Boston Medical Center. These hospitals had a combined total of 5,909 beds in 2004 according to the most recent data from the American Hospital Association. 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 2007, there were 115,341 health services jobs in the City, see the table “City of Boston Employment, 2005-2007.” 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 2005 and 2007 grew from 73,525 to 79,469.

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 2007, there were three hospital or medical research building projects in construction for completion between 2007 and 2009: 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); Boston Medical Center's 245,000 square-foot New Ambulatory Care Building; the 440,000 square-foot Longwood North Research Center medical research building in the Longwood Medical and Academic Area recently acquired by Children's Hospital; and Dana Farber Cancer Institute's 275,000 square-foot Center for Cancer Care, also in the Longwood Medical and Academic Area.

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 clusters 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, with 9.58 biosciences employees per 1,000. 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 2006-2007, the New England Board of Higher Education reported that the City's 34 universities, colleges, and community colleges had a combined enrollment in fall of 2006 of 145,274, a 7.5% gain from the fall of 2001. These numbers, the most currently available, 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 2006, with 32,212 students. Boston, with only 10% of the state's population, has 33% of the statewide college student enrollment.

From 2003 through 2007, 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 its 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 year-end 2007, 23 dormitories with 7,321 dormitory beds (6,571 undergraduate and 750 graduate) opened to house Boston's college students. In 2007 two dormitories were finished: the Trilogy project at 180 Brookline Street in the Fenway, with 170 graduate student beds for Harvard University; and 275 beds for Suffolk University at 10 West Street downtown. The recent additions mean that Boston's colleges and universities now accommodate over 32,000 students in on-campus housing facilities. There are currently five dormitories under construction: the 115-bed Wheelock College student residences at 154 The Riverway; the 364-bed renovation of the Colonial Building by Emerson College at 80 Boylston Street in the downtown district; the 262-bed Emerson College dormitory adjacent to the Paramount Theater on Washington Street downtown; the new 1,200 bed Residence Hall I of Northeastern University at Tremont and Ruggles Streets in the South End; and the new 960-bed Armory Dorm Phase 2 by Boston University at 899 Commonwealth Avenue in Brighton. While college enrollment remains stable, new student housing is pulling students out of neighborhood housing, 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 17.8 million people visited the Boston metropolitan area in 2006, up by 1.3% from the 17.6 million visitors in 2005. 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 \$11.7 billion for hotel accommodations, meals, entertainment, shopping, transportation and other services during 2006. The latest data for Suffolk County indicates that in the county alone the total domestic direct traveler impact in 2002 was \$4.4 billion, supporting 41,050 jobs and a payroll of \$1.1 billion, while generating \$123 million in state tax receipts and \$78 million of local tax receipts.

Boston continues to be the venue for large tourist events. In 2000, the City held a large celebration, Millennium 2000, lasting several days, and Sail Boston 2000, which attracted over four million people to the waterfront for a parade of Tall Ships. In January 2001, Boston’s Fleet Center hosted the US Figure Skating Championships and attracted 108,000 visitors. During 2004 Boston’s 107th Marathon drew an estimated 1 million visitors and the Head of the Charles Regatta drew an estimated half-million attendees. Also, in the summer of 2004, Boston hosted two successful national events: the annual MacWorld convention (after a five year hiatus in New York City) and the 2004 Democratic Party’s political nominating convention (for the first time ever). In addition to such special events, there are a wide variety of regular events in Boston every year including food, cultural, and musical events, ethnic celebrations, harbor, seaport and river festivals, parades, and collegiate and professional sporting contests that attract many visitors.

The City of Boston is home to three major professional sports teams: the world champion 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 Foxborough, 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 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 2007 the Hynes and the BCEC hosted 265 events with 772,557 attendees. This represented a 33% increase in attendance over the previous year’s attendance of 579,470.

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. 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.

Several cultural institutions are pursuing development plans that are either currently proposed, approved, or under construction. The Museum of Fine Arts has 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

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. 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%. Between 1982 and 1985 alone eight new hotels were completed with a total of 3,981 rooms. Between July 1997 and December 2007 Boston has built 5,885 rooms in 27 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. Boston's annual occupancy rates have exceeded 72% in 13 out of the 15 years since 1992.

From the beginning of 2004 through 2007 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; the 424-room Intercontinental Hotel on the downtown waterfront; and the 308-room Liberty Hotel, which includes the adaptive reuse of the historic Charles Street Jail. As of December 2007 there were a total of 17,328 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.

Five additional hotels with a total of 1,130 rooms are now under construction in Boston. The 471-room Marriott Renaissance on the South Boston waterfront and the 150-room Battery Wharf Regent on the downtown waterfront are scheduled to open in early 2008. 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 spring 2008. The 125-room Ames Hotel is an adaptive reuse of an historic office building near Government Center scheduled to open in late 2007. The "W" Hotel with 235 rooms is under construction in the Theater District and scheduled to open in 2009. Seven more hotels have BRA Board approvals but are not yet under construction.

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 11th 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 2007 Boston room demand grew by 21.9% over these four years and 2007 occupancy rose to 76.6% with average daily rates averaging \$208.89, according to the Pinnacle Advisory Group. Revenue per available room was \$159.96 in 2007, exceeding the old record of \$155.33 recorded for 2000.

The tables below show the occupancy rate, average daily room rate, and revenue per available room for Boston hotels for 1990, and 2000 through 2007.

Boston Hotel Room Supply, Occupancy, Room Rate and Revenues per Available Room

<u>Year</u>	<u>Room Supply</u>	<u>Occupancy Rate %</u>	<u>Average Daily Rate</u>	<u>Percent Change</u>	<u>Revenue Per Available Room</u>	<u>Percent Change</u>
1990	12,070	74.3	118.72	—	88.21	—
2000	14,002	78.4	198.00	4.9	155.33	9.7
2001	14,348	69.6	180.58	-8.8	126.48	-18.6
2002	14,444	72.2	164.39	-9.0	118.71	-6.1
2003	15,034	71.1	155.52	-5.4	110.52	-6.9
2004	15,702	74.5	169.04	8.7	125.99	14.0
2005	15,866	75.4	176.73	4.5	133.24	5.8
2006	17,020	76.4	196.61	11.2	150.23	12.8
2007	17,328	76.6	208.89	6.2	159.96	6.5

Source: Occupancy, ADR and RevPAR reported by Pinnacle Advisory Group. BRA Research Department count of room supply at the end of each calendar year. Room Supply counts only rooms in hotels of 50 or more rooms.

Transportation

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

Transportation planning includes both major highway and mass transit programs. The Massachusetts Bay Transportation Authority (“MBTA”) provides commuter rail, subway, local bus and express bus services to 175 cities and towns in eastern Massachusetts, offering public transit 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 of a tunnel from Washington Street to South Station and Logan Airport 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. Ridership between Boston and New York 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 2007 Amtrak carried 975,826 passengers between New York and Boston—an increase of 41% over the pre-Acela year of 2001. Amtrak commenced Boston—Portland, Maine passenger rail service (the “Downeaster”) in 2001. The 200-passenger train runs four times a day in each direction between North Station and Portland. The trip 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 2007 exceeded \$3.83 billion, consisting of \$3.25 billion invested in airports and \$582 million invested in the Tobin Bridge, maritime development and other capital projects. In February 2008, Massport projected that it would spend about \$899 million during fiscal years 2008-2012 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 weekly barge service the Port of New York/New Jersey. (The prior feeder service suspended operations in December 2007.) 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 2007 (200,998) decreased by 18.4% compared to fiscal 2006 due to an increase in turnaround vessels and the loss of some small ships in 2007. 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 2007, the Port activity of 1,116,156 boxed containers increased 4.6% over fiscal 2006, primarily as a result of new far-east service provided by COSCO, while the 10,252 automobiles handled in fiscal 2007 decreased by 7.7% from fiscal 2006 and the 188,311 tons (in bulk tonnage) for fiscal 2007 decreased by 9.3% from fiscal 2006's bulk tonnage.

Logan Airport served a total of 28.2 million passengers in 2007, a 1.8% increase from the 27.7 million passengers served in 2006. A report on calendar year 2006 prepared by Airports Council

International (“ACI”) showed that Logan was the most active airport in New England, the 19th most active in the United States and the 39th 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 19th in the nation in total air cargo volume in 2006. In fiscal 2007 total combined cargo and mail volume was 680.1 million pounds: a 9.8% decrease from the 759.3 million pounds in fiscal 2006.

Construction Activity

The following table sets forth construction activity in the City from fiscal years 1999-2008, 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 2007 indicated that total construction activity was an estimated \$3.39 billion. Revenue from building permit fees increased in all but one of the fiscal years between 1999 and 2007. Between fiscal years 2006 and 2007, building permit revenue increased from \$26.3 million to \$27.9 million. Data for fiscal year 2008 is estimated based upon actual building permit revenues collected for July through December 2007 and doubled to get a full year projection. The actual total will differ when the fiscal year is complete.

**Boston Building Permit Revenues and Estimated Construction Activity
Ten Fiscal Years, 1999-2008**

	Building Permit Revenues⁽¹⁾	Estimated Potential Construction Activity⁽²⁾	Estimated Potential Construction Activity Adjusted For Inflation⁽³⁾
1999	\$11,404,006	\$1,341,647,713	\$1,818,085,111
2000	17,922,648	2,108,546,846	2,739,043,697
2001	27,191,839	3,199,039,882	3,984,182,830
2002	19,055,144	2,241,781,647	2,720,941,083
2003	20,145,888	2,370,104,471	2,772,289,928
2004	22,724,810	2,673,507,019	3,043,586,749
2005	23,213,600	2,731,011,765	3,009,918,234
2006	26,253,029	3,088,591,647	3,301,788,919
2007	27,861,224	3,277,791,059	3,388,613,643
2008 ⁽⁴⁾	27,881,918	3,280,225,647	3,280,225,647
Total	<u>\$223,654,106</u>	<u>\$26,312,247,696</u>	<u>\$26,756,886,922</u>
Annual Average 1999-2008	\$ 22,365,411	\$ 2,631,224,770	\$ 2,675,688,692

- (1) Building permit revenues in current dollars. Columns may not add due to rounding.
- (2) Potential construction activity estimated by dividing permit revenues by 0.85%, which is the midpoint between permit fees calculated at 0.7% of the first \$100,000 estimated value of development cost, and 1% for the remainder of development cost.
- (3) Estimated construction activity adjusted to estimated and projected 2008 constant dollars (CPI-U Boston).
- (4) Fiscal Year 2008 data estimated based upon actual building permit revenues for first six months (July 2007 through December 2007 real fees collected equaled \$13,940,959) and doubled to make a projected full year.

Source: City of Boston, Auditing Department and City of Boston Annual Reports. Compiled by Boston Redevelopment Authority’s Policy Development and Research Department (January 2008).

Large Public Sector Projects

In addition to major construction projects of the MBTA and Massport, Boston has witnessed several other major public sector projects including the Boston Convention and Exposition Center (“BCEC”) Project and the Central Artery/Tunnel (“CA/T”), the downtown highway tunnel through the City including the Ted Williams tunnel under Boston Harbor. The CA/T Project, which has improved traffic flow in Boston since its completion, is under the control of the Massachusetts Turnpike Authority.

The CA/T Project includes the Ted Williams Tunnel, connecting Logan Airport and the North Shore to Downtown Boston and the western suburbs, the Leverett Circle Connector Bridge, a four-lane bridge over the Charles River carrying traffic between Leverett Circle in downtown Boston and U.S. 93 in Charlestown, the extension of U.S. 90 under Fort Point Channel to South Boston connecting with the highway with the Ted Williams Tunnel and Logan Airport in East Boston, and the Central Artery and the Leonard P. Zakim Bunker Hill Bridge over the Charles River. The CA/T Project, with an estimated total

cost of \$14.63 billion, has been nearly half funded by the federal government while the remainder is the responsibility of the Commonwealth. 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, 2007. 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 \$1.1 billion on improvements to its wastewater system improvements and approximately \$0.6 billion on waterworks system through June 30, 2007. 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 FY08 Capital Improvement Program anticipates the spending of approximately \$1.7 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”) completed major revitalization initiatives at three public housing developments between 1997 and 2007: 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 1999, the U.S. Department of Housing and Urban Development (HUD) designated part of the City an Empowerment Zone (“EZ”). 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 Phase I, a mixed-use commercial development comprised of a 175-room hotel, 25,000 square feet of retail space, and a 600-space parking garage which opened in June 2004 at the corner of Massachusetts Avenue and Melnea Cass Boulevard. Phase II, just completed in the fall of 2007, included 192,000 square feet of office space, 12,000 square feet of retail use and 600 additional parking garage spaces. 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 equaled \$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 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 68.4 million square feet of office space. During the fourth quarter of 2007, Boston's overall vacancy rate according to CB Richard Ellis was 6.0% (11.8% availability when including space to sublet). Another realty firm, Jones Lang LaSalle, also places the City's office vacancy rate at 6.0%, but reports the availability rate to be 12.2%. 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 fourth quarter of 2007, according to CB Richard Ellis, increased by 35,468 square feet. As of the fourth quarter of 2007, CB Richard Ellis ranked Boston's downtown office market with the second lowest vacancy rate among the twenty largest downtown office markets in the U.S., with a rate of 6.0%. Jones Lang LaSalle stated that total net absorption of office space in downtown Boston for 2007 was 991,380 square feet, with the Financial District taking 435,760 square feet, and Back Bay absorbing 355,091 square feet. All other areas showed positive net absorption as well. 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—Fourth Quarter, 2007

<u>Market</u>	<u>Total (SF)</u>	<u>Available (%)</u>	<u>Vacancy (%)</u>	<u>4th Quarter Net Absorption</u>	<u>Average "Asking" Rent</u>
Central Business District.....	34,845,074	12.5	6.1	-136,693	\$60.99
Back Bay.....	13,079,893	10.2	4.9	+158,441	65.34
South Boston Seaport District.....	6,153,195	16.0	9.4	-59,535	35.18
Charlestown/East Boston.....	2,890,958	11.1	5.9	+1,730	30.49
North Station/Waterfront.....	2,801,572	6.4	6.1	+37,162	31.20
Midtown.....	2,555,882	3.6	3.4	-1,512	31.95
South Station.....	1,473,127	20.8	4.9	+17,925	41.47
Dorchester/South Boston.....	1,132,445	29.7	8.3	+10,300	32.70
Allston/Brighton/Longwood Medical.....	1,563,753	7.2	6.4	+5,650	26.44
Fenway/Kenmore Square.....	1,934,639	2.4	2.4	+2,000	25.00
Total Boston Office Market.....	68,430,538	11.8	6.0	+35,468	53.87

Source: CB Richard Ellis, Fourth Quarter 2007.

**Comparative Office Vacancy Rates
20 Largest Downtown Office Markets – Fourth Quarter, 2007**

<u>City</u>	<u>Vacancy Rate</u>	<u>City</u>	<u>Vacancy Rate</u>
Manhattan (Midtown).....	4.7%	Phoenix.....	13.2%
Boston.....	6.0	Los Angeles.....	13.2
Manhattan (Downtown).....	6.3	San Diego.....	13.4
Washington DC.....	7.6	Sacramento.....	13.5
San Francisco.....	8.4	Baltimore.....	13.5
Philadelphia.....	8.4	Kansas City.....	15.9
Houston.....	9.2	Minneapolis-St. Paul.....	17.4
Seattle.....	9.4	Atlanta.....	20.3
Denver.....	10.4	Dallas.....	23.7
Chicago.....	12.3	Detroit.....	27.9
National Average ⁽¹⁾ 10.8%			

(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, Fourth Quarter 2007.

Four developments were completed in 2003: 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 a total of 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 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 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 2007, based on two quarters of data, it is estimated that there are about 66,615 employees in retail stores, and food service and eating and drinking establishments in the City, with 30,391 in retail, and 36,224 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, which includes repair and maintenance, hair and nail care, and laundry and dry cleaning service.

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

	<u>Massachusetts</u>	<u>Metropolitan Boston⁽²⁾</u>	<u>City of Boston</u>
1992	\$47,663,248	\$33,798,207	\$4,180,888
1997	65,859,804	48,348,686	5,608,411
2002	83,220,180	59,918,502	7,163,717
Annual rate	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). 2007 data will become available in late 2008 or early 2009.

Redevelopment of the former Filene's department store site, One Franklin, has commenced, with Filene's Basement scheduled to move back into new, larger space in early 2009. Suffolk University opened its new dormitory space at 10 West Street and signed Boston Beanstock Café for one of two ground floor retail spaces on-site. Hard Rock Café relocated from the Back Bay to a 16,000 square-foot space at Dock Square near Faneuil Hall. Crocs, a footwear brand, opened a 5,000 square-foot flagship store at Marketplace Center. Faneuil Hall Marketplace welcomed the first Wagamama restaurant to the US. Salvatore's, a casual Italian restaurant opened in the Seaport District, joining neighboring tenants Pressed Sandwiches and LTK.

In the neighborhoods, the very successful South Bay Shopping Center completed its expansion and opened the doors at Olive Garden and Applebee's. In the Fenway neighborhood, Trilogy, a mixed use development, added Cambridge One Pizza to the retail mix that includes Boston's first West Elm store, 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 total square feet of retail space up to 48,000. Current retail tenants include Dunkin Donuts, Halisi Day Spa, Quiznos, and Enterprise Rental Cars. In Roslindale, Staples is redeveloping the long vacant Ashmont Discount Hardware site and will operate in 20,000 square feet once completed. Also in Roslindale, Stop and Shop has filed their plans for 100,000 square feet of new construction at the former Bradley's site on Cummings Highway. AJ Wright opened at the Field's Corner Mall in Dorchester with the highest first day store sales in company history, and they are currently searching for four additional locations in Boston's neighborhoods.

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 2007, has generated 629 net new and expanded businesses, created 4,112 net new jobs, assisted in 600 storefront improvement projects, and given design assistance to 755 businesses. Through fiscal year 2007, the Main Streets Program had dispensed more than \$1.8 million in total physical improvement grants which had leveraged more than \$10.0 million in private investment, a leverage ratio of 5.6 to 1.

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

Industrial Market and Recent Developments

According to "The Co-Star Industrial Report, Year-End 2007," Boston and Suffolk County have 26.6 million square feet of industrial space. As of December 2007, there was 3.6 million square feet of industrial space vacant, a vacancy rate of 13.4%, with -276,656 square feet of absorption over the year. The average rent for quality industrial space was estimated to range from \$8.09 per square-foot (triple net) for warehouse space, and \$17.70 for flex space.

Three major industrial projects completed on the waterfront in South Boston in 2000: 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, 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. In 2005 Stavits Seafood expanded their food processing facility in the Boston Marine Industrial Park ("BMIP").

As of November 2006 Cargo Ventures completed their 212,000 square-foot building, Phase 1 of the International Cargo Center in BMIP which is now nearly 100% occupied. Permits have been secured and demolition of the existing building for the Phase 2 building of 105,000 square feet has begun and construction may begin as early as late 2008. Massport also awarded the development rights to the 30-acre "North Jetty" parcel to Cargo Ventures in 2006, and groundbreaking is expected in 2008. This 525,000 square-foot, \$130 million development will include such uses as seafood processing, bulk cargo, warehouse/distribution, and ancillary office uses. In 2007 the John Nagle Company (58,000 square feet) and Harpoon Brewery (47,000 square feet) signed long-term leases to keep their manufacturing/processing facilities operating. In 2007 EDIC issued requests for proposals for the three-acre Parcel M and three-acre Parcel N in BMIP. A developer has not yet been selected but prospective and viable proposals include a cement terminal, speculative industrial space, seafood freezer space, and seafood auction space. Also in 2007, BioDefense Corporation ("BDC") moved into the 35,000 square-foot 9th floor of 12 Channel Street where they will consolidate their manufacturing operations from upstate New York. BDC manufactures machines to eradicate anthrax and other harmful bio-agents from mail and other packages,

The BRA's Back Streets Program, established in 2001, continues to attract, retain and grow Boston's viable industrial and commercial businesses and their diverse job base through the strategic use of land, workforce and financial resources. In 2007 Back Streets successfully attracted Boston Baking, a four generation commercial baking company, to a 21,000 square feet building in Hyde Park. Back Streets also

helped Global Prints, one of the largest poster manufacturers and distributors in the country, to expand into 13,500 square feet in Hyde Park. In total, the Back Streets program has assisted 61 companies with real estate, 15 companies with financing, 93 companies with technical assistance, and 23 companies with workforce development needs.

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 increased from about 4,500 in 1980 to over 38,000 in 2000. Public and publicly assisted housing totaled 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.

A 2007 study done by the City’s Department of Neighborhood Development showed that the median rent for an apartment in Boston in Fiscal Year 2007 (July 1, 2006 through June 30, 2007) as advertised in the newspapers was \$1,650 per month for all apartment types. Rents are up slightly city-wide from Fiscal Year 2006, when the average was \$1,500. Median rents for an apartment ranged from a high of \$2,300 in the Central (Downtown) district to a low of \$960 in East Boston.

**Median Advertised Asking Monthly Rent in Boston Neighborhoods
And the Volume of All Advertised Apartments
Fiscal Years 2006 and 2007**

<u>Neighborhood</u>	<u>Median Rent</u>			<u>Volume of Apartments</u>		
	<u>2006</u>	<u>2007</u>	<u>Percent</u>	<u>2006</u>	<u>2007</u>	<u>Percent</u>
Allston/Brighton	\$1,300	\$1,350	4	204	102	-50
Back Bay/Beacon Hill	1,895	2,100	11	475	398	-16
Central	2,150	2,300	7	345	257	-26
Charlestown.....	1,500	1,573	5	195	74	-62
Dorchester	1,300	1,250	-4	178	108	-39
East Boston.....	900	960	7	34	14	-59
Fenway/Kenmore	1,300	1,725	33	30	19	-37
Hyde Park	1,125	1,400	24	28	23	-18
Jamaica Plain.....	1,400	1,250	-11	104	28	-73
Mattapan.....	1,275	1,150	-10	28	22	-21
Roslindale.....	1,250	1,300	4	64	61	-5
Roxbury.....	1,275	1,250	-2	30	16	-47
South Boston	1,250	1,275	2	180	66	-63
South End	1,895	2,000	6	100	49	-51
West Roxbury.....	1,250	1,200	-4	60	51	-15
Citywide	1,500	1,650	10	2,055	1,288	-37

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 (January, 2008).

Through mid-2005 home prices in the City rose at a very fast pace but some slowing in prices has occurred since year-end 2005. 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 \$395,600 for 2007, a 4.3% decrease over the high annual median sales price of \$413,200 set in 2005. The median price, not adjusted for inflation has more than doubled over the last decade despite the small fall in prices since 2005.

Greater Boston Annual Median Sales Prices for Existing Homes, 2002-2007 ⁽¹⁾
(Current Year Dollars)

<u>Year</u>	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Annual Median</u>	<u>Annual % Change</u>
2002.....	\$296,100	\$335,700	\$353,500	\$342,400	\$335,400	N/A
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
2007.....	387,400	413,300	414,600	380,700	395,600	-1.6

(1) 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 Exhibit III.

Source: National Association of Realtors (February 2008).

Within the City the median sales price for a single-family home in Boston increased from \$319,500 in the first quarter of 2003 to \$373,500 in the third quarter of 2007, a 17% rise over a 4.5 year period, but has shown a decline of 4.3% from the high of \$390,000 in the third quarter of 2005 to \$373,500 in the third quarter of 2007. Condominium prices also increased from \$294,000 in the first quarter of 2003 to \$345,000 in the third quarter of 2007, also a 17% rise. However, condominium prices are lower by 2.8% from the peak of \$355,000 reached in the third quarter of 2005.

Median Residential Sales Prices for Boston
First Quarter 2003 through Third Quarter 2007
(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	\$480,000	\$530,000	\$351,500
	Second.....	388,250	490,000	530,000	359,000
	Third.....	370,000	475,000	525,000	340,000
	Fourth.....	354,000	465,000	510,000	339,000
2007	First.....	\$365,000	\$465,000	\$499,500	\$351,500
	Second.....	380,000	450,000	467,500	370,000
	Third.....	373,500	430,000	466,000	345,000

Source: City of Boston, Department of Neighborhood Development using Banker & Tradesman data (January 2008).

Banker & Tradesman, a local trade journal, reported that during the full year 2007 there were 10% fewer total residential sales in the City than there were in the full year 2006 (9,236 versus 10,241). Sales of single-family homes fell 7% and sales of condominiums and multi-family non-condominiums fell by 6% and 22% respectively compared with 2006 sales.

**Annual Residential and Condominium Sales in Boston ⁽¹⁾
1997-2007**

<u>Year</u>	<u>Single-Family Sales</u>	<u>Percent Change</u>	<u>Multi-Family Residential Sales ⁽²⁾</u>	<u>Percent Change</u>	<u>Total Condominium Sales</u>	<u>Percent Change</u>	<u>Residential and Condo Sales ⁽³⁾</u>	<u>Percent Change</u>
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	-1
2006.....	1,319	-16	2,332	-21	6,590	-10	10,241	-13
2007.....	1,221	-7	1,822	-22	6,193	-6	9,236	-10

(1) Data for previous years have been revised since the publication of last year's report.

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

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

Source: Banker and Tradesman (January 2008).

Prices and sales volumes are also shown by neighborhood detail for single-family homes and for condominiums for fiscal years 2006 (July 2005 through June 2006) and 2007 (July 2006 through June 2007). 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 \$277,500 in Roxbury to \$2.2 million in the Back Bay with the city-wide median at \$369,000 and the typical house going for \$395,625 in West Roxbury, the most suburban-style single family neighborhood within the City limits. The median sales price was down 3% and the sales volume was down by 17% through July 2007.

Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Single Family Homes
In Boston's Neighborhoods, Fiscal Years 2006 and 2007
(Not inflation adjusted)

<u>Neighborhood</u>	2006	2007	<u>Percent Change</u>	2006	2007	<u>Percent Change</u>
	<u>Single-Family Price</u>	<u>Single-Family Price</u>		<u>Sales Volume</u>	<u>Sales Volume</u>	
Allston/Brighton	\$458,000	\$456,750	0	70	56	-20
Back Bay/Beacon Hill ...	2,085,176	2,220,000	6	30	27	-10
Central	*	*	**	4	4	**
Charlestown.....	646,000	601,000	-7	55	48	-13
Dorchester	365,000	349,150	-4	203	183	-10
East Boston.....	333,000	280,000	-16	58	35	-40
Fenway/Kenmore	*	*	**	5	2	**
Hyde Park.....	350,000	335,000	-4	275	191	-31
Jamaica Plain.....	559,000	485,750	-13	77	70	-9
Mattapan.....	327,000	300,500	-8	98	64	-35
Roslindale.....	376,000	372,500	-1	174	136	-22
Roxbury.....	315,000	277,500	-12	53	56	6
South Boston	395,000	375,000	-5	71	71	0
South End	1,120,000	1,050,000	-6	29	22	-24
West Roxbury.....	420,000	395,625	-6	305	288	-6
Citywide	380,000	369,000	-3	1,504	1,251	-17

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

** Not meaningful.

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

Note 2: Data in the above table does not include "paired-sales" so the size, quality and type of houses sold vary from year-to-year.

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

Source: City of Boston, Department of Neighborhood Development, January 2008, Real Estate Trends.

Condominium sales volume and prices also showed diversity across the neighborhoods of Boston in 2006 and 2007. The three most expensive neighborhoods for condominiums (median price greater than \$475,000) were the Central (comprising Downtown, the North End, the West End, and the Waterfront), and the Back Bay/Beacon Hill and South End neighborhoods, which all together form the core residential pockets closest to downtown. Four neighborhoods had moderately priced condominiums (median price between \$303,000 and \$429,000): Charlestown, South Boston, Jamaica Plain and Fenway/Kenmore. Eight neighborhoods still had lower condominium median prices (with medians 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 Fiscal Year 2007 was \$350,000, unchanged from that for Fiscal Year 2006. Sales volume declined by 8%.

Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Condominiums
In Boston's Neighborhoods, Fiscal Years 2006 and 2007
(Not inflation adjusted)

<u>Neighborhood</u>	<u>2006 Condominium Price</u>	<u>2007 Condominium Price</u>	<u>Percent Change</u>	<u>2006 Sales Volume</u>	<u>2007 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton	\$292,000	\$273,100	-6	846	653	-23
Back Bay/Beacon Hill	510,000	585,000	15	815	754	-7
Central	555,000	616,432	11	921	716	-22
Charlestown.....	445,000	429,000	-4	428	358	-16
Dorchester	290,000	285,000	-2	570	768	35
East Boston.....	269,000	256,750	-5	387	192	-50
Fenway/Kenmore	305,000	303,250	-1	324	276	-15
Hyde Park.....	286,250	265,000	-7	112	85	-24
Jamaica Plain.....	326,250	330,000	1	461	415	-10
Mattapan.....	234,000	259,900	11	62	102	65
Roslindale.....	292,750	285,000	-3	266	245	-8
Roxbury.....	292,000	275,000	-6	329	267	-19
South Boston	355,000	360,000	1	692	768	11
South End.....	509,000	479,000	-6	679	766	13
West Roxbury.....	287,500	245,000	-15	172	129	-25
Citywide	350,000	350,000	0	7,064	6,494	-8

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

Note 2: Data in the above table does not include "paired-sales," so the size, quality and type of houses sold vary from year-to-year.

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

Source: City of Boston, Department of Neighborhood Development, January 2008, Real Estate Trends.

During the last two years, as a result of the problems nationally in housing markets due to the prevalence of sub-prime loans, the issue of foreclosures has become noteworthy and relevant to the discussion of housing markets. Boston has been seeing some rise in the amount of foreclosures, and the following table provides details at the City and neighborhood levels.

**Short Term Trends in Housing Foreclosures
In Boston and its Neighborhoods, Years 2006 and 2007
(Deeds and Petitions)**

	Fiscal 2006		Fiscal 2007		% CHANGE	
	<u>Deeds</u>	<u>Petitions</u>	<u>Deeds</u>	<u>Petitions</u>	<u>Deeds</u>	<u>Petitions</u>
Allston-Brighton.....	2	32	8	51	*	59
Back Bay Beacon Hill	2	19	5	18	*	-5
Central	1	7	2	27	*	*
Charlestown.....	2	20	3	25	*	25
Dorchester.....	41	296	126	593	207	100
East Boston.....	6	49	26	97	*	98
Fenway/Kenmore.....	4	5	4	9	*	*
Hyde Park.....	10	127	45	253	350	99
Jamaica Plain.....	2	33	12	66	*	100
Mattapan.....	23	129	53	279	130	116
Roslindale.....	3	65	19	104	*	60
Roxbury.....	20	199	81	376	305	89
South Boston	6	46	18	87	*	89
South End	2	24	4	40	*	67
West Roxbury.....	1	41	10	73	*	78
Citywide	125	1,092	416	2,098	233	92

* No percentage change is calculated for neighborhoods with less than 10 deeds or petitions.

Source: City of Boston, Department of Neighborhood Development, February 2008.

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 uses tools such as zoning and inclusionary development to successfully produce artist space. Both artist live/work and artist work-only space is being made permanent by the work of the BRA’s Artist Space Initiative to support the work of creative entrepreneurs. Four new artist live/work spaces for sale in early 2008 on Congress Street in Fort Point will help maintain artists’ presence in that dynamic neighborhood. Artist units are currently being permitted in South Boston and Hyde Park. Twenty-six permanent affordable artist live/work units were recently occupied by artists in the South End at ArtBlock, along with affordable work studios and nonprofit arts organization space. These developments have brought the total number of permanent artist units created through the BRA’s Artist Space Initiative to 165. Additionally, 118 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 submitted their portfolio documentation to be eligible for future artists’ space as it is developed.

Housing construction accelerated between 2000 and 2007 with the Leading The Way I and II housing strategy plans – Boston’s comprehensive strategy for intensive housing construction. The City has counted

14,668 housing units completed from 2000 through 2007 including more than 4,207 new “affordable rate” units. Over 7,000 households were protected from displacement through City efforts to prevent their subsidized apartments from becoming market-rate. Currently in construction are 3,708 total units while 1,216 more units are in developments which are designated “pre-construction” (permitted but physical construction yet to begin). When completed Boston’s Leading the Way production will total 19,592 housing units added. Virtually all of the Boston Housing Authority’s vacant units have been reclaimed to create new housing, particularly for the homeless.

The Boston Redevelopment Authority has approved 36 different private-sector housing developments around the City, both downtown and in the neighborhoods, with 2,812 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
February 2008**

<u>Project</u>	<u>Area</u>	<u>Total Units</u>	<u>Afford. Units</u>	<u>Market Units</u>	<u>Year Approved</u>
1304-1312 Commonwealth Ave	Allston/Brighton	6	0	6	2005
533 Cambridge	Allston/Brighton	44	6	38	2006
6 Arlington St	Back Bay/Beacon Hill	15	0	15	2007
Boylston St Mixed Use (The Mandarin)	Back Bay/Beacon Hill	85	10	75	2005
The Clarendon	Back Bay/Beacon Hill	285	37	248	2006
40-44 Harrison Ave	Central	32	3	29	2006
45 Province Street	Central	150	0	150	2006
64-66 Salem St	Central	10	0	10	2006
99-105 Broad Street	Central	48	1	47	2007
Avenir Development (89-115 Canal St)	Central	241	17	224	2007
Battery Wharf	Central	120	0	120	2006
Emerson Place - Charles River Park	Central	320	48	272	2006
944 Dorchester	Dorchester	59	8	51	2007
Courtyard at Cedar Grove	Dorchester	18	2	16	2005
Mount Vernon Street Housing (Phase 2)	Dorchester	132	0	132	2007
Norfolk Street Townhouses	Dorchester	21	3	18	2006
Portside at Pier 1 (Phase 1)	East Boston	404	59	345	2006
1302-1330 Boylston	Fenway/Kenmore	199	10	189	2006
461 Park Drive	Fenway/Kenmore	21	3	18	2006
Miner Street (Stonewall at Audubon Circle)	Fenway/Kenmore	53	5	48	2006
81-87 Fairmount Ave	Hyde Park	10	1	9	2005
11 Wyman	Jamaica Plain	22	3	19	2006
Jamaica Park Condominiums	Jamaica Plain	29	4	25	2006
1317 Blue Hill Ave	Mattapan	13	0	13	2005
Harvard Commons Homeownership Phase 2	Mattapan	30	9	21	2007
Rivers Edge Condominiums	Mattapan	62	6	56	2006
Elm Hill/Seaver St Conversion	Roxbury	18	3	15	2007
148 Dorchester Street	South Boston	47	6	41	2006
36 A Street	South Boston	25	3	22	2005
Channel Wharf -- 401 West 1st Street	South Boston	45	5	40	2006
Old Colony Square	South Boston	24	3	21	2006
255 Northampton St	South End	25	3	22	2006
269-285 Columbus Ave Conversion	South End	63	8	55	2007
301 Columbus Ave	South End	50	5	45	2005
Allied Bolt Building Rehab (SOHA Lofts)	South End	86	10	76	2006
TOTAL		2,812	281	2,531	

Source: Boston Redevelopment Authority, January 2007.

The Linkage Program

The City implemented its development linkage program in 1983 in order to direct some of the benefits of downtown investment to the building of affordable housing in its neighborhoods through the Neighborhood Housing Trust (NHT). The linkage program also funds job training for City residents through the Neighborhood Jobs Trust (NJT). Under the linkage program, which was amended in 1986 and again in 2001, real estate developers seeking approval of large scale commercial or institutional developments are required to enter into agreements obligating them to pay exactions in the amount of \$9.44 per square-foot of construction over 100,000 square feet, of which \$1.57 per square-foot goes to the job

training fund and \$7.87 per square-foot goes for affordable housing purposes. The fee was last adjusted as of March 9, 2006.

Linkage payments to the NHT are amortized over a period of either seven or twelve years, depending on the date of the initial agreement. Under NHT policy, current agreements provide for a seven-year payment period. The seven-member NHT board holds public hearings and has the authority to approve linkage grants to selected projects, except for a separate “housing creation” option, which requires the additional approval by the BRA. Since the inception of the linkage program through December 2007, the NHT has awarded \$103.2 million in grant funds to various affordable housing projects.

Based on data through 2007, NHT funding contributed to the complete or pending construction or renovation of 9,384 housing units in 145 projects in the City’s neighborhoods. Affordable housing units for low and moderate-income residents comprise 81% (7,552 units) of this total. Of these 145 housing developments created, linkage funds, for the most part, account 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 2007 over \$18 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.

Amount	Purpose Name	Statute	Effective Date
29,047.98	Economic Development & Industrial Corporation	C1097 s11 Acts 1971	June 2, 1995
\$16,132.41	Urban Renewal - All Areas	C121B s20	June 2, 1995 amended on June 4, 1996, September 30, 1997
84,662.90	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995 amended on October 21, 1997
34,269.46	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995
9,741.49	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 25, 1996
223,946.42	Capital Improvements - Act '96	C642 s7C Act 1996	June 4, 1996
3,529.29	Acquisition of Land; Cemeteries	C44 s7 (20)	June 25, 1996
32,137.51	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 25, 1996 amended on October 30, 1997
703,715.58	Capital Improvements - Act '96 School Dept.	C642 s7C Act 1996	July 9, 1996 amended on September 30, 1997, October 28, 1997, May 12, 1998
4,043,315.03	Construction of Buildings; Acquisition of Land	C44 s7 (3)	October 21, 1997
168,362.51	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
277,831.81	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
210,269.98	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
797,563.88	Departmental Equipment	C44 s7 (9)	July 21, 1998
37,295.75	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 21, 1998
4,505.00	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 21, 1998
300,929.69	Urban Redevelopment and Renewal	C121B s20	August 24, 1998
25,451.68	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 12, 1999

Amount	Purpose Name	Statute	Effective Date
139,039.40	Construction of Buildings; Acquisition of Land	C44 s7 (3)	August 12, 1999
299,938.28	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	December 15, 1999
\$26,089.36	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 7, 2000
944.85	Construction of Public Ways	C44 s7 (5)	August 7, 2000
21,976.60	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 7, 2000
3,606,613.40	Remodeling & Extraordinary Repairs	C44 s7 (3A)	September 7, 2001
9,942.71	Construction of Bridges	C44 s7 (4)	August 16, 2001
124,614.33	Construction of Public Ways	C44 s7 (5)	September 7, 2001
189,810.59	Departmental Equipment	C44 s7 (9)	September 7, 2001
1,609,247.33	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	September 7, 2001
1,510,766.88	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 5, 2002
672,930.97	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 5, 2002
72,496.53	Construction of Bridges	C44 s7 (4)	August 5, 2002
350,165.40	Traffic Signal and Public Lighting Installation	C44 s7 (14)	August 5, 2002
4,104.55	Acquisition of Land; Cemeteries	C44 s7 (20)	August 5, 2002
95,635.12	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 5, 2002
460,086.86	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 28, 2003
572.64	Engineering & Architectural Services/Planning	C44 s7 (22)	July 28, 2003
2,462,752.09	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 28, 2003
17,923.32	Departmental Equipment	C44 s7 (9)	July 28, 2003
500.56	Engineering & Architectural Services/Planning	C44 s7 (22)	July 28, 2003
1,726,915.98	Construction of Buildings; Acquisition of Land - Burke School	C44 s7 (3)	August 4, 2003
630,927.13	Construction of Buildings;	C44 s7 (3)	July 29, 2004

Amount	Purpose Name	Statute	Effective Date
	Acquisition of Land		
22,841.69	Architectural Services for Plans & Specifications	C44 s7 (21)	July 29, 2004
1,466,746.08	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 29, 2004
2,966,862.10	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 29, 2004
326,398.74	Reservoir Construction/Enlargement; Water Treatment Buildings, Standpipes, etc.	C44 s8 (4)	July 29, 2004
291,858.49	Water Mains Laying / Re-Laying	C44 s8 (5)	July 29, 2004
1,476,207.84	Construction of Bridges	C44 s7 (4)	July 29, 2004
\$17,542.09	Engineering & Architectural Services/Planning	C44 s7 (22)	July 29, 2004
4,735.25	Acquisition of Land; Cemeteries	C44 s7 (20)	July 29, 2004
897,307.25	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 29, 2004
1,010,745.94	Construction of Buildings; Acquisition of Land	C44 s7 (3)	July 26, 2005
5,295,258.87	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 26, 2005
157,637.95	Engineering & Architectural Services/Planning	C44 s7 (22)	July 26, 2005
4,417,163.97	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	July 26, 2005
119,688.88	Engineering & Architectural Services/Planning School Dept.	C44 s7 (22)	July 26, 2005
6,006,664.29	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 26, 2005
459,717.28	Construction of Bridges	C44 s7 (4)	July 26, 2005
114,623.17	Departmental Equipment	C44 s7 (9)	July 26, 2005
3,002,581.73	Departmental Equipment	C44 s7 (9)	July 26, 2005
191,670.25	Computer Software	C44 s7 (29)	July 26, 2005
582,983.61	Street Lighting Installation	C44 s7 (14)	July 26, 2005
93,548.73	Acquisition of Land; Cemeteries	C44 s7 (20)	July 26, 2005
6,417.12	Engineering & Architectural Services/Planning	C44 s7 (22)	July 26, 2005
2,981,712.31	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 26, 2005

Amount	Purpose Name	Statute	Effective Date
131,050.07	Capital Improvements - Act '96	C642 s7C Act 1996	July 5, 2005
6,960,225.01	Construction of Buildings; Acquisition of Land	C44 s7 (3)	July 24, 2006
6,571,710.22	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	July 24, 2006
2,115,892.52	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 24, 2006
6,830.90	Acquisition of Land; Cemeteries	C44 s7 (20)	July 24, 2006
1,696,476.73	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 24, 2006
7,408,712.30	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 24, 2006
88,128.28	Engineering & Architectural Services/Planning	C44 s7 (22)	July 24, 2006
1,474,193.00	Construction of Public Ways	C44 s7 (5)	July 24, 2006
654,567.39	Construction of Sidewalks (CityWalk)	C44 s7 (6)	July 24, 2006
\$685,570.94	Street Lighting Installation	C44 s7 (14)	July 24, 2006
1,246,075.74	Departmental Equipment	C44 s7 (9)	July 24, 2006
154,998.50	Capital Improvements - Act '96 Tree Program	C642 s7C Act 1996	July 3, 2006
5,768,277.25	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 23, 2007
14,416,109.42	Remodeling & Extraordinary Repairs School Dept.	C44 s7 (3A)	July 23, 2007
1,061,162.53	Energy Conservation & Alternative Energy Improvements School Dept.	C44 s7 (3B)	July 23, 2007
218,739.63	Fire Alarm Installation, Extending & Improving School Dept.	C44 s7 (14)	July 23, 2007
200,219.35	Engineering & Architectural Services/Planning	C44 s7 (22)	July 23, 2007
2,002,221.43	Construction of Buildings; Acquisition of Land	C44 s7 (3)	July 23, 2007
2,680,271.76	Departmental Equipment	C44 s7 (9)	July 23, 2007
800,888.57	Construction of Bridges	C44 s7 (4)	July 23, 2007
1,501,666.07	Construction of Public Ways	C44 s7 (5)	July 23, 2007
1,001,110.71	Construction of Sidewalks	C44 s7 (6)	July 23, 2007

Amount	Purpose Name	Statute	Effective Date
2,679,023.33	Street Lighting Installation	C44 s7 (14)	July 23, 2007
1,622,618.30	Computer Hardware	C44 s7 (28)	July 23, 2007
388,707.93	Computer Software	C44 s7 (29)	July 23, 2007
695,652.46	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 23, 2007
6,191,869.77	Computer Hardware SBRIS Payroll Benefits System	C44 s7 (28)	March , 2008
\$126,185,000.00	New Money Bonds		
21,805,000.00	Refunding	C643 s13 Act 1983	April 7, 1998
6,350,000.00	Refunding	C643 s13 Act 1983	December 17, 2003
\$28,155,000.00	Refunding Bonds		
\$154,340,000.00	New Money plus Refunding Bonds		

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March 20, 2008

Lisa C. Signori
Director of Administration and Finance
and Collector-Treasurer
City of Boston
Boston, Massachusetts

Re: City of Boston, Massachusetts
\$126,185,000
General Obligation Bonds, 2008 Series A
and
\$28,155,000
General Obligation Bonds, 2008 Series B
dated March 20, 2008

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 \$126,185,000 General Obligation Bonds, 2008 Series A (the "Series A Bonds"), and \$28,155,000 General Obligation Bonds, 2008 Series B (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds"), dated March 20, 2008. 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 6, 2008 relating to the Bonds regarding (i) the revenues and expenditures of the City relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the City, and (vi) pension obligations of the City, and
- (b) the most recently available audited financial statements of the City, prepared in accordance with generally accepted accounting principles.

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

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

SECTION 5. Reporting of Material Events.

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

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasances of the Bonds or any portion thereof.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

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

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

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

SECTION 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the City), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. The City will give notice, or will cause the Dissemination Agent to give notice, of the change in the accounting principles to each Repository.

SECTION 9. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the City of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action for specific performance of the City's obligations hereunder and not for money damages in any amount.

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

Date: March 20, 2008

CITY OF BOSTON, MASSACHUSETTS

By _____
Director of Administration and Finance and
Collector-Treasurer

Mayor

City Auditor

[EXHIBIT A LIST OF NATIONAL REPOSITORIES AND TRANSMISSION AGENT]
[EXHIBIT B FORM OF NOTICE OF FAILURE TO FILE ANNUAL REPORT]