

## NEW ISSUE

Ratings†

Moody's S&P

Aaa AAA

*In the opinion of Edwards Wildman Palmer 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 all of the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Exemption" herein.*

# CITY OF BOSTON, MASSACHUSETTS

## \$153,000,000

## GENERAL OBLIGATION BONDS 2014 SERIES A

Dated: Date of Delivery

Due: March 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2015	\$8,355,000	5.00%	0.12%	100853 TH3	2025	\$6,380,000	5.00%	2.62%**	100853 TT7
2016	8,300,000	5.00	0.27	100853 TJ9	2026	6,700,000	3.00	3.00	100853 TU4
2017	8,710,000	5.00	0.45	100853 TK6	2027	6,900,000	3.00	3.12	100853 TV2
2018	9,145,000	5.00	0.75	100853 TL4	2028	7,110,000	4.00	3.23**	100853 TW0
2019	9,600,000	5.00	1.06	100853 TM2	2029	7,385,000	4.00	3.34**	100853 TX8
2020	7,395,000	5.00	1.45	100853 TN0	2030	6,220,000	3.50	3.54	100853 TY6
2021	7,760,000	5.00	1.82	100853 TP5	2031	6,440,000	4.00	3.48**	100853 TZ3
2022	8,155,000	5.00	2.14	100853 TQ3	2032	6,695,000	4.00	3.56**	100853 UA6
2023	8,560,000	5.00	2.35	100853 TR1	2033	6,965,000	4.00	3.63**	100853 UB4
2024	8,985,000	5.00	2.49	100853 TS9	2034	7,240,000	4.00	3.68**	100853 UC2

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 ("DTC") and its participants. Details of payment of the Bonds are set forth in this Official Statement. Interest on the Bonds will be payable on September 1, 2014 and semiannually on each March 1 and September 1 thereafter until maturity or redemption prior to maturity.

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

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

The Bonds were sold by the City after competitive bidding pursuant to the Official Notice of Sale, dated March 5, 2014, and are offered subject to the final approving opinion of Edwards Wildman Palmer, LLP, Boston, Massachusetts, Bond Counsel to the City, and to certain other conditions described herein and in the Official Notice of Sale. Public Financial Management, Inc., Boston, Massachusetts, serves as Financial Advisor to the City. **U.S. Bank National Association** will act as paying agent for the Bonds. It is anticipated that the Bonds will be available for delivery through DTC in New York, New York, on or about March 26, 2014.

March 12, 2014

† See "Credit Ratings."

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

\*\* Priced to the first optional redemption date. See "The Bonds—Redemption Prior to Maturity—Optional Redemption."

No dealer, broker, salesperson or other person has been authorized by the City of Boston or the 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. The information and expressions of opinion herein or included by reference herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof, except as expressly set forth herein. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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**OFFICIAL STATEMENT**  
*of the*  
**CITY OF BOSTON, MASSACHUSETTS**  
*relating to*  
**\$153,000,000**  
**GENERAL OBLIGATION BONDS, 2014 SERIES A**

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the “City”), the \$153,000,000 General Obligation Bonds, 2014 Series A (the “Bonds”) to be issued by the City as described herein. Certain credit factors concerning the Bonds are described throughout this Official Statement, which should be read in its entirety. This Official Statement speaks only as of its date and the information contained herein is subject to change after this date.

**THE CITY**

The City of Boston, incorporated as a town in 1630 and as a city in 1822, is the largest city in Massachusetts and the capital of The Commonwealth of Massachusetts (the “Commonwealth”). The City and its component governmental units are responsible for the provision of a wide range of government services, including education, public safety, public health, urban planning and development and the maintenance of the City’s infrastructure, and for funding certain employee benefits, state authority assessments and debt service requirements. Its primary sources of revenue are property taxes, state aid and certain excises. Management of the City’s finances includes preparation of annual operating and capital budgets, the exercise of expenditure controls and cash management. For a full discussion concerning the City and its finances, see “Appendix A—City of Boston, Massachusetts, Information Statement dated March 1, 2014 (the “Information Statement”).

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

**SECURITY FOR THE BONDS**

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

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

In the opinion of Bond Counsel, the City is subject to suit on the Bonds, and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the Bonds from available funds or, in the absence of available funds, to order the inclusion of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors, including the current operating needs of the City and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of property of any inhabitant. There has been no judicial determination, however, as to whether the remedy is constitutional under current due process and equal protection standards.

Payment of the principal and interest on the Bonds is not secured by or limited to a pledge of any particular revenue source of the City. Chapter 190 of the Acts of 1982 of the Commonwealth (the “1982 Funding Loan Act”) and the Bond Procedure Act of 1983 authorize the City to pledge to the payment of any of its general obligation notes or bonds all or any part of the revenues of the City derived from any tax, fee, distribution or reimbursement payable to the City (except distributions and reimbursements required by law to be specifically used for statutorily defined purposes), including state aid distributions and the proceeds of the City’s annual property tax levy. No obligations are currently outstanding which are secured by such a pledge. The Bond Procedure Act of 1983 also authorizes the City to issue special obligation bonds payable solely from the revenues of a revenue-producing

facility, 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. As of the date of this Official Statement, no special obligation indebtedness of the City remains outstanding. See “City Indebtedness—Special Obligation Debt” in the Information Statement. 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 the Information Statement.

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

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

## THE BONDS

### Description

The Bonds will be dated the date of delivery thereof, expected to be March 26, 2014, and will mature on March 1 of the years, and in the amounts, and will bear interest calculated on the basis of 30-day months and a 360-day year at the rates, shown on the cover of this Official Statement. Interest on the Bonds will be payable on September 1, 2014 and semiannually thereafter on each March 1 and September 1, provided that if such day is not a business day, interest will be payable on the next business day.

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

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

### Authorization and Purpose

The Bonds will be issued pursuant to Chapter 643 of the Acts of 1983 of the Commonwealth, as amended, and various loan orders of the City Council approved by the Mayor. The Bonds will be issued to finance various capital projects of the City.

### Redemption Prior To Maturity

#### *Optional Redemption*

The Bonds maturing on or before March 1, 2024 will not be subject to redemption prior to maturity. The Bonds maturing after March 1, 2024 will be subject to redemption prior to maturity at the option of the City, on or after March 1, 2024, 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 Bonds, specifying the numbers, series and maturities of the Bonds or portions thereof to be redeemed and the redemption date, will be given by the Paying Agent not less than 30 days prior to the redemption date by notice mailed to DTC or its nominee, as registered owner of the Bonds to be redeemed. The City will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee. Notice having been given, the Bonds or portions thereof called for redemption will become due and payable on the designated redemption date. If on the redemption date monies are available for the redemption of the Bonds or portions thereof to be redeemed, together with interest accrued to the redemption date, then interest on such Bonds or portions thereof shall thereafter cease to accrue.

### Book-Entry Transfer System

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and

municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company for DTC, National, and Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated securities. Access to the DTC system is also available to others as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not 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 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 MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

### DEBT SERVICE REQUIREMENTS

The following table sets forth the gross debt service requirements for the City's outstanding general obligation bonds as of March 1, 2014, the gross debt service requirements on the Bonds and the resulting total gross debt service requirements on the general obligation bonds of the City following the issuance of the Bonds.

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

Fiscal Year	Bonds/Notes Outstanding As of March 1, 2014		2014 Bonds		Total Principal and Interest
	Principal	Interest	Principal	Interest	Interest
2014.....	\$ 44,815	\$ 14,154	\$ —	\$ —	\$ 65,359
2015.....	99,305	45,197	8,355	6,390	159,305
2016.....	95,820	40,665	8,300	6,448	150,819
2017.....	91,890	36,101	8,710	6,034	142,299
2018.....	86,225	31,681	9,145	5,598	132,192
2019.....	79,225	27,743	9,600	5,141	121,229
2020.....	70,305	24,138	7,395	4,661	106,129
2021.....	66,645	20,818	7,760	4,291	99,126
2022.....	70,770	17,603	8,155	3,903	100,023
2023.....	62,875	14,958	8,560	3,495	89,460
2024.....	53,560	12,326	8,985	3,067	77,489
2025.....	72,185	9,977	6,380	2,618	90,841
2026.....	50,500	7,823	6,700	2,299	67,121
2027.....	37,330	5,741	6,900	2,098	51,862
2028.....	29,450	4,219	7,110	1,891	42,386
2029.....	22,995	2,928	7,385	1,607	34,619
2030.....	18,935	1,950	6,220	1,311	28,199
2031.....	15,595	1,220	6,440	1,094	24,091
2032.....	12,900	674	6,695	836	20,837
2033.....	9,155	246	6,965	568	16,656
2034.....	—	—	7,240	290	70,880
Totals	\$ 1,090,480	\$ 320,162	\$ 153,000	\$ 63,640	\$ 1,690,922

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

Source: City of Boston Auditing Department.

### Rate of Principal Retirement

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

Term of Retirement	Debt Outstanding as of March 1, 2014 to be Retired (in thousands)	Percentage of Debt Outstanding as of March 1, 2014 to be Retired	Debt Outstanding After Issuance of the Bonds to be Retired (in thousands)	Percentage of Debt Outstanding After Issuance of the Bonds to be Retired
Fiscal 2014-2019	\$ 497,280	45.6%	\$ 541,390	43.5%
Fiscal 2020-2024	324,155	29.7	365,010	29.4
Fiscal 2025-2029	212,460	19.6	246,935	20.0
Fiscal 2030-2034	56,585	5.2	90,145	7.1
Total	\$1,090,480	100.0%	\$1,243,480	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.

Telecommunications providers Verizon and RCN have filed appeals with the Appellate Tax Board for fiscal 2012 and 2013 claiming that Boston and other Massachusetts cities and towns that classify their tax rates have disproportionately assessed the tax on their personal property in violation of the Massachusetts Constitution. The companies are challenging Chapter 40, section 56 of the Massachusetts General Laws, which was enacted after a 1978 amendment to the state constitution that provided for the current system of classified tax rates for residential and business property.

The companies, together, would receive abatements totaling approximately \$3.6 million for each year if they prevail. Moreover, a decision in the companies' favor would lower the tax rate for all personal property taxpayers going forward. This would not impact the amount of future revenue that could be raised by the City, but would adversely impact the tax rates for residential properties, since their share of the levy is statutorily dependent upon the portion of the total levy that personal property owners pay. It should be noted that while the Supreme Judicial Court, in response to a request for an opinion by the House of Representatives, affirmed the constitutionality of the act on which Chapter 40, section 56 is based in 1979, the City cannot predict the outcome of this matter.

## **TAX EXEMPTION**

In the opinion of Edwards Wildman Palmer 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 has not opined as to other Massachusetts tax consequences arising with respect to 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 expresses no opinion as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

A complete copy of the proposed form of the opinion of Bond Counsel with respect to the Bonds is set forth in Appendix B 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 the Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on such Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of



the 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 the 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.

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.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any 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 market value and marketability 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.

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, deduction or exclusion. 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.

### **CREDIT RATINGS**

Moody's Investors Service Inc., ("Moody's"), 7 World Trade Center at 250 Greenwich Street, New York, New York, and Standard & Poor's Rating Services, a division of the McGraw-Hill companies ("Standard & Poor's"), 55 Water Street, New York, New York, have assigned the ratings of "Aaa" and "AAA," 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 12, 2014, in accordance with the Official Notice of Sale dated March 5, 2014 (the "Official Notice of Sale").

Bank of America Merrill Lynch (“Bank of America”) was the successful bidder for the Bonds. Information provided by Bank of America regarding the interest rates and reoffering yields of the Bonds is set forth on the front cover of this Official Statement. The Bonds are being purchased from the City by Bank of America at an aggregate price of \$170,001,753.75, reflecting the principal amount of \$153,000,000.00, plus net original issue premium of \$17,171,583.75, less underwriter’s discount of \$169,830.00.

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

### **LEGAL MATTERS**

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

### **INDEPENDENT AUDITORS**

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

### **FINANCIAL ADVISOR**

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

### **CONTINUING DISCLOSURE**

In order to assist the underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “Rule”), the City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 270 days after the end of each fiscal year (the “Annual Report”), and to provide notices of occurrence of certain enumerated events. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C (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 within the previous five years. The City has implemented procedures to ensure timely filing of annual reports and notices of certain enumerated events required under its continuing disclosure undertakings.

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

### **MISCELLANEOUS**

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

CITY OF BOSTON, MASSACHUSETTS

By: /s/ Meredith Weenick  
*Chief Financial Officer and Collector-Treasurer*

Dated: March 12, 2014

CITY OF  
BOSTON, MASSACHUSETTS



INFORMATION STATEMENT  
Dated March 1, 2014

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

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

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

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

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## THE CITY

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

The Mayor is the chief executive officer of the City. Martin J. Walsh, the Mayor of the City, was elected to serve his first term from January 2014 through January 2018. The Mayor has general supervision of and control over the City’s boards, commissions, officers, and departments. The portion of the City budget covering appropriations for all departments and operations of the City, except the School Department and the Boston Public Health Commission, is prepared under the direction of the Mayor. Prior to his service as Mayor, Mayor Walsh was a member of the Massachusetts House of Representatives, serving as the State Representative from the Thirteenth Suffolk District from 1997 through 2013.

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 orders for the borrowing or appropriation of money and the reorganization of City departments, may be enacted by the City Council over the Mayor’s veto by a two-thirds vote. The City Council may reject or reduce a budget submitted to it by the Mayor, but the City Council may not increase a budget. For a description of the budget process, see “Financial Operations—Budget Process” herein.

The members of the City Council, all of whose current terms will end in January 2016, are set forth below.

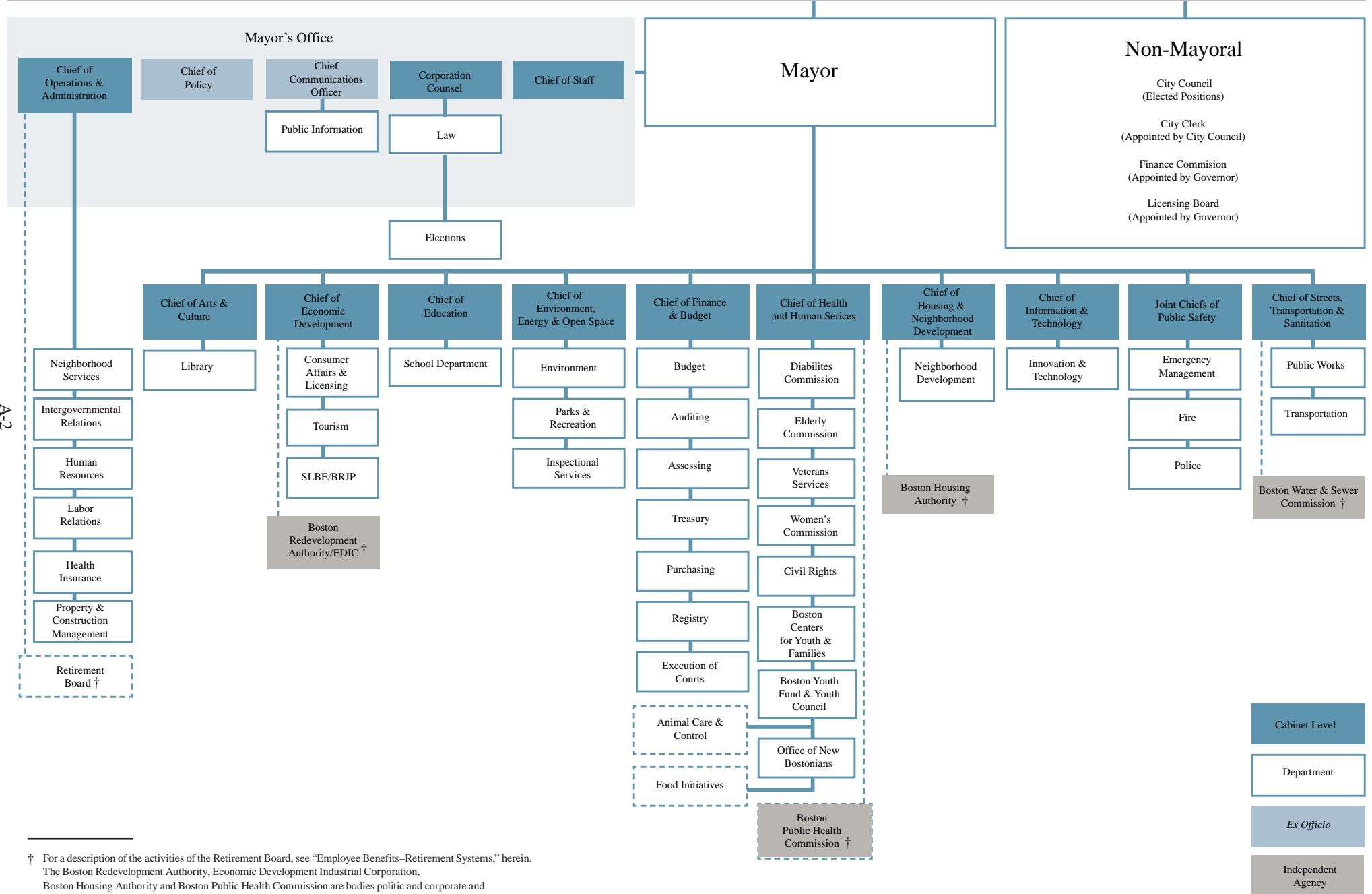
William P. Linehan (President) .....	District 2
Michael F. Flaherty .....	At Large
Stephen J. Murphy .....	At Large
Ayanna Pressley .....	At Large
Michelle Wu .....	At Large
Salvatore J. LaMattina .....	District 1
Frank Baker .....	District 3
Charles C. Yancey .....	District 4
Timothy McCarthy .....	District 5
Matthew J. O’Malley .....	District 6
Tito H. Jackson .....	District 7
Josh Zakim .....	District 8
Mark B. Ciommo .....	District 9

### Organization of City Government

The City of Boston operates under 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.

Citizens of Boston



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

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

#### *Chief of Staff*

Daniel Arrigg Koh was appointed Chief of Staff in January 2014. From 2012 to 2014, Mr. Koh was Chief of Staff to President and Editor-in-Chief Arianna Huffington at The Huffington Post as well as General Manager of HuffPost Live, the media organization's online streaming network. Prior to that, Mr. Koh was a Leadership Fellow in Mayor Thomas M. Menino's office. Prior to his transition to the public sector, Mr. Koh worked in business development and labor relations for the New England Patriots and Major League Baseball, as well as strategy consulting for Booz Allen Hamilton. The Chief of Staff is charged with supervising and directing the operations of the Mayor's office, including but not limited to scheduling, security, policy and planning, press, constituent services and intergovernmental relations.

#### *Chief of Policy*

Joyce Linehan was appointed Chief of Policy in February 2014. From 2000-2013, she owned and operated Ashmont Media, a public relations company serving not-for-profit arts organizations. From 1992-1999, she was the Senior Director of Artists & Repertoire for Sub Pop Records. The Chief of Policy oversees the development and implementation of all policy initiatives for the City.

#### *Chief of Operations and Administration*

Joseph Rull was appointed Chief of Operations & Administration in January 2014. Most recently, Mr. Rull served as Director of Legislative Affairs for the Division of Capital Asset Management and Maintenance in Massachusetts Governor Deval Patrick's Administration. Prior to that, Mr. Rull worked in Mayor Thomas M. Menino's office as a Special Assistant, as well as the Massachusetts Port Authority and the Executive Office of Labor and Workforce Development. The Chief of Operations and Administration oversees the development and maintenance of relationships, procedures and strategic operations necessary to implement the Mayor's goals for his Administration. The Chief of Operations also supervises the Offices of Neighborhood Services, Intergovernmental Relations, Human Resources, Labor Relations, Health Insurance, and Property and Construction Management.

#### *Corporation Counsel*

Eugene L. O'Flaherty was appointed Corporation Counsel in January 2014. Prior to his appointment, Mr. O'Flaherty served in the Massachusetts House of Representatives for seventeen years. Elected to the Massachusetts Legislature in 1996, Mr. O'Flaherty served on the Education, Arts and Humanities Committee and as Vice-Chairman of the Banks and Banking Committee before being appointed to serve as the Judiciary Chair in 2002. 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 Information and Technology*

Justin C. Holmes was appointed Interim Chief Information Officer in January 2014. Prior to his appointment, Mr. Holmes served as Director of Constituent Engagement for the City of Boston, overseeing the Mayor's 24-Hour Hotline and the award-winning mobile app Boston Citizens Connect. The Chief of Information and Technology oversees the Department of Innovation and Technology ("DoIT"). DoIT is responsible for supporting and expanding the use of enterprise-wide technology to improve the business of government and delivery of service.

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

Meredith Weenick was appointed Chief Financial Officer ("CFO") and Collector-Treasurer in May 2011. Prior to her appointment, Ms. Weenick served as the Acting Director of Administration and Finance and prior to that, as Associate Director of Administration and Finance from 2007 until 2010. Ms. Weenick served as Policy Advisor in the Mayor's office from 2002 to 2007. The Chief of Finance and Budget oversees all of the City's financial matters, including the functions of the Treasury, Assessing, Auditing, Budget, and Purchasing. Ms. Weenick's responsibilities include debt and investment management, financial reporting, budget development and oversight, tax administration, risk management, city-wide



performance management and the administration of enterprise-wide financial systems. The Collector-Treasurer is the custodian of over 300 City trust funds and is an *ex-officio* member of the Massachusetts Convention Center Authority Board. Ms. Weenick has announced that she will leave her position in April to pursue other opportunities following submission of the Mayor's proposed budget to the City Council.

The City officials with principal responsibility for the City's finances 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 beginning September 1992. Previously, Mr. Rakow served as the Director of Research and Standards and Director of Tax Policy for the City's Assessing Department. The Commissioner of Assessing is responsible for supervision of the City's Assessing Department and the valuation for purposes of the tax levy of real and personal property located in the City. Commissioner Rakow has been appointed by the Collector-Treasurer to serve on the Massachusetts Convention Center Authority Board.

*Chief of Economic Development*

John Barros was appointed Chief of Economic Development in February 2014. Most recently, Mr. Barros served as the Executive Director of the Dudley Street Neighborhood Initiative. He also has experience in the private sector, including supporting a dot.com start-up and opening his own small business. The Chief of Economic Development 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 Consumer Affairs & Licensing, Tourism & Special Events, and the Office of Small and Local Business Enterprises & Boston Resident Jobs Policy.

*Chief of Education*

John P. McDonough was appointed as the Interim Superintendent of Boston Public Schools ("BPS") in July 2013. He has held a number of positions in his four decades of service with BPS, including serving as the Chief Financial Officer from 1996-2013. Among the Chief of Education'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.

*Joint Chiefs of Public Safety*

William B. Evans was appointed as the 41st Police Commissioner of the City of Boston in January 2014. A member of the Boston Police Department for 33 years, Commissioner Evans rose through the ranks culminating in his promotion to Civil Service Captain, the highest civil service position in the department. From 2009 until his appointment as Police Commissioner, he served as the Superintendent in charge of the Bureau of Field Services, where he was responsible for supervising the department's patrol force of 1,800 as well as oversight of the planning and security of all major events including parades and sporting events.

John Hasson was appointed Interim Fire Commissioner in January 2014. A 41-year member of the Boston Fire Department, Commissioner Hasson has held every rank in the Department during his career. Prior to being appointed Commissioner, he held the position of Chief of Operations from March 2012 until he was named Chief of Department in June 2013.

Rene Fielding was appointed Director of the City's Office of Emergency Management ("OEM") in October 2012. Prior to her appointment Ms. Fielding served as Deputy Director of OEM.

The City's Police and Fire Departments provide and promote public safety and protection services, firefighting and fire prevention services. The Office of Emergency Management is responsible for obtaining, allocating and managing state and federal funds designated for homeland security 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. For a description of Police and Fire Department resources and personnel see "The City—Principal Governmental Services—Public Safety" below.

#### *Chief of Environment, Energy and Open Space*

Brian Swett was appointed Chief of Environment and Energy in July 2012. Prior to his appointment, Mr. Swett was employed at Boston Properties overseeing LEED and sustainability initiatives and at the Environmental Protection Agency's National Center for Environmental Innovation. The Chief of Environment, Energy and Open Space is responsible for environmental and energy policy. The Chief of Environment, Energy and Open Space oversees the Inspectional Services Department, the Environment Department, the Parks and Recreation Department, and the Boston Landmarks Commission. Mr. Swett also serves as the liaison to Boston's utility companies and 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, and is co-chair of the Groundwater Working Group.

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

Sheila Dillon was appointed Chief of Housing and Neighborhood Development in September 2012. Prior to her appointment, Ms. Dillon served as Director of the Rental Assistance Bureau at the Massachusetts Department of Housing and Community Development. Ms. Dillon previously held housing-related positions at the City of Boston, including Mayor's housing advisor and Deputy Director of Housing at the Department of Neighborhood Development, where she oversaw both affordable housing development and homeless programs. The Chief of Housing and Neighborhood Development is responsible for housing policy. Ms. Dillon also serves as Director of the Department of Neighborhood Development which is responsible for business development, homeowner/homebuyer programs, housing development, surplus land and building management and disposition, certain City capital construction projects, and rental housing assistance to tenants and owners.

#### *Chief of Health and Human Services*

Felix G. Arroyo was appointed Chief of Health and Human Services in January, 2014. Prior to his appointment, Chief Arroyo served as an At Large member of the Boston City Council where he was elected in November of 2009 and re-elected for a second term in 2011. The Health and Human Services is responsible for providing human services and other support services for all of Boston's residents through its departments: Boston Public Health Commission, including the Emergency Shelter Commission and Emergency Medical Services, Boston Centers for Youth and Families, the Boston Youth Fund, the Elderly Commission, the Women's Commission, the Veteran's Services Department, the Office of Civil Rights, the Disability Commission, and the Office of New Bostonians. For additional information concerning the Boston Public Health Commission see "The City—Principal Governmental Services—Public Health" below.

#### *Chief of Arts and Culture*

The Chief of Arts and Culture has not yet been appointed. The Chief of Arts and Culture will be responsible for supporting and promoting the arts community in Boston and will work with the Boston Public Library, the Arts Commission, and the Boston Cultural Council to bring the arts to the forefront of City life.

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

The Chief of Streets, Transportation and Sanitation, who has not yet been appointed, will be responsible for the ongoing maintenance and upgrade of streets and sidewalks throughout the City as well

as traffic flow and improved pedestrian access in Boston through its departments: Public Works, Transportation, including the Office of the Parking Clerk, and Boston Bikes.

### Principal Government Services

The following table shows the distribution of the City's fiscal 2014 appropriations by primary government functions and departments.

**Purposes of City Appropriations—Fiscal 2014 <sup>(1)</sup>**  
**(Budgetary Accounting Basis) <sup>(2)</sup>**  
**(\$ in thousands)**

	<u>Amount</u>	<u>Percent of Total Appropriations</u>
General Government .....	\$ 103,809	3.7%
Public Safety .....	537,236	20.9
Public Works .....	107,173	4.2
Property and Development .....	30,614	1.2
Parks and Recreation .....	19,194	0.8
Library .....	32,460	1.3
Human Services .....	32,008	1.3
Schools .....	937,414	35.4
Boston Public Health Commission .....	66,504	2.7
Judgments and Claims .....	3,500	0.1
Employee Benefits .....	244,677	10.1
Current Period Retirement Contributions .....	157,115	5.7
Debt Requirements .....	144,783	5.7
State and District Assessments .....	<u>196,311</u>	<u>7.2</u>
<b>Total .....</b>	<b><u>\$2,612,798</u></b>	<b><u>100.0%</u></b>

(1) Represents the fiscal 2014 Budget amended by any Mayoral Reallocations through February 11, 2014.

(2) See "Financial Operations—Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2010 to 2013 Actual Results and Fiscal 2014 Budget" below 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 approximately 57,000 students for the 2013-2014 school year, roughly the same as the previous 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, and School Committee Administrative Assistants. The School Committee appoints these excepted positions.

#### *Public Safety*

The Public Safety 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 Boston Police Department maintains eleven neighborhood police stations and one headquarters building. The Department also maintains twelve support locations, consisting of the Charlestown Neighborhood Sub-Station, Police Academy, Firearms Training Range, Harbor Patrol Unit, Fleet Management Division, Telecommunications Division, Evidence and Property Management Division, Special Operations Division, Stress Support Unit, Recruit Investigation Unit, Field Support Division, and the K-9 unit.

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

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

#### *Public Health*

The Boston Public Health Commission ("BPHC"), 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 BPHC 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 BPHC 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 BPHC is a discretely presented component unit for GAAP reporting purposes in the City's annual audited financial statements. See "City Indebtedness—Debt of Agencies Related to the City—Boston Public Health Commission."

#### *Public Works*

The Public Works Department constructs and maintains highways, sidewalks, street lighting and bridges, and oversees snow removal, street cleaning, refuse removal and recycling.

The Boston Water and Sewer Commission ("BWSC"), is an independent body politic and corporate and a political subdivision of the Commonwealth created in July 1977, and is responsible for the operation and maintenance of the City's water, sewer, and storm water drainage systems, the construction of improvements to those systems, and the collection of user charges for its services. See "City Indebtedness—Debt of Agencies Related to the City—Boston Water and Sewer Commission" below.

#### *Other Services*

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

#### *Suffolk County*

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

#### **City Employees**

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

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

	<b>2012</b>	<b>2013</b>	<b>2014</b>
<i>City Funded:</i>			
Public Safety <sup>(2)</sup> .....	4,446	4,413	4,541
Public Works.....	350	342	366
Other City Departments <sup>(3)</sup> .....	2,565	2,643	2,696
Boston Public Health Commission .....	803	798	760
Subtotal .....	<u>8,164</u>	<u>8,196</u>	<u>8,363</u>
Schools.....	<u>8,052</u>	<u>8,381</u>	<u>8,664</u>
Total City Funded .....	<u>16,216</u>	<u>16,577</u>	<u>17,027</u>
<i>Grant Funded:</i>			
Schools .....	759	796	698
All Others .....	<u>307</u>	<u>293</u>	<u>277</u>
Total.....	<u>17,282</u>	<u>17,666</u>	<u>18,002</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.

Source: City of Boston Office of Budget Management.

### **Employee Relations**

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

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

Police officers are represented by four distinct unions: 1) the Boston Police Patrolmen's Association; 2) the Boston Police Superior Officers Federation; 3) the Boston Police Detectives Benevolent Society; and 4) the Boston Police Detectives Benevolent Society, Superior Officers Unit. Firefighters and Fire Chiefs are divided into two bargaining units represented by a single union: the International Association of Firefighters Local 718.

Boston teachers, teacher aides, school nurses, and substitutes are in a collective bargaining unit represented by the Boston Teachers Union, 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)

Union	Department	Number of Employees Represented <sup>(1)</sup>	Contract Expiration Date <sup>(2)</sup>
Boston Police Patrolmen's Association	Police	1,526	6/30/16
Boston Police Superior Officers Federation	Police	244	6/30/10
Boston Police Detectives Benevolent Society	Police	280	6/30/10
Superior Detective Benevolent Society	Police	133	6/30/10
Forensic Group	Police	23	9/30/16
School Traffic Supervisors Assoc.	Police	196	8/31/16
International Association of Firefighters, Local 718	Fire	1,526	6/30/11
Municipal Police Patrolmen's Association	Property & Construction Mgmt	47	6/30/16
Municipal Police Superior Officers Association	Property & Construction Mgmt	7	6/30/16
SEIU, Local 888	Citywide	1,041	9/30/16
SENA, Locals 9158 and 9158E	Citywide	679	9/30/16
AFSCME C93 (Citywide & various locals)	Citywide	1,150	6/30/16
AFSCME Local 1526	Library	218	9/30/16
Professional Staff Association	Library	146	9/30/16*
Park Rangers	Parks	11	6/30/16
Typographical Union	Police	3	9/30/16
OPEIU AFL-CIO L16 (Housing Inspectors)	Inspectional Services	28	6/30/16
IBEW, Local 103	Inspectional Services	9	6/30/16
NCFO	Property & Construction Mgmt	7	6/30/16
Boston Teachers Union	School	8,093	8/31/16
BASAS (School Administrators & Supervisors)	School	243	8/31/16
Administrative Guild	School	306	8/31/16
Planning & Engineering	School	33	8/31/16
Boston School Police	School	55	8/31/16
School Police Superior Officers Assoc.	School	18	6/30/16
School Custodians Local 1952, Painters & Allied			
Trades District Council #35	School	503	8/31/16
Plant Administrators Association	School	12	8/31/16
School Bus Monitors USWA Local 8751	School	541	6/30/16
Lunch Hour Monitors Association	School	366	8/31/16
AFSCME C93, Local 230 Cafeteria Workers/Mgrs	School	443	8/31/16
AFSCME C93, Storekeepers & Deliverymen	School	10	8/31/16
		<u>17,897</u>	

\* Subject to appropriation by City Council.

(1) Number of members (not Full-Time Equivalents) as of January 1, 2014.

(2) Expired contracts are under negotiation. See below.

Source: Office of Budget Management, Boston Administrative Information Systems/Human Capital Management (BAIS/HCM) and Boston School Department.

The City has settled with fourteen civilian unions that cover City departments, not including the School Department or Public Health Commission, placing over 3,300 unionized employees under contract. Each agreement is six years in duration and contains the same general wage pattern, roughly 12% wage increases over six years. All of these unions agreed to new City-wide policies for attendance, family and medical leave, military leave, and light duty. Bunker Hill and Evacuation Day were deleted as contractual holidays. In addition, the City has settled twelve (12) contracts with School Department unions. These agreements contain roughly the same general wage pattern as the rest of the City's civilian unions.

The City and the Boston Police Patrolmen's Association received an arbitration award on September 27, 2013, which includes an increase in annual salaries of approximately 25.4% over six years. The award covers the period of July 1, 2010 through June 30, 2016. The Boston City Council voted to fund the award on December 4, 2013. The \$16.5 million fiscal 2014 supplemental appropriation that was passed on December 4, 2013 covered the estimated costs of the award for the period July 1, 2013 through June 30, 2014. The retroactive payments required by the award for fiscal years 2011, 2012 and 2013 will be charged to collective bargaining reserves established in each of those years. The total cost of the contract over six

years is estimated at \$87.2 million. For more information on the impact of the Boston Police Patrolmen's Association arbitration award see "Fiscal 2014 Budget—Expenditures". The City is currently at mediation at the Joint Labor Management Committee with the remaining four public safety unions: Boston Police Superior Officers Federation, Boston Police Detectives Benevolent Society, Boston Police Detectives Benevolent Society—Superior Officers Unit, and the International Association of Firefighters.

## **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 ("BPHC") 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 BPHC'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 BPHC must adopt its public health services budget by the second Wednesday in June.

The City Council may reduce or reject any item in the Mayor's budget but may not, except upon the recommendation of the Mayor, increase or add an item. The City, Boston Public Health Commission and School Department operating budgets for fiscal 2014 were approved by the City Council on June 26, 2013. See "Financial Operations—Fiscal 2014 Budget." After approval of the budget and until the property tax rate is officially determined in mid-December, the Mayor may submit to the City Council such supplementary appropriation requests as are deemed necessary, including supplemental amounts for the School Department and the Boston Public Health Commission. The Mayor may also submit to the City Council supplementary appropriation requests subsequent to the setting of the property tax rate provided that an available source of revenue is identified. Under certain circumstances, the Mayor may, by executive order, require expenditures to be limited to an amount less than the appropriated level.

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

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



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

### *Capital Budgeting*

The Office of Budget Management manages the City's capital plan, including evaluating the condition of the City's capital assets, forecasting the timing and financial requirements of new construction and rehabilitation, and assessing the allocation of current and future resources to meet the City's infrastructure needs. Through an annually updated five-year capital plan, the City refines its capital needs and resources each fiscal year. In April 2013, the former Mayor released the fiscal 2014-2018 capital plan and initiated loan orders for City Council consideration. There is no statutory time frame for requesting or approving such orders. All fiscal 2014 capital authorizations were approved by the City Council.

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

### **Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2010 to 2013 Actual Results and Fiscal 2014 Budget**

The following table shows the City's General Fund budget for fiscal 2014, together with budgetary actual results for fiscal 2010 through 2013. In accordance with state law and regulations, the City's General Fund budget as shown below is prepared on a "budgetary basis" instead of accounting principles generally accepted in the United States of America ("GAAP"). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, "budgetary" records as an expenditure any amount raised to cover a prior year deficit, and as a revenue any available funds drawn from accumulated 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.

**Summary and Comparison of Operating Results**  
**Fiscal 2010 to 2013 Actual Results and Fiscal 2014 Budget**  
**General Fund—Budgetary Basis**  
(\$ in millions)\*

	<b>Fiscal 2010 Actual Results</b>	<b>Fiscal 2011 Actual Results</b>	<b>Fiscal 2012 Actual Results</b>	<b>Fiscal 2013 Actual Results</b>	<b>Fiscal 2014 Budget <sup>(1)</sup></b>
<b>Revenues:</b>					
<b>Recurring Revenue:</b>					
Property Taxes	\$ 1,475.9	\$ 1,541.9	\$ 1,615.9	\$ 1,684.4	\$ 1,778.8
Overlay Reserve <sup>(2)</sup>	(35.7)	(37.4)	(38.7)	(41.1)	(34.9)
Excises	103.4	125.2	155.5	174.4	154.3
Fines	70.7	65.3	64.7	59.8	59.2
Interest on Investments	3.2	1.4	1.0	0.2	0.2
Payments in Lieu of Taxes	34.9	35.5	36.0	42.6	42.2
Urban Redevelopment Chapter 121A	66.6	70.3	64.5	64.0	47.6
Misc. Department Revenue <sup>(3)</sup>	64.5	139.0	64.5	62.0	50.0
Licenses and Permits	30.6	39.9	51.9	45.6	40.5
Penalties & Interest	8.0	9.2	8.6	9.3	8.4
Available Funds <sup>(4)</sup>	17.1	17.1	—	—	17.3
State Aid	413.2	395.2	390.5	403.3	409.2
<b>Total Recurring Revenue</b>	<b>\$ 2,252.3</b>	<b>\$ 2,402.7</b>	<b>\$ 2,414.4</b>	<b>\$ 2,504.3</b>	<b>\$ 2,572.8</b>
Non-Recurring Revenues <sup>(5)</sup>	51.0	27.0	—	—	40.0
<b>Total Revenues</b>	<b>\$ 2,303.3</b>	<b>\$ 2,429.7</b>	<b>\$ 2,414.4</b>	<b>\$ 2,504.3</b>	<b>\$ 2,612.8</b>
<b>Expenditures:</b>					
<b>Departmental Expenditures</b>					
City Departments	\$ 1,006.0	\$ 1,018.3	\$ 1,029.4	\$ 1,043.8	\$ 1,049.7
Boston Public Health Commission	70.0	69.8	72.9	67.0	66.5
School Department	817.8	821.4	831.3	881.2	937.4
Collective Bargaining Reserve	—	8.6	16.0	21.0	24.7
OPEB Trust Fund <sup>(6)</sup>	20.0	35.0	35.0	40.0	40.0
<b>Total Department Expenditures</b>	<b>\$ 1,913.8</b>	<b>\$ 1,953.1</b>	<b>\$ 1,984.7</b>	<b>\$ 2,053.0</b>	<b>\$ 2,118.3</b>
<b>Fixed Costs</b>					
Pensions <sup>(3, 7)</sup>	\$ 108.5	\$ 191.9	\$ 126.4	\$ 137.0	152.9
Debt Service <sup>(8)</sup>	125.5	126.7	130.2	129.1	145.3
State Assessments	141.9	147.7	156.6	172.4	192.4
Suffolk County Sheriff	4.5	4.3	3.9	3.9	3.9
Reserve	0.1	0.2	0.6	0.7	—
<b>Total Fixed Costs</b>	<b>\$ 380.3</b>	<b>\$ 470.7</b>	<b>\$ 417.8</b>	<b>\$ 443.1</b>	<b>\$ 494.5</b>
<b>Total Recurring Expenditures</b>	<b>\$ 2,294.2</b>	<b>\$ 2,423.8</b>	<b>\$ 2,402.4</b>	<b>\$ 2,496.1</b>	<b>\$ 2,612.8</b>
<b>Excess of Revenues Over Expenditures</b>	<b>\$ 9.1</b>	<b>5.9</b>	<b>\$ 12.0</b>	<b>\$ 8.2</b>	<b>\$ —</b>

\* Columns may not add due to rounding.

- (1) Represents the budget at the time of the approval of the City's tax rate by the Massachusetts Department of Revenue on December 17, 2013 plus any supplemental appropriations or transfers from that date.
- (2) If the City's reserves for abatements prove at the end of the fiscal year to be insufficient to cover the City's abatement liability, the City is required to raise in the following year's tax rate an amount sufficient to generate additional reserves to cover the shortfall. In fiscal 2014, the City has reserved 2.0% of the net levy for abatements.
- (3) In fiscal 2011, the City applied a one-time \$82 million payment from a reserve account and from an expiring revenue source to its pension liability.
- (4) Available Funds is comprised of appropriations from the Parking Meter Fund and the Cemetery Trust Fund. Appropriations from these funds are restricted to specific uses.
- (5) Non-recurring revenue in fiscal 2010 represents a portion of the proceeds from the Surplus Property Fund (\$6.0 million) and Budgetary Fund Balance in 2010, 2011 and 2014 (\$45 million, \$27 million, and \$40 million, respectively).
- (6) The City's appropriation to the OPEB Trust Fund is currently not a mandatory obligation and therefore, should not be considered a "recurring expenditure."
- (7) Excludes noncontributory pensions and annuities that are included in departmental expenditures. Such amounts equaled \$4.1 million in fiscal years 2010 - 2013 and \$4.2 million in fiscal 2014.
- (8) The debt service amount is derived from principal and interest, less certain offsetting revenues. The revenues utilized to offset debt for budgetary and tax rate setting purposes vary from those used in the table "Debt Service Requirements-Fiscal 2011-2014. See "City Indebtedness-Debt Service Requirements."

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

### **Fiscal 2010-2012 Actual Results**

During the fiscal 2010 to 2012 period, the City maintained its pattern of the past two decades and produced budget surpluses in each year despite a structural budget deficit that began in fiscal 2009 and

continued into fiscal 2010 before abating. Rapid declines from peaks in local revenue (fiscal 2008) and state aid (fiscal 2009), led to the overall decline in revenue that when combined with increased departmental and mandatory fixed costs, led to a structural deficit that peaked at approximately \$22 million, or 1.0% of total general fund operating expenditures in fiscal 2010. The City responded to this deficit with a mix of tools that included expanding the revenue base, slowing the growth of departmental expenditures, and the use of reserves.

The local revenue base expanded with the adoption of a new local option tax on restaurant meals and an increase in the existing local option room occupancy tax. Both were implemented in October 2009 with fiscal 2011 representing the first full year of such additional revenue collections. In total, the added levies generate nearly \$40 million in new annual revenue to the City. The City's property tax base expanded when several large properties moved from exempt to taxable status adding nearly \$15 million in additional property tax revenue in excess of the allowable levy growth.

In fiscal 2011, the City made a one-time payment into the pension fund in addition to its scheduled payment. The City would have been required to adopt a new pension funding schedule for fiscal year 2012 that would take into account the substantial investment losses experienced in 2008 during the stock market fall. In order to avoid the large increases in pension appropriations that would be required starting in fiscal 2012, the City elected to make a one-time payment from reserves of approximately \$82 million into the system in fiscal 2011 that substantially reduced the future payments required by a new schedule. The revenue supporting this payment was derived largely from a pension reserve and also from the accumulation over many years of the City's share of deeds excise funds, a revenue source that is no longer available to the City.

Beginning in fiscal 2010, the City and the Commonwealth agreed to a change to the historical funding mechanism for Boston teachers' pensions. This change relieved the City from any responsibility for the funding of teachers' pensions through the elimination of those pension costs from the City's funding schedule and the assumption of this obligation by the Commonwealth.

For more information on Pensions, see "Employee Benefits—Retirement Systems."

### **Fiscal 2013 Actual Results**

The following is a summary of the City's fiscal 2013 actual results on a budgetary accounting basis.

#### *Expenditures*

In fiscal 2013, the City's expenditures totaled \$2.50 billion including direct expenditures for departmental services and fixed expenses, which increased \$93.7 million or 3.9% from fiscal 2012 expenditures. Fiscal 2013 actual expenditures compare with actual fiscal 2012 expenditures as follows: City Departments increased \$14.4 million or 1.4%; the Public Health Commission decreased \$5.9 million or -8.0%; the School Department increased \$49.9 million or 6.0%; the Collective Bargaining Reserve increased \$5.0 million or 31.0% and the appropriation to the Other Post Employment Benefit (OPEB) Trust Fund increased \$5.0 million or 14.3%. Actual fixed expenses for fiscal 2013 compare with actual fiscal 2012 fixed expenses as follows: Pensions increased \$10.6 million or 8.4%; Debt Service decreased \$1.1 million or -0.8%; State Assessments increased \$15.8 million or 10.1%; and Suffolk County Sheriff was level with the prior year.

Within the category of City Departments, items to note are the Police and Fire appropriation deficits totaling \$15.4 million which were offset by a revenue surplus. These deficits are mainly the result of higher than budgeted overtime expenses. Fiscal 2013 actual expenditures also reflect a deficit in the Execution of Courts account, resulting from a reserve set aside to pay for possible adverse legal rulings as well as a deficit in Snow Removal due to higher than expected snowfall. The increase in the Collective Bargaining Reserve reflects a wage pattern that has been accepted by several of the City's civilian unions and that has been offered to all other unions. For more information on the impact of collective bargaining on employee benefits, see "Employee Benefits—Retirement Systems."

On April 15, 2013, two bombs exploded near the finish line of the Boston Marathon. This event and the emergency response that followed had a significant impact on City operations during the period of April 15th through April 26th. The direct cost to the City was approximately \$5.5 million, most of which was police overtime. The Federal Emergency Management Agency (FEMA) reimbursed the City for \$2.8 million of that cost reducing the amount of overtime charged to the general fund in fiscal 2013. An additional \$1.0 million in reimbursement is expected from the Department of Justice.

## *Revenues*

Actual revenues for fiscal 2013 totaled \$2.50 billion, an increase from fiscal 2012 actual revenues of \$89.9 million or 3.7%. Selected fiscal 2013 actual revenues compare with fiscal 2012 actual revenues as follows: The Gross Property Tax Levy (including new growth) increased \$68.5 million or 4.2%; Excises increased \$18.8 million or 12.1%; Fines decreased \$4.9 million or -7.6%; Interest on Investment decreased \$0.8 million or -81.8%; voluntary Payment In Lieu of Taxes (PILOT) revenues increased \$6.6 million or 18.3%; Licenses and Permits decreased \$6.4 million or -12.2%; and State Aid increased \$12.8 million or 3.3%. Non-recurring revenue was not utilized in either year.

The increase in Excises was due to growth in all major categories including Motor Vehicle, Room Occupancy, Jet Fuel and Meals excises. The addition of revenue from the Vehicle Rental Surcharge, formerly dedicated to Convention Center special obligation debt refunded as general obligation debt in fiscal 2011, added nearly \$1.4 million to Excises in fiscal 2013. The decrease in Interest on Investment revenue was due to the continued action of the Federal Reserve to maintain its target federal funds rate between 0.0% and 0.25% thus limiting returns on the City's historically conservative investment policies. The decrease in Fines is due to increased compliance after several years of targeted fine rate increases. The decrease in Licenses & Permits was due to decreased building permit revenue and a timing issue related to Cable Television fees. The increase in State Aid was due to increases in reimbursements for School Building Assistance and Charter School Tuition along with an increase in education aid. For more detailed information regarding State Aid, see "City Revenues—State Aid."

In both fiscal 2012 and 2013, the City was able to fund the appropriation to the Other Post-Employment Benefits (OPEB) Trust Fund using recurring revenue sources instead of Budgetary Fund Balance. Budgetary Fund Balance is available for appropriation only after certification of its value by the Massachusetts Department of Revenue.

## **Fiscal 2014 Budget**

The following is a summary of expectations regarding the City's fiscal 2014 budget on a budgetary accounting basis. The figures cited below are comparisons to fiscal 2013 actual figures.

## *Expenditures*

In fiscal 2014, the City's budgeted expenditures total \$2.61 billion including direct expenditures for departmental services and fixed expenses, representing an increase of \$116.7 million or 4.7% from fiscal 2013 actual expenditures. Budgeted fiscal 2014 departmental expenditures compare with fiscal 2013 expenditures as follows. City Departments increase \$5.9 million or 0.6% which includes collective bargaining increases for contracts that have settled. The Public Health Commission expenditures decrease \$0.5 million or -0.8% due to a decrease in fixed costs—debt and pension—as well as one-time expenditures made in fiscal 2013 that will not be necessary in fiscal 2014. The School Department expenditures increase \$56.2 million or 6.4% which reflects collective bargaining and annual step increases for teachers. Despite expenditure pressure from increased transportation costs for homeless and special education students and the opening of 75 additional classrooms, the School Department expects to maintain an overall balanced budget in fiscal 2014 through other expenditure reductions for the balance of the year. The Collective Bargaining Reserve increases \$3.7 million or 17.4% which reflects an increase in wage patterns that have been accepted by several of the City's civilian unions and have been offered to all unions.

All collective bargaining agreements that settled in fiscal 2014 were fully funded from the Collective Bargaining Reserve, except for the Boston Police Patrolmen's Association which was partially funded from such reserve and the balance through additional State Aid available after the passage of the fiscal 2014 budget and taxation surpluses. The total supplemental appropriation that was authorized to cover the fiscal 2014 costs of the Boston Police Patrolmen's Association award was \$16.5 million. That amount is the estimated increase owed for wages earned during the time period July 1, 2013 through June 30, 2014 due to the terms of the award. It is important to note that the costs related to wages earned in fiscal years 2011, 2012 and 2013 which are estimated at \$1.3 million, \$3.8 million and \$5.0 million, respectively, will be charged to reserves established in those years.

The appropriation to the OPEB trust fund is level-funded. Budgeted fixed expenses for fiscal 2014 compare with fiscal 2013 actual expenditures as follows: Pensions increase \$15.9 million or 11.6%, Debt Service increases \$16.2 million or 12.5%; and State Assessments increase \$20.0 million or 11.6%.

The increase in budgeted pension costs is due to the regular increase provided by the pension funding schedule as approved by the state actuary. Pension expenses are mandated by the City's pension funding schedule and are a legal obligation of the City. For more on Pensions, see "Employee Benefits—Retirement

Systems,” below. State assessments are also mandatory; the amounts are determined by the Commonwealth. All but a small portion of the increase in State Assessments is the result of increases in the assessment to the City for Massachusetts Bay Transportation Authority (“MBTA”) service and for charter school tuition.

### *Revenues*

Budgeted revenues for fiscal 2014 are expected to total \$2.61 billion, an increase of \$108.5 million or 4.3% from fiscal 2013 actual revenues. Selected fiscal 2014 budgeted revenues compare with fiscal 2013 revenues as follows: The budgeted Gross Property Tax Levy (including new growth) increases \$94.4 million or 5.6%; Excises decrease \$20.1 million or -11.5%; Chapter 121A revenues decrease \$16.4 million or -25.6%; Misc. Department Revenues decrease by \$12.0 million or -19.3%; Licenses and Permits decrease \$5.1 million or -11.2%; State Aid increased \$5.9 million or 1.5% and Non-Recurring Revenue increases by \$40 million or 100.0% to fund the OPEB Trust Fund. The City used recurring revenue to fund the OPEB Trust Fund in fiscal 2012 and 2013.

The increase in budgeted Property Tax includes several expiring Chapter 121A properties that will now pay property tax under Massachusetts General Law, Chapter 59, rather than a payment in lieu of tax under Chapter 121A. The Property Tax, the City’s largest source of revenue, has become increasingly important to the City’s revenue growth given the recent fluctuations in state aid from the Commonwealth—the City’s second largest single source of revenue, see “City Revenues—State Aid.” The City has always increased the Property Tax levy annually by the maximum amount allowed under statutory limits.

The decrease in budgeted Excises is largely due to conservative revenue estimates across all excise categories. The decrease in Misc. Department Revenue is due to the loss of some one-time revenues received in fiscal 2013. The decrease in Licenses & Permits is due to fluctuating actual results over the past two fiscal years. The increase in State Aid is due to a small increase in school aid to the City, an increase in the reimbursement for charter school tuition, and an increase to Unrestricted General Government Aid. The increase in the charter school reimbursement is offset by a larger state assessment for charter school tuition. For more detailed information regarding State Aid, see “City Revenues—State Aid.”

### *Federal Sequestration*

Certain federal funding received by the City has been and is expected to be adversely affected by implementation of certain provisions of the federal Budget Control Act of 2011 (the “Budget Control Act”), which was signed into law by the President on August 2, 2011. The Joint Select Committee on Deficit Reduction failed to reach an agreement on the deficit reduction actions as required by the Budget Control Act and, as a result, sequestration was triggered. No legislative action was taken by Congress prior to March 1, 2013 and, accordingly, implementation of sequestration began on March 1, 2013.

The City has issued general obligation bonds in the form of Build America Bonds (“BABs”), Qualified School Construction Bonds (“QSCBs”), and Recovery Zone Economic Development Bonds (“RZEDBs”) (collectively, the “Tax Benefited Bonds”), under the American Recovery and Reinvestment Act of 2009 (“ARRA”). Pursuant to ARRA, the City is entitled to receive cash subsidy payments from the federal government equal to (i) 35% of the debt service payable on the BABs, (ii) 45% of the debt service payable on the RZEDBs, and (iii) 100% of the debt service on QSCBs, provided the City makes certain required filings in accordance with applicable federal rules. Such interest subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the City to the federal government or its agencies. The City has issued approximately \$106.6 million aggregate principal amount of Tax Benefited Bonds.

On March 4, 2013, the Internal Revenue Service indicated that such interest subsidy payments would be subject to a sequestration reduction of 8.7% through September 30, 2013 (the federal fiscal year ends on September 30) under the Budget Control Act.

On September 30, 2013, the Internal Revenue Service announced that such interest subsidy payments would be subject to a sequestration reduction of 7.2% through September 30, 2014. The projected loss in cash subsidy payments through federal fiscal year 2014 is approximately \$407,394. The City was able to adjust for federal reductions under sequestration with surpluses in debt service accounts for fiscal 2013 and 2014.

The City is obligated to make payments of principal and interest on the Tax Benefited Bonds whether or not it receives interest subsidy payments. The City does not currently believe that any reduction of cash subsidy payments will have a material adverse effect on its financial condition or its ability to pay debt service on its Tax Benefited Bonds.

Despite the passage of the Bipartisan Budget Act of 2013, the City may continue to face reduced federal grant awards in future years as a result of overall efforts to control federal spending. The reduction to federal grant revenues is separate from the effects of sequestration, or other potential federal cutbacks, on the City's revenues as a result of overall reduced federal funding for activities in the City and the region. The loss of federal research funding by local colleges, universities and health care institutions may adversely affect the overall regional economy. However, it is not possible at this time to predict how these potential reductions may affect the regional economy and City revenues.

#### **Fiscal 2015 and 2016 Forecasts**

The fiscal 2015 and fiscal 2016 budget forecasts currently project structural deficits of \$10 million and \$50 million, respectively. The deficit in fiscal 2015 is expected to be offset by the use of reserves and the fiscal 2016 deficit will be managed down over the remainder of fiscal 2014 and during fiscal 2015 when the fiscal 2016 budget is prepared.

The School Department budget for fiscal 2015, which is being developed now, is expected to receive additional funding from the City of \$35.9 million, but also is projected to suffer a decrease in federal funding of approximately \$32.0 million. The School Department administration has submitted a balanced budget proposal for fiscal 2015 to the School Committee for its review and adoption by the end of March.

#### **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 accounting 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 generally accepted accounting principles 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 position/fund balance, revenues and expenditures/expenses. For a discussion of the significant accounting policies employed in preparing the City's fiscal 2013 audited financial statements, see Note 2 of such audited financial statements, which are attached hereto as Exhibit I. The City's fiscal 2013 financial statements received an unmodified 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 2013 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, 2013, 2012, 2011, 2010, and 2009, 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 2009-2013

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 2009 through 2013, which were prepared in accordance with the GAAP basis of accounting by the City and audited by KPMG LLP, an independent auditor.

### Summary of General Fund Statements of Revenues, Expenditures, Other Financing Sources and Changes in Fund Equity Fiscal Years 2009-2013 (GAAP Basis) (\$ in millions)\*

	2009	2010	2011	2012	2013
Total revenues .....	\$2,230.7	\$2,242.3	\$2,288.1	\$2,521.8	\$2,669.6
Total expenditures .....	<u>2,245.2</u>	<u>2,416.8</u>	<u>2,459.9</u>	<u>2,468.9</u>	<u>2,584.4</u>
Excess (deficiencies) of revenues over (under) expenditures .....	(14.5)	(174.6)	(171.8)	52.9	85.2
Total other financing (uses) sources .....	<u>41.2</u>	<u>53.1</u>	<u>117.5</u>	<u>(16.1)</u>	<u>(23.6)</u>
Excess (deficiencies) of revenues and other financing sources over expenditures and other financing uses .....	<u>26.7</u>	<u>(121.5)</u>	<u>(54.3)</u>	<u>36.8</u>	<u>61.7</u>
Fund balance, beginning of year .....	<u>802.0</u>	<u>828.7</u>	<u>707.2</u>	<u>652.9</u>	<u>689.7</u>
Fund balance, end of year <sup>(1) (2)</sup> .....	<u>\$ 828.7</u>	<u>\$ 707.2</u>	<u>\$ 652.9</u>	<u>\$ 689.7</u>	<u>\$ 751.4</u>

\* Columns may not add due to rounding.

- (1) The undesignated fund balances for the General Fund for fiscal 2009 and 2010 were \$550.3 million and \$547.3 million, respectively.
- (2) Due to implementation of GASB 54 in fiscal 2011, the classification of fund balances has changed. The unassigned fund balances for the General Fund for fiscal 2011, 2012 and 2013 were \$551.0 million, \$511.8 million and \$533.1, 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 2010 through fiscal 2013. The figures appearing in this section for the period are derived from the City's audited annual financial statements. The analyses of revenues and expenditures in the text that follows are stated using data derived from the audited financial statements. For an explanation of the differences between the GAAP basis and Budgetary basis of accounting, see the audited financial statements at Exhibit I, Note 4, "Budgetary Data."

The City's major recurring revenue sources during this period were real and personal property taxes, state aid, payments in lieu of taxes ("PILOTs"), local excise taxes and departmental revenues, and other intergovernmental sources. The principal expenditures were for public safety, debt service 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 2010

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

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



### *Fiscal 2011*

During fiscal 2011, General Fund revenue increased by 2.0% from fiscal year 2010. The City's largest sources of revenues were property taxes, excise taxes and fines totaling \$1.72 billion or 75% of total revenue. Property taxes increased \$58.8 million, representing a positive change of 4.0% from fiscal 2010. Licenses and permits increased by \$8.8 million or 26.6%. Departmental and other revenue decreased by \$9.4 million or -12.5% since fiscal year 2010. This was due to a decrease in Muni Medicaid reimbursements for fiscal 2011.

Fiscal 2011 General Fund expenditures increased by \$43.1 million, or 1.8% from fiscal 2010. The City's largest expenditures were for schools (\$812.9 million), public safety (\$516.7 million), other employee benefits (\$294.2 million), retirement costs (\$196.0 million), and state and district assessments (\$152.0 million). Schools experienced a decrease in expenditures of \$2.7 million (-0.3%), while public safety saw a \$5.4 million increase (1.0%) in expenditures. Other employee benefits and state and district assessments experienced increases of \$70.0 million (31.2%) and \$5.7 million (3.9%) respectively. Retirement costs decreased by \$39.3 million in 2011.

The General Fund's equity balance as of June 30, 2011 was \$652.9 million, a decrease of \$54.3 million from fiscal year 2010. The decrease in equity balance is partly due to the City's decision to make a one-time payment totaling \$82.0 million to the Employee Retirement Fund, which helped lower the amounts otherwise required to fund the pension liability in fiscal 2012 and the years to follow.

### *Fiscal 2012*

During fiscal 2012, General Fund revenue increased by 10.2% from fiscal year 2011. The City's largest sources of revenues were property taxes, excise taxes and fines totaling \$1.84 billion or 73% of total revenue. Property taxes increased \$65.6 million, representing a positive change of 4.3% from fiscal 2011. Licenses and permits increased by \$7.1 million or 17.0%. Departmental and other revenue increased by \$12.9 million or 19.8% since fiscal year 2011.

Fiscal 2012 General Fund expenditures increased by \$9.0 million, or 0.37% from fiscal 2011. The City's largest expenditures were for schools (\$830.8 million), public safety (\$524.5 million), other employee benefits (\$251.2 million), retirement costs (\$220.3 million), and state and district assessments (\$160.5 million). Schools experienced an increase in expenditures of \$17.9 million (2.2%), while public safety saw a \$7.8 million increase (1.5%) in expenditures. Other employee benefits experienced a decrease of \$43.0 million (-14.6%), while state and district assessments increased \$8.5 million (5.6%). Retirement costs increased by \$24.4 million in 2012.

The General Fund's equity balance as of June 30, 2012 was \$689.7 million, an increase of \$36.8 million from fiscal year 2011.

### *Fiscal 2013*

During fiscal 2013, General Fund revenue increased by 5.9% from fiscal year 2012. The City's largest sources of revenues were property taxes, excise taxes and payment in lieu of taxes totaling \$1.98 billion or 73.8% of total revenue. Property taxes increased \$85.6 million, representing a positive change of 5.4% from fiscal 2012. Licenses and permits decreased by \$1.5 million or -3.1%. Departmental and other revenue increased by \$9.1 million or 11.7% since fiscal year 2012.

Fiscal 2013 General Fund expenditures increased by \$115.5 million, or 4.6% from fiscal 2012. The City's largest expenditures were for schools (\$879.9 million), public safety (\$553.9 million), other employee benefits (\$232.9 million), retirement costs (\$235.1 million), and state and district assessments (\$176.3 million). Schools experienced an increase in expenditures of \$49.1 million (5.9%), while public safety saw a \$29.4 million increase (5.6%) in expenditures. Other employee benefits experienced a decrease of \$18.4 million (-7.3%), while state and district assessments increased \$15.8 million (9.8%). Retirement costs increased by \$14.7 million in 2013.

The General Fund's equity balance as of June 30, 2013 was \$751.4 million, an increase of \$61.7 million from fiscal year 2012.

### **Cash Balances**

The following table represents the end-of-month unaudited cash balances for the City's General Fund commencing with fiscal 2011 and ending with January of fiscal 2014, the most recent amounts 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 2011-2014

(\$ in thousands)

	2011	2012	2013	2014
July .....	\$979,209	\$892,903	\$ 920,015	\$1,082,365
August .....	954,515	888,874	940,206	1,051,423
September.....	940,787	772,519	914,600	931,135
October .....	890,839	845,824	1,014,017	1,102,151
November.....	923,062	890,134	1,003,768	1,093,515
December .....	725,861	761,995	916,684	905,488
January .....	829,575	869,822	1,097,659	1,060,808
February .....	790,116	915,249	1,075,560	
March.....	769,059	839,297	1,020,415	
April.....	903,443	978,551	1,096,145	
May.....	921,453	1,039,267	1,088,052	
June.....	956,680	1,011,186	1,105,478	

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 or credit card payments. 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, if any, maintenance of the relationship between debt and repayment sources, target savings for refundings, and responding to and communicating with the financial community and the rating agencies. The City has no outstanding variable rate debt.

#### *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 unmodified 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. 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 organizational 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's Risk Management strategy focuses on reducing the costs of third party liabilities, worker injuries, employee health care costs, and property damages, through internal claims management, department accountability, and a structured self-insurance program.

Legal liabilities are capped per M.G.L. Chapter 258, and Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations. Civilian workplace injuries are managed through the City's Workers' Compensation Program. Police and Fire Departments manage their workers' compensation programs. These costs are budgeted and funded through the general fund. Departments are charged for their share of costs in order to promote awareness and prevention efforts.

Health benefits for over 29,000 City employees and retirees are managed by the Health Benefits Program. Over 85% of the City's share of health benefit costs are self-insured through internal service funds established in compliance with M.G.L. Chapter 32B Section 3A. Reserves, exceeding 10% of annual claims, are maintained in the Funds to stabilize rate increases and protect against large claims or cost increases.

Building damages are managed by individual departments, assisted by the Property & Construction Management Department. Large damages are insured through a catastrophic property insurance policy, which provides \$100.0 million for all risk protection after a \$10.0 million deductible, with a lower \$1,000 deductible for fine arts. An additional boiler and machinery insurance policy provides up to \$25.0 million per incident.

For unexpected large costs in all categories just described, the City maintains a catastrophic risk reserve, which had an available balance of \$21.5 million at the end of fiscal 2013.

#### *Energy Management*

The members of the Mayor's Energy Management Board —the Chief of Environment, Energy and Open Space, Chief Financial Officer, Chief of Public Property, and Chief of Information and Technology— together are charged with making decisions regarding the City's procurement, use, and conservation of energy. In addition, they monitor the City's progress in meeting the greenhouse gas reduction goals required by the City's Climate Action Plan. The Energy Management Unit housed within the Environment, Energy and Open Space Cabinet works with City departments and the Office of Budget Management to develop design standards and implement measures that enhance the energy efficiency of the City's new construction and capital improvement projects.

During fiscal year 2013 the City retrofitted 10,880 streetlights with efficient light emitting diode (LED) fixtures, and completed more than two dozen efficiency projects at various facilities around the City. In the aggregate these projects reduced the electricity demand associated with the City's municipal operations by 7.4 million kilowatt hours: enough electricity to power approximately 680 single-family homes for an entire year. In addition, the City completed construction of two photovoltaic arrays that will

generate electricity to power municipal facilities: a 120-kW array at its Central Maintenance Facility in South Boston, and a 95-kW array at its Archival Center in West Roxbury. To better track and control energy use, the City has acquired a cloud-based Enterprise Energy Management System (EEMS). Projected to be fully implemented in Spring 2014, the EEMS will enable the City to monitor and report on the energy consumed by its 350 buildings and other fixed assets, its vehicle fleet, and its distributed generation installations, and will be used by the City to meet its public reporting obligation under the newly-adopted Building Energy Reporting and Disclosure Ordinance.

The City's electricity requirements have been met by third-party commodity supply contractors since March 2005. To date, the amounts the City has paid to its third-party electricity suppliers have been less than the amounts it would have paid if it had continued to accept default electric service from its local distribution company, NSTAR - Boston Edison Company.

## CITY REVENUES

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

### 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 2014 equals \$1.78 billion, or 68.1% of City General Fund revenues of \$2.61 billion budgeted for such period. Certain properties are subject to arrangements that suspend the imposition of real property taxes at normal rates in order to encourage development. See "City Revenues—Property Taxes—Revenues from Chapter 121A Properties" below.

As discussed below, Proposition 2½ limits the level of property taxation in the City. In fiscal 2014, the City will again levy taxes below the 2.5% ceiling on the overall effective tax rate. The City is not expected to reach the levy ceiling in the foreseeable future due to previous growth in the real estate market.

#### *Proposition 2½*

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

Within the limits of the 2½ ceiling, the Growth Levy Limit is a secondary limitation imposed by Proposition 2½. The Growth Levy Limit prohibits the levy in a fiscal year from exceeding an amount equal to 102.5% of the maximum allowable limit for the preceding year, subject to exceptions for the following: property newly added to the tax rolls and valuation increases other than as a result of a general revaluation ("new growth"); temporary exclusions from the tax levy limitation to pay for capital costs or debt service on indebtedness; and "overrides," which are permanent increases in the tax levy for general expenditures of the city or town. Exclusions and overrides must be approved by a referendum of the voters of the city or town. The levy is permanently increased by the addition of new growth and overrides, except that any override to fund a stabilization fund will not be taken into account in calculating the maximum levy limit in subsequent fiscal years unless the City Council votes to appropriate such increased amount in such subsequent year to the stabilization fund. The exclusion of debt service by referendum temporarily increases the levy amount and the duration of the specific debt excluded. The Growth Levy Limit may be exceeded by an override in any year by a majority vote of the voters. An increase in the Growth Levy Limit under this procedure, however, does not permit a tax levy in excess of the 2½ ceiling since the two limitations apply independently. The applicable tax limits may also be reduced in any year by a majority vote of the voters. The City's gross levy in fiscal 2014 equals \$1.78 billion. In fiscal 2014, the allowable 2.5% increase is \$42.1 million, and "new growth" is \$53.1 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 MBTA, to 2.5% of the prior year's assessment. Proposition 2½ also limits the motor vehicle excise tax rate to 2.5%.

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

**Proposition 2½ Property Tax Levy Limits, Fiscal 2010-2014 <sup>(1)</sup>**  
**(\$ in thousands)**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Total Assessed Valuation .....	\$87,256,532	\$86,800,583	\$88,500,410	\$92,199,272	\$99,832,813
Growth Levy Limit <sup>(2)</sup> .....	1,465,230	1,539,709	1,614,744	1,683,779	1,778,952
Levy Ceiling.....	2,181,413	2,170,015	2,212,510	2,304,982	2,495,820
Tax Levy <sup>(3)</sup> .....	1,465,058	1,539,680	1,614,029	1,683,681	1,778,801
Under Levy Ceiling .....	716,355	630,335	598,481	621,301	717,019

- (1) Represents amounts assessed on January 1, and subsequently certified by the Massachusetts Department of Revenue in December of each fiscal year and does not include omitted assessments.
- (2) The Growth Levy Limit is the maximum allowable levy as determined by Proposition 2½.
- (3) For each fiscal year, the amount of the actual Tax Levy is the largest amount possible. The Growth Levy Limit would be exceeded if the tax rate were raised an additional cent (\$0.01).

Source: City of Boston Assessing Department.

*Revaluation*

State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between revaluations, the Commonwealth requires 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 2012, the City concluded work on its eleventh triennial revaluation for fiscal 2013, with an assessment date of January 1, 2012. For fiscal 2014, assessments were based on market activity leading up to the assessment date of January 1, 2013. Fiscal Year 2014 assessments reflected an appreciating real estate market with some neighborhoods exhibiting greater levels of appreciation than others over the prior year. See “City Revenues—Property Taxation—Taxes by Use; Tax Rates.”

**Certified Triennial Revaluations**

<b>Assessment Date</b>	<b>Real and Personal Property Value</b>	<b>Applicable Years</b>
January 1, 2012	\$92.20 billion	fiscal 2013 through 2015
January 1, 2009	87.26 billion	fiscal 2010 through 2012
January 1, 2006	86.52 billion	fiscal 2007 through 2009
January 1, 2003	66.14 billion	fiscal 2004 through 2006
January 1, 2000	50.49 billion	fiscal 2001 through 2003

Source: City of Boston Assessing Department.

### Taxation by Use; Tax Rates

The property tax base in the City consists of personal property and classes of real estate. The following table shows the classes of taxable real property assessed as of January 1, 2013. The fiscal 2014 tax rates were applied to the January 1, 2013 valuation to determine levy and tax liability for fiscal 2014.

#### Assessed Valuation of Taxable Real Property by Real Estate Classes, Assessment Dated January 1, 2013

Real Estate Classes	Land Area (Square feet)	Land Valuation	Building Valuation	Total Valuation
Apartments	36,318,477	\$1,696,887,527	\$4,053,929,162	\$5,750,816,689
Agricultural	1,439,267	79,900	199,000	278,900
Commercial	98,004,753	7,368,261,868	17,341,356,932	24,709,618,800
Commercial Condominium	11,392,925	241,200	2,504,854,300	2,505,095,500
Residential Condominium	60,973,251	2,119,600	26,457,030,228	26,459,149,828
Commercial Land	27,037,793	552,625,152	349,539,416	902,164,568
Condominium Main <sup>(1)</sup>	61,471,773	—	—	—
Condominium Parking	195,408	96,000	102,159,356	102,255,356
Industrial	18,424,609	315,345,124	304,380,928	619,726,052
Residential & Commercial	21,935,026	1,791,696,603	4,016,739,897	5,808,436,500
Residential Land	32,020,109	256,673,143	13,877,201	270,550,344
1-Family	156,858,282	4,785,607,533	7,812,192,712	12,597,800,245
2-Family	85,975,177	2,681,128,542	4,365,319,571	7,046,448,113
3-Family	52,447,247	2,080,835,890	3,952,623,521	6,033,459,411
4-Family (4-6 units)	9,339,508	620,804,934	1,454,223,872	2,075,028,806
<b>TOTAL</b>	<b>673,853,002</b>	<b>\$22,152,403,016</b>	<b>\$72,728,426,096</b>	<b>\$94,880,829,112</b>

(1) Condominium Main represents the legal structure that holds individual condominium units.

Source: City of Boston Assessing Department.

#### Tax Rates, Fiscal 2010-2014 (per \$1,000 of assessed value)

Fiscal Year	Commercial, Industrial and Personal Property	Residential Property
2014 .....	\$31.18	\$12.58
2013 .....	31.96	13.14
2012 .....	31.92	13.04
2011 .....	31.04	12.79
2010 .....	29.38	11.88

Source: City of Boston Assessing Department.

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

The City may also exempt a portion of the assessed valuation of residential real property when used as the taxpayer's principal residence. The amount of the residential exemption can equal up to 30% of the average assessed value of all residential property in the City. In fiscal 2014, qualifying residents who receive the residential exemption have their taxable assessed values reduced by \$140,210. 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 2010 through 2014.



**Assessed Valuations—Fiscal Years 2010-2014<sup>(1)</sup>**  
**(\$ in thousands)\***

<b>Fiscal Year</b>	<b>Value of Taxable Land</b>	<b>Value of Taxable Buildings</b>	<b>Total Value Taxable Land and Buildings</b>	<b>Value of Taxable Personal Property</b>	<b>Total Assessed Taxable Value</b>
2014.....	\$22,152,403	\$72,728,426	\$94,880,829	\$4,951,983	\$99,832,813
2013.....	21,687,095	65,930,027	87,617,122	4,582,149	92,199,272
2012.....	18,015,330	65,968,615	83,983,945	4,516,466	88,500,410
2011.....	17,893,175	64,520,726	82,413,901	4,386,682	86,800,583
2010.....	17,936,674	65,072,740	83,009,414	4,247,118	87,256,532

\* Rows may not add due to rounding.

(1) Represents assessed values determined as of January 1 prior to the start of the fiscal year. For example, fiscal 2014 assessed values are as of January 1, 2013.

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 2014. Assessed valuations and fiscal 2014 taxes reflect the valuation of property as of January 1, 2013 and the tax liability using applicable tax rates.

**Largest Taxpayers: City of Boston, Fiscal 2014<sup>(1)</sup>**

<b>Name</b>	<b>Personal Property Value<sup>(2)</sup></b>	<b>Real Property Value</b>	<b>Total Assessed Value</b>	<b>Fiscal 2014 Tax Liability</b>
Blackstone Real Estate Partners <sup>(3)</sup>	\$ 763,900	\$2,679,041,000	\$2,679,804,900	\$ 83,556,317
Boston Properties <sup>(4)</sup>	5,012,500	2,640,029,000	2,645,041,500	81,923,012
Nstar/Boston Edison Company	1,775,659,360	84,694,301	1,860,353,661	58,005,827
Tishman Speyer Properties	824,700	916,259,000	917,083,700	28,594,670
Teachers Insurance and Annuity Association <sup>(5)</sup>	—	854,932,000	854,932,000	26,656,780
Beacon Capital Partners <sup>(6)</sup>	263,980	826,608,500	826,872,480	25,781,884
Fort Hill Associates	34,100	702,063,000	702,097,100	21,891,388
National Grid	550,842,200	26,900,500	577,742,700	18,014,017
Fallon Company/MA Mutual <sup>(7)</sup>	6,835,570	580,490,500	587,326,070	17,721,288
UIDC Of Massachusetts, Inc.	779,180	486,529,000	487,308,180	15,194,269
Liberty Mutual	132,300	449,924,667	450,056,967	14,032,776
John Hancock Financial	629,050	449,516,900	450,145,950	13,868,455
Fortis Property Group	179,090	434,918,000	435,097,090	13,566,327
UBS Realty Advisors	—	406,188,000	406,188,000	12,664,942
<b>TOTAL</b>	<b>\$2,341,955,930</b>	<b>\$11,538,094,368</b>	<b>\$13,880,050,298</b>	<b>\$431,471,952</b>

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

(2) Pursuant to Chapter 59 of the General Laws, Section 4, personal property consists of movable physical items not permanently attached to real estate. Many items of personal property are exempt from taxation in Massachusetts. There are three general types of personal property that are taxable: business and professional furnishings, machinery used in the conduct of business, and personal property of public utilities.

(3) Blackstone Real Estate Partners sold their interest in One Post Office Square in August 2013; the tax adjustment associated with this property will be reflected in fiscal 2015. Blackstone Real Estate Partners sold their interest in 1-3 Center Plaza in January 2014; the tax adjustment associated with these properties will be reflected in fiscal 2016.

(4) Boston Properties purchased 100 Federal Street in March 2012; the taxes associated with this property are reflected in fiscal 2014.

(5) Teachers Insurance and Annuity Association purchased 40 Broad Street in May 2013; the taxes associated with this property will be reflected in fiscal 2015.

(6) The fiscal 2014 tax liability for Beacon Capital Partners includes property held under Dewey Square Tower Associates, which was reported as a separate entity in previous years. Beacon Capital Partners purchased 10 Channel Center and 20-30 Channel Center in June 2013, and 230 Congress Street in August 2013; the taxes associated with these properties will be reflected in fiscal 2015.

(7) The completion of the Vertex Pharmaceuticals project resulted in the addition of approximately 1.1 million square feet of lab and office space to the Fallon Company's Fan Pier Development.

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, 2013 and the total amount (net of refunds) of taxes (current and all prior levies) collected during fiscal 2009 through 2013. 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 2009-2013**

**(Statutory Accounting Basis)**

**(\$ in millions)**

<b>Fiscal Year</b>	<b>Tax Levy</b>			<b>Tax Levy Collected Within Year of Levy</b>			<b>Tax Levy Net of Refunds Collected as of June 30</b>		
	<b>Gross <sup>(1)</sup></b>	<b>Net</b>	<b>Net % Gross</b>	<b>Gross Amount</b>	<b>% Gross Levy</b>	<b>% Net Levy</b>	<b>Net Amount</b>	<b>% Gross Levy</b>	<b>% Net Levy</b>
2013	\$1,684.4	\$1,643.4	97.6%	\$1,677.0	99.6%	102.7%	\$1,669.1	99.1%	101.6%
2012	1,615.9	1,577.3	97.6	1,604.2	99.3	101.7	1,597.8	98.9	101.3
2011	1,541.1	1,503.8	97.6	1,531.8	99.4	101.9	1,523.5	98.9	101.3
2010	1,465.5	1,429.8	97.6	1,456.6	99.4	101.9	1,447.2	98.8	101.2
2009	1,400.7	1,365.3	97.5	1,392.7	99.4	102.0	1,383.2	98.8	101.3

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

Source: City of Boston Treasury Department.

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

### *Delinquent Taxes and Tax Titles*

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

Tax title receipts were \$16.3 million, \$16.2 million and \$17.1 million, respectively, in fiscal 2011, 2012 and 2013.

### *Revenues from Chapter 121A Corporations*

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

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

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

<b>Fiscal Year Ended June 30</b>	<b>Excise Payments In Lieu of Taxes (Section 10)</b>	<b>Contracts Payments (Section 6A) <sup>(1)</sup></b>	<b>Total</b>
2013 .....	\$35,200	\$28,793	\$63,994
2012 .....	37,579	26,918	64,497
2011 <sup>(2)</sup> .....	33,808	36,497	70,305
2010 .....	40,616	25,978	66,594
2009 .....	42,923	22,540	65,464

(1) Contract Payments (Section 6A) include Chapter 121B, Section 16 payments, and Tax Increment Financing (TIF) agreements.

(2) Fiscal 2011 Section 6A payments include a one-time “gap” payment of approximately \$6.5 million from a property moving to taxable status. 121B payments increased in this year and going forward due to an accounting change.

Source: Office of Budget Management.

### State Aid

State aid from the Commonwealth comprises the second largest single revenue source to the City’s General Fund after the Property Tax. Over the course of the previous decade, support to municipalities from the Commonwealth has been consistently reduced.

The City experienced reductions in actual state aid revenue totaling \$102.9 million or -20.8% between fiscal 2008 and fiscal 2012. In fiscal 2013, the trend of declining state aid revenue ended with an increase of \$12.8 million or 3.3%. Fiscal 2014 state aid is also expected to grow, increasing by \$5.9 million or 1.5%. Adjusting for the recent increases, the total loss in state aid revenue between fiscal 2008 and fiscal 2014 amounts to \$84.1 million or -17.0%.

The State Treasurer is empowered to deduct “assessments” from state aid amounts appropriated to the City. The largest of these assessments is now that for Charter School Tuition followed by that for MBTA. Charter Schools are public schools, open to all students that apply, that are funded by “tuition,” 100% of which is paid by the students’ home or “sending” school district. A recent increase in the legislatively imposed cap on charter school enrollments has caused this cost to grow rapidly. Assessments also include smaller charges for various state-provided services, which may include debt service paid by the Commonwealth on “qualified bonds” and any sums allocable to the Boston Water and Sewer Commission or the City that are due and unpaid on debt issued to the Massachusetts Water Pollution Abatement Trust (“MWPAT”). The City has no “qualified bonds” outstanding and has never been assessed for unpaid amounts due the MWPAT. State Assessments are expected to increase to \$192.4 million in fiscal 2014, compared to \$172.4 million in fiscal 2013, \$156.6 million in fiscal 2012, and \$147.7 million in fiscal 2011.

“Net state aid” or, total state aid net of “assessments”, has declined more than state aid revenue due to the rapidly increasing assessment for charter school tuition mentioned above. Between fiscal 2008 and fiscal 2012, net state aid declined by \$131.2 million or -35.9%. Fiscal 2013 and fiscal 2014 have furthered that decline by an additional \$17.0 million for a total loss of state resources since fiscal 2008 of \$148.2 million or -40.6%. State Assessments are expected to increase to \$192.4 million in fiscal 2014, compared to \$172.4 million in fiscal 2013, \$156.6 million in fiscal 2012, and \$147.7 million in fiscal 2011.

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.

#### *State School Building Assistance*

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

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

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the MSBA based on the approved project cost and reimbursement rate applicable under the prior law. As of March 1, 2014, the City expects to receive \$43.9 million in grant payments to offset its outstanding debt service on school projects approved for grants under the prior law at a reimbursement rate of 90% of approved project costs. The MSBA has paid and is expected to continue to pay the remaining amounts of the grants for such projects in annual installments to reimburse debt service on bonds issued by the City to finance such projects.

Projects on the State Board of Education's project priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the MSBA based on the eligible project costs and reimbursement rates applicable under the prior law. In 2005, the MSBA approved grants at a reimbursement rate of 90% of approved project costs for three City projects on the priority waiting list as of July 1, 2004. In January 2009, the City and the MSBA executed a project funding agreement for Burke High School, the last City school project on the priority waiting list as of July 1, 2004. The City has received approximately \$40.7 million in Commonwealth support for the project.

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

Currently, two City school projects have been approved by the MSBA for the feasibility study phase to determine the most appropriate, cost effective solution for the projects. In July 2013, the MSBA Board amended one project by adding a second school to the study. During the feasibility stage of each project, the City will be reimbursed by the MSBA for 74.06% of feasibility study costs. The ongoing analysis and consideration of the City's project proposal by the MSBA does not represent or imply a commitment by the MSBA to fund the project. The MSBA's financial commitment to a project is only determined through the project funding agreement after careful analysis and the development of architectural and engineering documents.

## **Excise Revenues**

In addition to the major sources of revenue described above, the City receives various other types of revenues. See "Financial Operations—Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2010 to 2013 Actual Results and Fiscal 2014 Budget" above. In fiscal 2010 the City gained one new significant excise revenue source (meals excise) and expanded an existing source (room occupancy excise). The following is a description of those and other significant excise revenue sources of the City.

### *Room Occupancy Excise*

As is its option under state law approved in 1985, the City imposed a 4.0% local room occupancy excise upon the transfer of occupancy of any room in a hotel, lodging house or motel. The Commonwealth granted authority to municipalities in 2009 to increase the local option room occupancy excise up to 6.0%. The City increased the local option room occupancy excise to 6.0%, effective October 1, 2009. The Massachusetts Department of Revenue is responsible for collecting and remitting local option room occupancy excise receipts to the City in arrears. The City's room occupancy excise receipts totaled \$58.5 million, \$60.1 million, and \$66.1 million, respectively, in fiscal 2011, 2012 and 2013. Prior to fiscal 2012, pursuant to Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), the City established the City of Boston Room Occupancy Excise Fund (the "Excise Fund"), to provide for the payment of the principal 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"). The Convention Center Act authorizes the City to retain in the Excise Fund any portion of room occupancy excise receipts not applied to such principal and interest or to transfer all or a portion of such amount to the City's General Fund (Vehicle Rental Surcharge receipts below are also credited to this fund). The City transferred \$30.0 million and \$34.5 million, in fiscal 2010 and 2011, respectively from the Excise Fund to the General Fund. All such debt was refunded with general obligation debt issued in fiscal 2011. Accordingly, the Excise Fund has been eliminated and since the beginning of fiscal 2012, all room occupancy excise receipts have been credited directly to the General Fund.

#### *Aircraft Fuel Excise*

The City also assesses an aircraft fuel excise upon the sale of jet fuel. The Commonwealth collects this tax and distributes it to the City. The City's aircraft fuel excise receipts totaled \$23.2 million, \$32.6 million, and \$36.6 million respectively, in fiscal 2011, 2012 and 2013.

#### *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 \$46.9 million, \$40.4 million, and \$47.1 million respectively, in fiscal 2011, 2012 and 2013.

#### *Meals Excise*

The Commonwealth granted the option to municipalities in 2009 to levy a 0.75% excise on locally sold prepared food and beverages. The Massachusetts Department of Revenue is responsible for collecting and remitting meals excise receipts to the City. The City's annual meals excise receipts totaled \$20.2 million, \$22.0 million, and \$22.9 million respectively, in fiscal 2011, 2012 and 2013.

#### *Vehicular Rental Surcharge*

The Commonwealth imposes a \$10 surcharge on each vehicular rental transaction contract in the City. In fiscal 2011 and prior years, one dollar of each surcharge was paid to the City for deposit in the City's Excise Fund to provide for the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the BCEC Project. The City's annual share of vehicular rental surcharges totaled \$1.2 million, \$1.2 million, and \$1.4 million respectively, in fiscal 2011, 2012 and 2013. Beginning in fiscal 2013, this revenue source is deposited in the General Fund due to the elimination of the Excise Fund. See "City Indebtedness—Special Obligation Debt."

### **Departmental Revenues**

Several City departments generate significant revenues from fines, fees, charges and reimbursements.

#### *Parking Fines*

The City's annual parking fine receipts totaled \$61.1 million, \$61.0 million, and \$56.3 million respectively, in fiscal 2011, 2012 and 2013.

#### *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 \$23.5 million, \$32.6 million and \$29.2 million respectively, in fiscal 2011, 2012 and 2013.

#### *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 \$7.8 million, \$8.1 million and \$7.4 million respectively, in fiscal 2011, 2012 and 2013.

### **Other Available Revenues**

Under state law, proceeds of the sale of City facilities must be applied to the Surplus Property Disposition Fund to be used to finance capital projects, unless the City Council, with the approval of the Mayor, votes to credit to the General Fund the difference between the sale proceeds and the amount of debt (both principal and interest) incurred in acquiring or improving the sold facility. As of June 30, 2013, there was \$9.3 million remaining in the Surplus Property Disposition Fund.

### **Grants**

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

#### *Federal Grants*

Some major sources of federal grant funds in fiscal 2013 included: a Community Development Block Grant (CDBG) Entitlement Program award of \$15.9 million; a Home Investment Partnership Program (HOME) award of \$4 million; a Housing Opportunities for Persons with AIDS Program (HOPWA) award

of \$1.8 million and an Emergency Services Grant award of \$1.5 million. The Department of Neighborhood Development received an additional \$26.1 million in federal competitive grants.

Major sources of federal grant funds for programs of the Boston Public Schools included: a Title I Elementary & Secondary Education Act of 1965 award of \$36.5 million; Special Education Entitlement Grant awards of \$19.3 million; School Lunch Program and Summer Food Program awards of \$29.8 million; and Title II teacher quality award of \$6.0 million. The Boston Public Schools were also awarded \$32.9 million from a variety of other federal grant sources during the 2013 fiscal year. Total federal aid to Boston Public Schools in fiscal 2013 was \$124.5 million compared to \$154.2 million fiscal 2012.

#### *State Grants*

In addition to State Aid, the City also received state grants. In fiscal year 2013, the Boston Police Department received Community Services grant awards that totaled \$5.3 million from the Massachusetts Executive Office of Public Safety and Security.

Boston Public Schools were awarded approximately \$6.8 million for early childhood, elementary and secondary, and adult education. In addition, the state paid \$13.3 million in Special Education Reimbursement to the Boston school district. Student 50/50 Program totaling \$10.6 million. State grants to the Boston Public Schools in fiscal 2013 totaled \$20.6 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, 2013, the City had outstanding approximately \$1.150 billion of general obligation long-term bonds, all of which bear fixed rates of interest. On March 1, 2014, the City had approximately \$1.090 billion of general obligation long-term 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. Biennially, prior to January 31st, the Commissioner of Revenue establishes a final equalized valuation which is the basis for determining the debt limit for the following two-year period or until another equalization has been established. The equalized valuation of taxable property in the City established by the Commissioner of Revenue in January 2013 equals \$103.13 billion. Based on the current equalized valuation, the City's debt limit equals approximately \$5.16 billion, and its double debt limit equals \$10.31 billion as of March 1, 2014.

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, 2013, the City had outstanding debt of \$970.8 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$526.5 million. As of March 1, 2014, the City had outstanding debt of \$927.7 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$732.0 million. Based on the City's current debt limit of \$5.16 billion, the City had the capacity to authorize an additional \$3.50 billion of debt as of March 1, 2014.

### Debt Incurring Capacity As of March 1, 2014 (\$ in thousands)

	<u>Debt Limit</u>
Normal Debt Limit as of June 30, 2013 .....	\$5,156,374
Debt Outstanding as of June 30, 2013 .....	(970,812)
Debt Authorized but Unissued as of June 30, 2013 .....	<u>(526,527)</u>
Available Debt Incurring Capacity under the Debt Limit as of June 30, 2013.....	<u>\$3,659,035</u>
Authorization Adjustments approved through March 1, 2014 .....	(2,335)
New Authorizations approved through March 1, 2014 .....	(203,122)
Principal paid through March 1, 2014.....	<u>43,162</u>
Available Debt Incurring Capacity under the Debt Limit as of March 1, 2014 .....	<u>\$3,496,740</u>

Source: City of Boston Office of Budget Management

There are many categories of general obligation debt which are not subject to the debt limit and are therefore not included in the Debt Incurring Capacity table above. Some such debt is, however, subject to

other debt limits, dollar limitations or state approval. As of March 1, 2014, the City had a total of \$1.09 billion in long-term debt outstanding, of which \$162.8 million was exempt from the debt limit. As of that date the City also had \$82.1 million of long-term debt that was authorized but unissued and exempt from the debt limit.

**Summary of Authorized but Unissued Debt – Within and Outside Debt Limit  
As of June 30, 2013 and March 1, 2014 \***

	<u>Authorized/ Unissued 6/30/13</u>	<u>New Authorizations and Adjustments 7/1/13 to 3/1/14</u>	<u>Authorized/ Unissued 3/1/14</u>
“Within” Debt Limit	\$526,526,764	\$205,457,086	\$731,983,850
“Outside” Debt Limit	<u>81,400,663</u>	<u>697,331</u>	<u>82,097,994</u>
<b>TOTAL:</b>	<u>\$607,927,427</u>	<u>\$206,154,417</u>	<u>\$814,081,843</u>

\* Columns may not add due to rounding.

Source: City of Boston Office of Budget Management.

*Debt Statement*

The following table sets forth the City’s outstanding general obligation debt as of March 1, 2014.

**Debt Statement as of March 1, 2014  
General Obligation Debt \***

<u>Purpose for Which Issued</u>	<u>Principal Outstanding as of 6/30/13</u>	<u>Retired in Fiscal 2014 as of 3/1/14</u>	<u>Principal Outstanding as of 3/1/14</u>	<u>Deemed Payable from Related Revenues <sup>(1)</sup></u>	<u>Net Principal Amount</u>
General Purpose .....	\$879,069,637	\$(39,422,418)	\$839,647,219	\$(1,799,696)	\$837,847,523
MWPAT .....	5,535,000	(725,000)	4,810,000	(1,392,365)	3,417,635
Economic Development.	4,380,340	(163,737)	4,216,603	–	4,216,603
State Urban Development					
Relocation.....	9,057,067	(798,689)	8,258,379	–	8,258,379
Schools .....	55,706,403	(5,841,464)	49,864,939	(31,489,185)	18,375,754
Public Buildings .....	37,105,600	(4,640,202)	33,465,398	(17,462,335)	15,003,063
Public Works .....	159,005,474	(7,976,779)	151,028,695	–	151,028,695
Cemeteries .....	<u>200,479</u>	<u>(11,712)</u>	<u>188,768</u>	<u>–</u>	<u>188,768</u>
<b>TOTALS.....</b>	<u>\$1,150,060,000</u>	<u>\$(59,580,000)</u>	<u>\$1,090,480,000</u>	<u>\$(52,143,580)</u>	<u>\$1,038,336,420</u>

\* Columns may not add due to rounding.

- (1) Includes revenues related to, or derived from facilities for which the debt was incurred. Such revenues include:
- a. Receipts from the Boston Public Health Commission for debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals, and from the Fund for Parks and Recreation and rental income from a City-owned building at 1010 Massachusetts Avenue;
  - b. Debt service subsidies on City debt issued to the MWPAT; and
  - c. Grants from the MSBA for school construction projects.

Source: City of Boston Auditing Department.



### Debt Service Requirements

The following table sets forth the City's debt service requirements for general obligation debt for each fiscal year from June 30, 2011 through 2014. The debt service requirements table shows the gross Debt Service Requirements, offset by revenues received from related sources.

#### Debt Service Requirements—Fiscal 2011-2014 \*

Gross Debt Service Requirements Bonded Debt:	2011	2012	2013	2014 (Projected)
Principal.....	\$ 92,347,072	\$ 97,265,000	\$ 100,135,000	\$104,395,000
Interest.....	41,434,164	44,254,798	45,344,143	53,221,933
Total.....	<u>133,781,236</u>	<u>141,519,798</u>	<u>145,479,143</u>	<u>157,616,933</u>
<u>Less Revenue Deemed Available From Related Sources: <sup>(1)</sup></u>				
Boston Medical Center and Public Health Commission.....	1,392,625	1,403,772	527,203	211,478
Fund for Parks & Recreation/Irrigation Project.....	239,662	231,495	223,246	214,915
1010 Massachusetts Ave Project.....	1,753,636	1,809,579	1,856,743	1,886,304
Pension Management System.....	1,432,247	2,443,307	2,693,959	1,858,098
Room Occupancy Excise Fund.....	—	3,300,375	3,298,625	3,300,375
Premium and Subsidies.....	3,784,994	4,063,939	9,763,714	10,322,202
<u>Plus Interest On Temporary Loan Notes and Additional Items:</u>				
Revenue Anticipation.....	—	—	—	3,000,000
Cost of Issuance.....	248,079	365,119	47,228	500,000
QSCB of 11/09 Sinking Fund.....	727,273	1,454,545	1,454,545	1,454,545
Dudley Square Site/Sec. 108.....	505,000	505,000	505,000	505,000
Total Debt Service/Budget Summary.....	<u>\$126,658,425</u>	<u>\$130,591,995</u>	<u>\$129,122,426</u>	<u>\$145,283,107</u>
<u>Additional Adjustments:</u>				
Plus:				
Convention Center Special Obligation Bonds <sup>(2)</sup> .....	2,273,831	—	—	—
Less:				
School Construction Assistance <sup>(1)</sup> .....	11,157,748	9,799,520	8,784,815	8,474,584
Room Occupancy Excise Fund.....	<u>2,273,831</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Net Debt Service Requirements.....	<u>\$115,500,677</u>	<u>\$120,792,475</u>	<u>\$120,337,611</u>	<u>\$136,808,523</u>

\* Columns may not add due to rounding.

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

- (2) Redeemed in full on April 1, 2011 with proceeds of general obligation refunding bonds.

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

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

### *Certain Debt Ratios*

The following table sets forth information as of March 1, 2014 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, 2014**

	<b>Amount</b>	<b>Per Capita <sup>(1)</sup></b>	<b>Ratio to Assessed Property Value <sup>(2)</sup></b>	<b>Debt Per Capita as a % of Personal Income <sup>(3)</sup> Per Capita <sup>(3)</sup></b>
Gross General Obligation Long-Term Debt	\$1,090,480,000	\$1,713.30	1.09%	3.00%
Net General Obligation Long-Term Debt <sup>(4)</sup>	1,038,336,420	1,631.38	1.04%	2.86%

(1) U.S. Census Bureau as of January 2014—Boston's Estimated 2012 Population equaled 636,479.

(2) Assessed Property Value equaled \$99.83 billion as of January 1, 2013. 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, January, 2014, Revised Series—Suffolk County's 2012 Per Capita Personal Income = \$57,033.

(4) As represented in "Debt Statement as of March 1, 2014."

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 2011 - 2013 (\$ in thousands)**

	<b>2011</b>	<b>2012</b>	<b>2013</b>
Outstanding General Obligation Debt .....	\$1,033,219	\$1,076,895	\$1,150,060
Authorized But Unissued Debt, Budgetary Basis .....	<u>\$559,931</u>	<u>\$603,564</u>	<u>\$607,927</u>
Debt Service, Budgetary Basis .....	\$126,410	\$130,227	\$129,122
Debt Service as a % of Total General Fund Revenues, and Other Available Funds, Budgetary Basis .....	5.2%	5.4%	5.2%
Debt Service as a % of Total General Fund Expenditures, Budgetary Basis .....	5.2%	5.4%	5.2%
Debt Service as a % of Total Net Tax Levy, Budgetary Basis .....	8.4%	8.3%	7.9%
Bonds Issued:			
General Obligation – New Money .....	\$127,810	\$121,975	\$173,720
General Obligation – Refunding Bonds .....	<u>52,720</u>	<u>110,100</u>	<u>24,380</u>
Total Bonds Issued .....	<u>\$180,530</u>	<u>\$232,075</u>	<u>\$198,100</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 or bond anticipation notes ("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. As of March 1, 2014, the City has no Special Obligation debt.

### **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 (“BWSC”) is an independent body politic and corporate and a political subdivision of the Commonwealth created in July 1977. The BWSC, 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 BWSC. The BWSC’s user charges, as required by statute, are designed to produce revenues to the BWSC sufficient to pay all of its current operating expenses. These user charges are anticipated to increase moderately. The City’s property tax base is not used to subsidize water and sewer services.

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

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

#### *Boston Redevelopment Authority*

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

#### *Boston Public Health Commission*

The Boston Public Health Commission is a body politic and corporate and a political subdivision of the Commonwealth created in June 1996 as the successor to the City’s Department of Health and Hospitals. See “The City—Principal Government Services—Public Health.” The BPHC 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 BPHC 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 BPHC is not a debt or other obligation of the City. The BPHC has no debt currently outstanding.

The BPHC 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, which was \$0.2 million aggregate principal amount outstanding as of March 1, 2014. The BPHC has required, and can be expected to continue to require, substantial financial support from the City to maintain its public health mission and programs, including satisfaction of its obligations described above.

#### *Other Agencies and Corporations*

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

conduct civic and charitable functions for residents and visitors to the City and to stimulate the economic development of the City.

### **Major Contractual Obligations**

In addition to its debt obligations, the City has substantial contractual obligations. Included in this category are the City's obligation for pension benefit payments to its contributory retirement system for City employees and other post employment benefits which is included in the annual tax levy (see "Employee Benefits"); agreements for the provision of sanitation, solid waste collection and disposal services (see "The City—Principal Government Services—Public Works"); and agreements with BMCC for the provision of operating assistance (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, 2014, the amount outstanding under the lease agreements equaled \$32.3 million. Lease payments are subject to annual appropriation and are not included in the City's debt limit.

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

#### *Capital Planning Process*

The capital planning process coincides with the annual budget cycle and provides an opportunity for City departments to identify their facility, equipment, infrastructure, technology and planning needs in a systematic manner and to forward their proposals to the Office of Budget Management ("OBM") for funding consideration. The first phase concludes with the release of an updated five-year capital plan published as part of the City's annual budget document. The process allows for a continuing reassessment of capital needs. On April 8, 2013, the former Mayor submitted his fiscal 2014 budget to the City Council and filed \$198.0 million in new capital authorizations which were subsequently approved by the City Council. In early 2014, an additional \$9.8 million in capital authorization was approved by City Council for a total of \$207.7 million in new capital authorizations supporting the fiscal 2014-2018 capital plan.

#### *Capital Funding Plan*

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

#### *Current Capital Investment Plans*

The City's fiscal 2014-2018 capital plan proposes long-term investments over the next five years. In all, \$1.8 billion from City and non-City sources are proposed to be spent on capital projects. These expenditures will be used for improvements to schools, libraries, parks, community centers, roads, bridges, street lights and other City-owned facilities and infrastructure.

The fiscal 2014-2018 capital plan includes projects that improve the physical condition of schools, parks, community centers, libraries, public safety facilities and equipment across the City. In November 2013 a new branch library was opened in East Boston. Major renovation work will begin this spring and summer on several school buildings. Significant investment in the City's technology infrastructure and business applications is also underway including a new computer-aided-dispatch system for public safety departments and an implementation of an enterprise asset management system.

Construction is underway on the Dudley Municipal Center—a 215,000 square foot multi-story municipal office facility with street level retail and public assembly space—which will incorporate the facades of the historic Ferdinand Furniture Building and two other late 19th century buildings and will serve as the new administrative headquarters for Boston Public Schools (BPS). Completion is expected by December 2014. The project represents the first major new construction of City of Boston government office facility since 1967, and shall extend relevant services in a location that is accessible, efficient, and iconic.

The maintenance of the City's roadways and sidewalks is a significant part of the capital plan. In fiscal 2013, 52 miles of roads were reconstructed or resurfaced. About 19 miles of bike lanes were added. The City continued replacing mercury and sodium vapor street lights with LED street lights, installing over 7,800 lights in fiscal 2013, with plans to continue to retrofit the City's streetlights in fiscal 2014. In addition, the City's Complete Streets Guidelines were finished, leading to a comprehensive set of design

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

## **EMPLOYEE BENEFITS**

### **Retirement Systems**

Employees of the City of Boston are not participants in the Federal Social Security system; instead, the City participates in a contributory defined benefit retirement system that is administered by the State-Boston Retirement System (“SBRs” or “system”). The SBRs is a governmental pension plan as defined by federal law and is governed by the provisions of Massachusetts General Law Chapter 32. The SBRs is administered by a five member board: the City Auditor, who serves *ex-officio*; two individuals elected by members of the system; an individual chosen by the Mayor; and an individual chosen by the other four members or appointed by the Mayor if the other four members do not agree on a selection within 30 days of a vacancy. Retirement payments are issued on a monthly basis and payments are funded through a combination of mandatory deductions from current employees, employer contributions, Commonwealth appropriations and investment earnings.

In addition to appropriation payments to cover current and future benefit payments of City employees covered by the SBRs, the City funds noncontributory retirement benefits for pensioners whose employment predates the SBRs, certain veterans who meet certain state law requirements, former employees retired under Massachusetts Special Acts and families receiving killed-in-the-line-of-duty benefits. As of January 2014, the City is providing such benefits to 94 pensioners; these benefits are funded on a pay-as-you-go basis with monthly pension payments of approximately \$296,000.

On December 4, 2008, the City, SBRs, the Public Employee Retirement Administration Commission (“PERAC”), and the Commonwealth entered into a memorandum of agreement to transfer the direct responsibility for funding the liability of Boston teachers’ pensions to the Commonwealth effective fiscal year 2010; legislation mirroring this agreement was signed into law on May 22, 2010. Among the significant transactions which took place shortly after passage of the legislation were: a) the SBRs transferred 27% of the market value of its assets to the PRIT fund as the portion of SBRs assets related to Boston teacher pension liability according to a valuation accepted by all parties in the aforementioned memorandum of agreement, and b) the last reimbursement originally scheduled to go to the City’s general fund, \$126.9 million, was directly deposited with the SBRs to reduce the SBRs—Excluding Teachers unfunded liability. The SBRs continues to administer pension services for all Boston teacher employees, retirees and beneficiaries. The legislation eliminated the three-party (SBRs/Commonwealth/City of Boston) transaction, based partly on outdated pay-as-you-go methodology, and replaced it with a more financially sound two party (SBRs/Commonwealth) transaction that clarifies ownership of the liability and is based upon current year, actuarially calculated funding.

Chapter 61 of the Acts of 2009, as amended, transferred approximately 1,000 employees of the Suffolk County Sheriff’s Department to the Commonwealth effective January 1, 2010. All current and future Suffolk County Sheriff employees became members of the State Retirement System and are now the fiscal responsibility of the Commonwealth. Former employees of the Suffolk County Sheriff’s Department, who retired prior to January 1, 2010, remain members of the SBRs and their respective pension liability remains the obligation of the City.

The following table reflects amounts expended or budgeted by the City for pension payments for fiscal 2010 through fiscal 2014. These numbers include contributions for both contributory and non-contributory members.

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

<b>Fiscal Year Ending June 30</b>	<b>SBRS Contributory System</b>	<b>Predecessor/ Noncontributory System</b>	<b>Net Pension Cost</b>
2014 Budgeted .....	\$152.9	\$4.2	\$157.1
2013 .....	137.0	4.1	141.1
2012 .....	126.4	4.1	130.5
2011 <sup>(1)</sup> .....	191.9	4.1	196.0
2010 .....	108.5	4.1	112.6

(1) Includes one-time extraordinary contribution of \$82.0 million.

Source: State-Boston Retirement Board

The actuarial accrued liabilities of the SBRS exceed the actuarial value of the assets of the SBRS. As part of the change in the funding of the Boston teachers' pension liability described above, the last three SBRS actuarial valuations include separate valuations for teachers and for all other SBRS members ("SBRS—Excluding Teachers"), includes all non-teacher City of Boston employees and retirees plus employees of the Boston Redevelopment Authority, Boston Housing Authority ("BHA"), Boston Public Health Commission and the Boston Water and Sewer Commission. The City's annual operating budget includes an amount to be expended for pension liability payments by the Boston Public Health Commission; however, the City is not responsible for such contributions for the Boston Redevelopment Authority, the Boston Housing Authority and/or the Boston Water and Sewer Commission. The City's annual pension contributions constitute its share of the annual required contribution to SBRS—Excluding Teachers.

The following table summarizes the results of the last three actuarial valuations for SBRS—Excluding Teachers. The information presented in the following table differs from that shown on page A-64 of the City's audited financial statements attached hereto as Exhibit I to Appendix A because the information shown on page A-64 includes assets and liabilities relating to teachers pensions, which are now an obligation of the Commonwealth of Massachusetts. See Note 11 d. to the City's audited financial statements attached hereto as Exhibit I to Appendix A.

**Summary of Actuarial Valuation—SBRS, Excluding Teachers**  
**(\$ in thousands)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ((b - a) / c)</b>
January 1, 2012	\$3,575,387	\$5,060,071	\$1,484,684	70.7%	\$802,948	184.9%
January 1, 2010	3,181,966	4,552,070	1,370,103	69.9	809,569	169.2
January 1, 2008	3,254,342	4,205,966	951,624	77.4	860,089	110.6

Source: State-Boston Retirement Board

The most recent actuarial valuation as of January 1, 2012 is incorporated herein by reference and is available at <http://www.cityofboston.gov/retirement/investment.asp>. The January 1, 2012 valuation assumes a long-term rate of return of 7.75% for SBRS—Excluding Teachers assets. Prior valuations assumed 8.0%. The actuarial valuation of assets is determined annually by recognizing 20% of gains or losses, and to the extent necessary, by also recognizing any additional portion of gains or losses, which keeps the actuarial valuation of assets between 80% and 120% of market value. The net effect is a smoother trend of annual pension funding during volatile short-term periods of asset gains or losses. The following table shows the market and actuarial value of the plan's non-teacher assets.

**Value of Plan Assets – SBRS, Excluding Teachers**  
**(\$ in thousands)**

<b>Actuarial Valuation Date</b>	<b>Market Value of Assets</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Value as Percentage of Market Value</b>
January 1, 2012	\$3,260,503	\$3,575,387	109.7%
January 1, 2010	2,959,889	3,181,966	107.5
January 1, 2008	3,367,896	3,254,342	96.6

Source: State-Boston Retirement Board

As of December 31, 2013, the estimated market value of assets not held for teacher benefit payments was approximately \$3.95 billion. This amount is an estimate based upon then current market values of certain assets held by SBRS and prior period values for certain other assets for which the current market value is not readily ascertainable. This amount is unaudited and subject to change. It should be noted that the annual required contribution of the City is based, in part, upon the actuarial value of assets, not market values. This is commonly done in computing annual funding requirements in order to prevent extreme fluctuations that might otherwise arise from temporary or cyclical economic and market conditions.

In accordance with Chapter 68 of the Acts of 2007, the state regulatory agency for pensions, PERAC, annually reviews investment performance and funded ratio of systems as of January 1st. If a system is: (i) less than 65% funded, and (ii) has trailed the investment performance of the PRIT fund by 2% or more on an average annualized basis over the previous ten year period, PERAC will declare the system underperforming and the system shall transfer its assets to the PRIT fund. For reasons unrelated to Chapter 68, the SBRS–Teachers assets are invested in the PRIT fund; the SBRS–All Other is currently funded at 70.7%.

For additional information concerning a comparison of the market value of assets and investment return to the actuarial value of assets and investment return for the period 2002 through 2011, see Chart 6-3 in the January 1, 2012 actuarial valuation referenced above. The City is currently committed to a funding schedule for fiscal 2013, 2014, and 2015 that is based on the most recent actuarial valuation, incorporating asset and liability data as of January 1, 2012. The funding schedule is calculated in accordance with the entry age actuarial cost method and includes paying the current year's present value of benefits earned during the year ("normal cost") and an annual contribution toward reducing the unfunded liability of the SBRS 15 years ahead of the required deadline of 2040. The calculation of long-term liability assumed annual growth for employees at 5.0%. In response to market conditions, the SBRS lowered the investment long-term rate of return assumption from 8.0% to 7.75%, but the cost impact required some restructuring of the schedule: increasing annual pension funding average annual growth to over 9% in future years. The 2012 actuarial valuation also reflects an increase to the retiree Cost of Living Adjustment ("COLA") base from \$12,000 to \$13,000 as of July 1, 2012 and an increase to the minimum annual pension allowance from \$3,000 to \$6,000 effective Dec. 21, 2012. The funding schedule also assumes a similar COLA will be approved in future years. Additional adjustments were made for the 2012 valuation to increase the assumed rates of disability by 25% for public safety officers and to decrease the assumed rates of disability by 50% for non-public safety officers. These changes to the assumed rates of disability better reflect past experience and future expectations. Many variables are in play with each new valuation, and the actuary's recommendations and consultation with the City are part of a careful planning process that precedes the SBRS final approval of the valuation and funding schedule.

The City currently expects to fully amortize the unfunded actuarial accrued liability by June 30, 2025. Exhibit 3-D to the January 1, 2012 actuarial valuation sets forth the funding schedule from 2013 through 2025 for the SBRS, excluding teachers. The City's share of the employer contributions shown in this schedule is approximately 82%, down from a long-term average of approximately 90%, due to the direct credit, amortized over the long-term, received by the City for extraordinary contributions and deposits during fiscal 2011, and as part of the Boston Teacher Pension MOA and legislation. Accordingly, based upon this schedule, which is subject to change as future circumstances change, the City's total employer contributions are estimated to increase from \$137.0 million in fiscal 2013 to \$369.1 million in fiscal 2024. This schedule is illustrative only of the currently expected funding schedule. The actual funding schedule will be different due to the actual circumstances that will occur and that will likely vary from the assumptions used in the January 1, 2012 valuation. The City expects the current pension funding schedule, with its conservative 5.0% salary growth assumption, is sufficient to absorb the long term impacts of collective bargaining awards. The City's pension liability is reevaluated every two years and adjustments are made to the funding schedule, as needed.

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, which sets forth new standards that will modify the accounting and financial reporting of the City's pension obligations. The new standard for governments that provide employee pension benefits will require the City to report in its statement of net position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The new standard will require immediate recognition of more pension expense than is currently required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-

term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate based on tax-exempt 20-year AA or higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The new standard will be effective for the City's fiscal year 2015.

The SBRS is committed to the transparency and accuracy of the fund. Therefore, the SBRS contracts an outside audit firm to conduct an annual audit of the system. Additional information on the SBRS, including the most recent actuarial valuation reports and audited financial statements can be found at <http://www.cityofboston.gov/retirement/investment.asp>. See also Note 11 to the City's fiscal 2013 audited financial statements attached hereto as Exhibit I.

### **Other Postemployment Benefits**

In addition to the pension benefits described above, the City provides postemployment health care and life insurance benefits on a pay-as-you-go basis to approximately 14,900 City (including teachers) and Boston Public Health Commission ("BPHC") participating retirees and their beneficiaries. It is projected that the City will pay benefits (net of retiree contributions) on behalf of current retired employees of approximately \$115 million in fiscal 2014, on a pay-as-you-go basis, as compared to \$125 million in fiscal 2013.

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 postemployment benefit ("OPEB") obligations.

In compliance with these reporting requirements, the City provides an independent actuarial valuation. In fiscal 2008, the City began voluntary annual appropriations to reduce its OPEB liability. Aggregate City appropriations since this time through fiscal 2013 total \$175 million. The City appropriated an additional \$40 million in fiscal year 2014. Annual appropriations are retained in an irrevocable Trust Fund, which is authorized through the City's acceptance of M.G.L. Chapter 32B section 20, and is under a Trust Agreement between the City and the City's Collector-Treasurer as trustee and custodian. A separate OPEB trust fund has also been established by the BPHC and \$4.75 million has been deposited through fiscal year 2013. The BPHC deposited an additional \$2.25 million in fiscal year 2014. The City has procured investment consulting services in order to optimize investment of the OPEB Trust Funds. The aggregate amount on deposit in the OPEB Trust Funds as of December 31, 2013 was \$272.4 million.

An independent actuarial valuation of the City's OPEB obligations at June 30, 2013, estimated that the total OPEB unfunded actuarial accrued liability of the City and the BPHC as of that date on account of then current retirees, beneficiaries, dependents and current active members was \$2.142 billion based on current funding policies, as compared to \$3.062 billion as of the prior June 30, 2011 valuation. The June 30, 2013 unfunded actuarial accrued liability is unaudited and subject to change. This projected liability decreased significantly from the last valuation, partially due to an increased discount rate from 7.25% to 7.50% for the City. The BPHC discount rate remained at 5.75%. The other significant impact was the lowering of per capita health insurance costs, for several reasons. First, Massachusetts Municipal Health Care reform, enacted by the state legislature in 2011, revised Section 18A of Chapter 32B to require that all Medicare-eligible retirees enroll in Medicare plans—this resulted in almost 40% of retirees switching from non-Medicare plans into lower cost Medicare plans. This same legislation also brought the City together with its unions, resulting in greater employee and retiree cost sharing of health care costs. In April 2011, the City and its unions signed a four-year agreement through June 30, 2015, establishing a Public Employee Committee ("PEC") pursuant to MGL Chapter 32B, Section 19, also known as "coalition bargaining." The PEC agreed to a phased-in 2.5% increase in contributions for active employees and non-Medicare retirees, reducing the City's premium share to 72.5% of Blue Cross/Blue Shield premiums and 82.5% of HMO premiums. The PEC also agreed to plan design changes which increased member cost sharing, and a 1% increase in the retiree contributions to Medicare plans, effective at the expiration of the agreement. Overall health insurance costs were also lowered due to City efforts, including moving almost 90% of claims costs to self-insurance, performing a comprehensive enrollment audit, and competitive bidding all non-Medicare health plans. Finally, nationwide health care costs trends have slowed, impacting the growth of future liabilities.



In fiscal 2014, the City and BPHC are projected to fund 96.8% of the \$162.8 million annual required contribution, through a \$115 million payment for current retiree benefits, and \$42.25 million contribution to the Trust Fund.

Additional information regarding the City's OPEB obligations may be found in the "Actuarial Valuation & Review of Other Postemployment Benefits (OPEB) as of June 30, 2013," available at [http://www.cityofboston.gov/images\\_documents/cob\\_gasb\\_opeb06\\_30\\_2013\\_tcm3-43219.pdf](http://www.cityofboston.gov/images_documents/cob_gasb_opeb06_30_2013_tcm3-43219.pdf).

#### **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, 2013, which is available from the City. A copy of the CAFR has been filed with the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access System ("EMMA") and is also posted at the City's internet site at [www.cityofboston.gov/auditing](http://www.cityofboston.gov/auditing).

Questions regarding this Information Statement and requests for additional financial information concerning the City of Boston should be directed to 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 Walter J. St. Onge III, Edwards Wildman Palmer LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone (617) 239-0389.

# *City of Boston*

Massachusetts



## ***Basic Financial Statements***

**Fiscal Year Ended June 30, 2013**

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*Thomas M. Menino, Mayor*

*Meredith Weenick, Chief Financial Officer & Collector Treasurer*

*Sally D. Glora, City Auditor*

*Prepared by the City of Boston Auditing Department*



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**KPMG LLP**  
Two Financial Center  
60 South Street  
Boston, MA 02111

## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dudley Square Realty Corporation, the Ferdinand Building Development Corporation, and the City's Permanent Funds, which represent 3.8% and 0.3% of the assets and revenues of the governmental activities, respectively, and 1.6% and 0.5% of the assets and revenues of the aggregate remaining fund information, respectively. We also did not audit the financial statements of the State-Boston Retirement System, the OPEB Trust Fund and the City's Private-Purpose Trust Funds, which represent 96.5% and 78.6% of the assets and revenues of the aggregate remaining fund information, respectively. Further, we did not audit the financial statements of the Trustees of the Public Library of the City of Boston and the Economic Development and Industrial Corporation of Boston, which represent 26.7% and 20.2% of the assets and revenues of the aggregate discretely presented component units, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for these entities, are 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 from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof and the budgetary comparison for the City's General Fund for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

#### ***Prior-Year Comparative Information***

The financial statements include partial prior-year comparative information related to the budgetary comparison for the City's General Fund. Such information does not include all of the information required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2012, from which such partial information was derived.

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KPMG LLP

Boston, Massachusetts  
December 19, 2013



## MANAGEMENT'S DISCUSSION AND ANALYSIS

*(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, 2013. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the City – the *Government-wide Financial Statements* and the *Fund Financial Statements*. The *Notes to the Basic Financial Statements* supplement the financial statement information and clarify line items that are part of the financial statements.

#### Government-wide Financial Statements

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

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

Both the above financial statements present two separate sections as described below.

- *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, public health programs, state and district assessments, and debt service.
- *Discretely Presented Component Units* – These are legally separate entities for which the City has financial accountability but function independent of the City. For the most part, these entities operate similar to private sector businesses. The City's four discretely presented component units are the Boston Public Health Commission, the Boston Redevelopment Authority, the Economic Development Industrial Corporation, and the Trustees of the Boston Public Library.

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

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

### **Fund Financial Statements**

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

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

**Governmental Funds** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, the Governmental Fund Financial Statements focus on near term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's 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 (i.e., measurable and available to liquidate liabilities of the current period). Expenditures are generally recorded when liabilities are incurred, except for those related to long-term liabilities, which are recorded when due and payable. 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 non-major governmental funds are combined in the "Other Governmental Funds" column on these statements. The Governmental Fund Financial Statements can be found immediately following the Government-wide Financial Statements.

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

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

**Proprietary Funds** – These funds are used to show activities that operate more like those of commercial enterprises. Like the Government-wide Financial Statements, Proprietary Fund Financial Statements use the economic resources measurement focus and accrual basis of accounting. There are two types of proprietary funds – enterprise funds and internal service funds. Enterprise funds charge fees for services provided to outside customers including local governments. Enterprise Funds provide the same type of information as the business-type activities of the Government-wide Financial Statements within governmental activities, only in more detail. Currently, the City does not have any enterprise funds. The Internal Service Fund provides health insurance services predominantly to other funds, departments or agencies of the City. Therefore, its activities are included in the Government-wide financial statements within governmental activities. The Proprietary Funds Financial Statements can be found immediately following the Governmental Fund Financial Statements.

**Fiduciary Funds**– These funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the Government-wide Financial Statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the economic resources measurement focus and 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 position of the City employees' pension plan; the OPEB Trust Fund, which is an irrevocable trust established for the accumulation of assets to reduce the unfunded actuarial liability associated with

the City's obligation for other postemployment benefits; and the Private Purpose Trust and Agency Funds, which include 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 and the OPEB Trust Fund.

## **CURRENT YEAR FINANCIAL IMPACTS**

- The City of Boston's OPEB obligation significantly impacts the government-wide financial results. Each year, the City is required to recognize an additional portion of its unfunded actuarial accrued liability. The most recent valuation of the City's OPEB obligations as of June 30, 2011, estimated that the total OPEB unfunded actuarial accrued liability of the City decreased by \$1.64 billion to \$2.91 billion. This decrease was largely as a result of changes to the discount rate based on the City's funding policy.
- In fiscal year 2013, the City's contribution to the OPEB Trust Fund (\$162.9 million) for retiree health benefits includes \$40.0 million in advance funding toward reducing the unfunded actuarial accrued liability and is close to the annual required contribution (ARC) of \$186.9 million. In fiscal year 2014, the City has appropriated \$40.0 million in advance funding toward reducing the unfunded actuarial accrued liability.
- As of July 1, 2012, in addition to the plans administered by Blue Cross Blue Shield, the City moved the Harvard Pilgrim Health Care plans, which administered a majority of the City's premium based health insurance participants, to become self-insured. Thus, the City accounted for this activity in the Internal Service Fund starting in fiscal year 2013. This resulted in an increase of \$24.9 million in net position for the year ended June 30, 2013 in the Internal Service Fund.
- Dudley Square Realty Corporation (DSRC) and Ferdinand Building Development Corporation (FBDC) funds representing newly created blended component units are presented as non-major funds within the other governmental funds as of June 30, 2013. This resulted in a \$31.1 million increase in fund balance in the City's other governmental funds. For additional information on DSRC and FBDC please refer to note 1 to the Financial Statements.
- In fiscal year 2013, the City funded a total of \$21.0 million in the Collective Bargaining Reserve to reflect the wage pattern that has been accepted by several of the City's civilian unions and has been offered to all unions.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis is based on the Statement of Net Position and the Statement of Activities found directly after Management's Discussion and Analysis.

### Government-wide Highlights

*Net Position – Primary Government* – The total assets of the City exceeded its liabilities at fiscal year ended June 30, 2013 by \$600.3 million (presented as net position). At year end, the City had a surplus in governmental activities unrestricted net position in the amount of \$74.1 million. This represents the City's election to fund certain long-term liabilities as they come due, rather than as they are incurred.

*Changes in Net Position – Primary Government* – The City's total net position increased by \$75.7 million in fiscal year 2013.

### Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position totaled \$600.3 million at the end of 2013, compared to \$524.6 million at the end of the previous year.

The components of net position comprise the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire those assets that are still outstanding – this amount is \$450.3 million indicating that the net book value of the City's capital assets exceeds the amount of related 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 position, \$75.9 million or 12.6%, represents restricted net position, or resources that are subject to external restrictions on how they may be used. Internally imposed designations of resources are not presented as restricted net assets. Unrestricted net position increased \$120.1 million from 2012.

## Net Position – Primary Government

*(In thousands)*

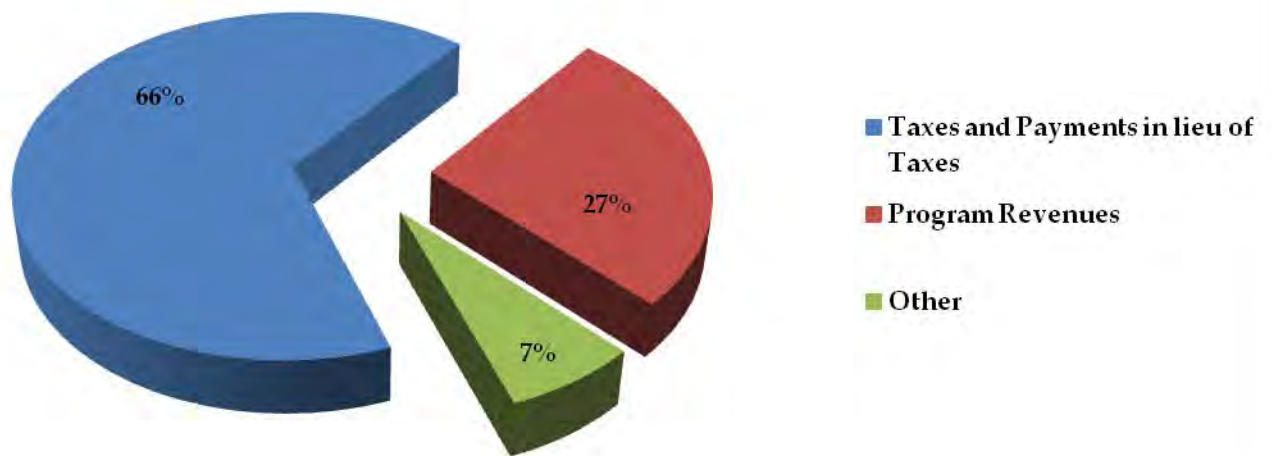
	Governmental Activities	
	Total Primary Government	
	2013	2012
<b>ASSETS:</b>		
Current assets.....	\$ 1,578,018	\$ 1,459,833
Capital assets.....	1,628,051	1,479,237
Other assets.....	145,018	133,171
<b>Total assets.....</b>	<b>3,351,087</b>	<b>3,072,241</b>
<b>LIABILITIES:</b>		
Noncurrent liabilities.....	2,087,630	1,896,612
Current liabilities.....	663,160	651,032
<b>Total liabilities.....</b>	<b>2,750,790</b>	<b>2,547,644</b>
<b>NET POSITION:</b>		
Net investment in capital assets.....	450,322	442,778
Restricted .....	75,878	127,843
Unrestricted.....	74,097	(46,024)
<b>Total net position.....</b>	<b>\$ 600,297</b>	<b>\$ 524,597</b>

## Changes in Net Position – Primary Government

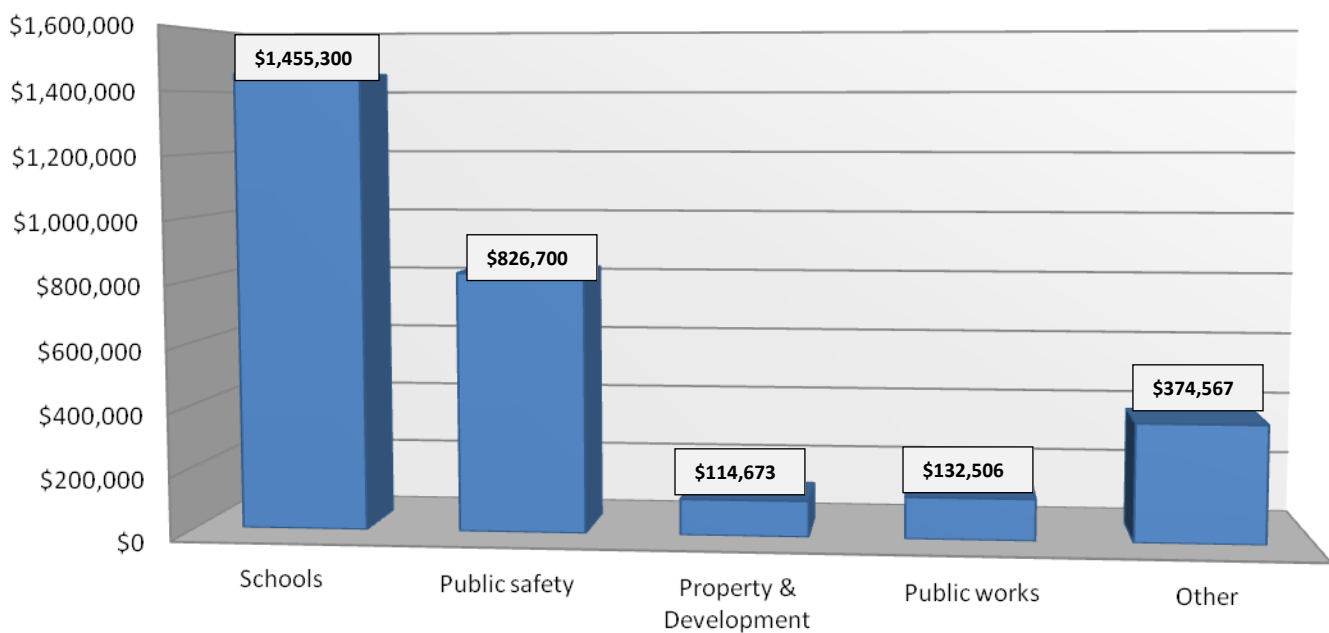
*(In thousands)*

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
<b>Revenues:</b>						
Program revenues:						
Charges for services.....	\$ 205,938	\$ 210,260	\$ -	\$ -	\$ 205,938	\$ 210,260
Operating grants and contributions.....	549,596	574,653	-	-	549,596	574,653
Capital grants and contributions.....	37,256	35,337	-	-	37,256	35,337
General revenues:						
Taxes.....	1,979,180	1,841,355	-	-	1,979,180	1,841,355
Grants and contributions not restricted.....	185,827	188,895	-	-	185,827	188,895
Investment income.....	14,732	10,887	-	2,688	14,732	13,575
Miscellaneous.....	7,820	7,084	-	-	7,820	7,084
<b>Total revenues.....</b>	<b>2,980,349</b>	<b>2,868,471</b>	<b>-</b>	<b>2,688</b>	<b>2,980,349</b>	<b>2,871,159</b>
<b>Program expenses:</b>						
General government.....	127,882	108,499	-	-	127,882	108,499
Human services.....	50,690	48,103	-	-	50,690	48,103
Public safety.....	826,700	817,768	-	-	826,700	817,768
Public works.....	132,506	110,187	-	-	132,506	110,187
Property and development.....	114,673	114,753	-	-	114,673	114,753
Parks and recreation.....	32,242	34,651	-	-	32,242	34,651
Library.....	51,875	44,526	-	-	51,875	44,526
Schools.....	1,455,300	1,369,047	-	-	1,455,300	1,369,047
Public health programs.....	69,978	73,975	-	-	69,978	73,975
Interest on long-term debt.....	41,900	39,798	-	-	41,900	39,798
Hospital.....	-	-	-	2,523	-	2,523
<b>Total program expenses.....</b>	<b>2,903,746</b>	<b>2,761,307</b>	<b>-</b>	<b>2,523</b>	<b>2,903,746</b>	<b>2,763,830</b>
<b>Excess before transfers and other items.....</b>	<b>76,603</b>	<b>107,164</b>	<b>-</b>	<b>165</b>	<b>76,603</b>	<b>107,329</b>
Transfers.....	-	(44,872)	-	44,872	-	-
Special item.....	-	11,450	-	(59,612)	-	(48,162)
Loss on disposal of capital assets.....	(903)	-	-	(257)	(903)	(257)
<b>Change in net position.....</b>	<b>75,700</b>	<b>73,742</b>	<b>-</b>	<b>(14,832)</b>	<b>75,700</b>	<b>58,910</b>
<b>Net position – beginning of year.....</b>	<b>524,597</b>	<b>450,855</b>	<b>-</b>	<b>14,832</b>	<b>524,597</b>	<b>465,687</b>
<b>Net position – end of year.....</b>	<b>\$ 600,297</b>	<b>\$ 524,597</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 600,297</b>	<b>\$ 524,597</b>

### Revenues - Governmental Activities Fiscal Year 2013



### Expenses - Governmental Activities FY13 (in thousands)





## Governmental Activities

The City's governmental activities net position increased by \$75.7 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal year 2013: In the assets accounts, cash and investments increased by \$72.0 million, receivables increased by \$58.1 million, and capital assets increased by \$148.8 million. In the liability accounts, there was a decrease in warrants and accounts payable of \$22.1 million and an increase in accrued liabilities of \$33.7 million. Additionally, an increase of \$39.0 million was recorded relative to the City's other postemployment benefit obligation in 2013.

During fiscal year 2013, the City's revenues increased by 3.9%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.98 billion (66.4% of total revenues) and \$792.8 million of program revenues (26.6% of total revenues). Taxes increased by \$137.8 million from the previous year. Program revenues decreased by \$27.5 million for fiscal year 2013. This is largely due to decreases in parking meter revenues and reductions in operating grant reimbursements. The City's expenses cover a range of services. The largest expenses were for schools (\$1.46 billion), public safety (\$826.7 million), general government (\$127.9 million), public works (\$132.5 million), property and development (\$114.7 million), public health programs (\$70.0 million), and human services (\$50.7 million). In 2013, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants, and capital grants) by \$2.11 billion. This shortfall was covered primarily through taxes (\$1.98 billion) and unrestricted grants and contributions (\$185.8 million).

Comparative data on these revenues and expenses is itemized in the reporting of the Changes in Net Position – Primary Government earlier in this Management Discussion and Analysis.

## FINANCIAL ANALYSIS OF THE CITY'S FUND STATEMENTS

This analysis is based on the Governmental and Proprietary Fund Financial Statements. 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 2013, the City's governmental funds reported a combined ending fund balance of \$1.06 billion, an increase of \$85.4 million from the prior year. Of this total amount, \$533.1 million represents the unassigned fund balance. The increase in fund balance is largely due to an increase in property and excise taxes and the aforementioned addition of DSRC and FBDS to the other governmental funds.

### 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, unassigned 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 unassigned fund balance in the General Fund that is 15%, or higher, of GAAP General Fund operating expenditures for the fiscal year. The GAAP unassigned fund balance at the end of fiscal year 2013 was \$533.1 million, which represents approximately 20.6% of GAAP General Fund operating expenditures.

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

The City has established the General Fund-Fund Balance Policy to ensure that the City maintains adequate levels of fund balance to mitigate current and future risks (i.e., revenue shortfalls and unanticipated expenditures). The policy in full states that the City shall maintain a GAAP Unassigned Fund Balance in the General Fund that is 15% or higher than the current fiscal year's GAAP General Fund Operating Expenditures. 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 Unassigned Fund Balance to go below 15% of the fiscal year's GAAP General Fund Operating Expenditures, while maintaining a Budgetary Unassigned Fund Balance at 10% or higher of Budgetary Operating Expenditures. The City shall only consider the appropriation of Certified Free Cash to offset: (1) certain fixed costs such as pension contributions and related post retirement health benefits; and/or (2) to fund extraordinary and non-recurring 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 restricted or committed to expenditures for predefined purposes. The fiscal year 2013 Special Revenue Fund balance is reported at \$132.9 million, a \$38.6 million decrease from fiscal year 2012. This decrease is due to a reduction in intergovernmental revenues from reimbursable grants.

**Capital Projects Fund – Fund Balance** – The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The fiscal year 2013 Capital Projects Fund balance is \$95.6 million, a \$25.9 million increase from fiscal year 2012. The increase in fund balance is attributable to unspent bond proceeds.

**Other Governmental Funds – Fund Balance** – Other Governmental Funds account for assets held by the City in permanent trust funds, as well as the activities related to DSRC and FBDC. The fiscal year 2013 Other Governmental Funds fund balance is \$76.5 million, a \$36.4 million increase from fiscal year 2012. The increase in fund balance is largely due to the inclusion of the DSRC and FBDC funds.

### Internal Service Fund

The City's Internal Service Fund accounts for the City's self-insurance program for health benefits provided by Blue Cross Blue Shield and Harvard Pilgrim Health Care for City employees, their dependents, and retirees. The Internal Service Fund is included as part of the governmental activities in the government-wide statements.

### Budgetary Highlights

General Fund budgetary highlights include ending fiscal year 2013 with a \$8.2 million surplus. This represents the City's 28th consecutive year with a balanced budget. There were no significant variances between the original budget and final budget amounts. Significant unfavorable variances from the final budget to actual results were in the areas of judgments and claims and public safety. Public safety saw an unfavorable variance of \$15.2 million due to an increase in overtime expenditures relating to the Boston Marathon bombing incident.

Favorable results were reported for General Fund revenue sources, including \$6.8 million in licenses and permits, \$8.7 million in departmental and other revenue and \$25.0 million in excises, predominantly in motor vehicle and room occupancy excise taxes. Other available funds shows a revenue deficit of \$14.0 million, however, this is a result of not transferring parking meter receipts from the special revenue fund.

## CAPITAL ASSETS AND LONG-TERM OBLIGATIONS

### Capital Assets

The City's investment in capital assets for its governmental activities, as of June 30, 2013, has a net book value of \$1.63 billion, made up of costs totaling \$3.19 billion less accumulated depreciation of \$1.56 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 10.1% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$241.9 million for the fiscal year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements. Depreciation charges for the year totaled \$93.9 million. Additional information on the City's capital assets can be found in note 8 to the Financial Statements.

### Long Term Obligations

**Debt Administration** – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year end, the City had \$1.14 billion in General Obligations Bonds principal outstanding – an increase of \$73.9 million over last year.

There were two bond issuances that took place in fiscal year 2013. First, the October 12, 2012 Series A general obligation bond issuance totaling \$28.9 million which was issued to fund the Dudley Municipal Project. Second, the March 14, 2013 \$144.9 million Series A general obligation bond issuance, used to finance various capital projects in the City along with \$24.4 million Series B were issued for the purpose of advance refunding prior debt. In February 2013, in conjunction with the City's annual bond offering, the rating service bureaus Moody's Investors Service and Standard & Poor's reaffirmed the City's bond ratings at Aaa and AA+, 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 increased \$111.9 million, or 11.0%, during the current fiscal year. Key factors for this increase are the increase in OPEB liability of \$39.0 million, an increase in the workers' compensation liability of \$16.6 million, and an increase in health and life claims of \$16.2 million, due to the increase in self-insured health plans. The increase in notes payable of \$36.2 million is attributable to the loans for DSRC.

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

## NEW ACCOUNTING STANDARDS

The GASB has issued Statement No. 61, *"The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34."* This Statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, the display of component units (blending vs. discrete presentation), and certain disclosure requirements. The requirements of this Statement were implemented in the fiscal year 2013 financial statements with no significant impact.

The GASB has issued Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."* This Statement establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and also requires related disclosures. The requirements of this Statement were implemented in the fiscal year 2013 financial statements with no significant impact.

## FUTURE PRONOUNCEMENTS

The GASB has issued Statement No. 65, *"Items Previously Reported as Assets and Liabilities."* This Statement specifies items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

The GASB has issued Statement No. 67, *"Financial Reporting for Pension Plans; an amendment of GASB Statement No. 25."* This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

The GASB has issued Statement No. 68, *"Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27."* This Statement replaces the requirements of Statements No. 27 and No. 50 for employers' provision of pension benefits related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

## REQUESTS FOR INFORMATION

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



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# Statement of Net Position

June 30, 2013

(Amounts in thousands)

	<b>Primary Government</b>	
	<b>Governmental Activities</b>	<b>Component Units</b>
<b>ASSETS:</b>		
Current Assets:		
Cash and investments.....	\$ 1,297,995	\$ 100,993
Cash and investments held by trustees.....	51,770	8,021
Receivables, net:		
Property and other taxes.....	25,054	-
Intergovernmental.....	160,409	-
Other.....	35,027	56,997
Other assets.....	4,844	2,005
Due from primary government.....	-	142
Due from component units.....	2,919	-
Total current assets.....	<u>1,578,018</u>	<u>168,158</u>
Noncurrent Assets:		
Intergovernmental receivables.....	36,625	-
Cash and investments held by Trustee.....	-	54,722
Notes and other receivables.....	88,848	150,064
Other assets.....	7,274	714
Capital assets:		
Nondepreciable.....	111,398	28,400
Depreciable, net.....	1,516,653	51,625
Due from component units.....	12,271	-
Total noncurrent assets.....	<u>1,773,069</u>	<u>285,525</u>
<b>Total assets</b>	<b><u>3,351,087</u></b>	<b><u>453,683</u></b>
<b>LIABILITIES:</b>		
Current Liabilities:		
Warrants and accounts payable.....	143,339	23,975
Accrued liabilities - current:		
Compensated absences.....	50,507	-
Judgments and claims.....	102,639	-
Payroll and related costs.....	167,603	-
Deposits and other.....	77,165	4,925
Current portion of long-term debt and leases.....	120,629	1,324
Due to component units.....	142	-
Due to primary government.....	-	2,919
Unearned revenue.....	1,136	6,871
Total current liabilities.....	<u>663,160</u>	<u>40,014</u>
Noncurrent Liabilities:		
Bonds due in more than one year.....	1,129,545	-
Notes and leases payable due in more than one year.....	98,993	16,648
Other noncurrent liabilities.....	227,084	164,313
Other postemployment benefits obligation.....	632,008	79,546
Unearned revenue.....	-	51,455
Due to primary government.....	-	12,271
Total noncurrent liabilities.....	<u>2,087,630</u>	<u>324,233</u>
<b>Total liabilities</b>	<b><u>2,750,790</u></b>	<b><u>364,247</u></b>
<b>NET POSITION:</b>		
Net investment in capital assets.....	450,322	51,184
Restricted for:		
Nonexpendable trust.....	4,974	62,837
Expendable trust.....	36,706	-
Debt service.....	3,637	-
Capital projects.....	30,561	-
Unrestricted.....	74,097	(24,585)
<b>Total net position</b>	<b><u>\$ 600,297</u></b>	<b><u>\$ 89,436</u></b>

See accompanying notes to the basic financial statements

## Statement of Activities

Year Ended June 30, 2013

(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government.....	\$ 127,882	\$ 36,654	\$ 6,576	\$ 2,741
Human services.....	50,690	465	10,569	-
Public safety.....	826,700	129,602	36,292	86
Public works.....	132,506	17,716	6,830	28,594
Property and development.....	114,673	10,555	64,583	244
Parks and recreation.....	32,242	534	1,853	2,154
Library.....	51,875	928	2,421	2,568
Schools.....	1,455,300	9,130	420,472	869
Public health programs.....	69,978	354	-	-
Interest on long-term debt.....	41,900	-	-	-
Total primary government.....	\$ 2,903,746	\$ 205,938	\$ 549,596	\$ 37,256
Component Units:				
Boston Public Health Commission.....	177,217	54,848	47,742	1,405
Boston Redevelopment Authority.....	19,475	9,935	3,247	-
Trustees of the Public Library of the City of Boston.....	9,898	1,787	10,323	-
Economic Development and Industrial Corporation of Boston.....	30,590	19,084	13,615	-
Total component units .....	\$ 237,180	\$ 85,654	\$ 74,927	\$ 1,405
General Revenues:				
Taxes:				
Property taxes, levied for general purposes.....				
Excises.....				
Payments in lieu of taxes.....				
Grants and contributions not restricted.....				
Investment income.....				
City appropriation.....				
Miscellaneous.....				
Loss on disposal of capital assets.....				
Total general revenues.....				
Change in net position.....				
Net position - beginning of year.....				
Net position - end of year.....				

**Net (Expense) Revenue and Changes in  
Net Position**

<b>Governmental Activities</b>	<b>Component Units</b>
\$ (81,911)	\$ -
(39,656)	-
(660,720)	-
(79,366)	-
(39,291)	-
(27,701)	-
(45,958)	-
(1,024,829)	-
(69,624)	-
(41,900)	-
<b>(2,110,956)</b>	<b>-</b>
	(73,222)
	(6,293)
	2,212
	-
	2,109
<b>-</b>	<b>(75,194)</b>
1,684,908	-
221,937	-
72,335	-
185,827	-
14,732	343
-	66,788
7,820	11,215
(903)	-
<b>2,186,656</b>	<b>78,346</b>
<b>75,700</b>	<b>3,152</b>
<b>524,597</b>	<b>86,284</b>
<b>\$ 600,297</b>	<b>\$ 89,436</b>



## Balance Sheet

### Governmental Funds

June 30, 2013

(Amounts in thousands)

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments.....	\$ 948,910	\$ 132,314	\$ 118,829	\$ 19,789	\$ 1,219,842
Cash and investments held by trustees.....	1,768	-	7,734	42,268	51,770
Receivables, net:					
Property and other taxes.....	25,054	-	-	-	25,054
Intergovernmental.....	59,011	103,430	34,593	-	197,034
Departmental and other.....	27,297	59,515	247	29,466	116,525
Total receivables.....	111,362	162,945	34,840	29,466	338,613
Due from other funds.....	2,161	5,132	6,364	-	13,657
Due from component units.....	13,625	-	-	-	13,625
<b>Total assets.....</b>	<b>\$ 1,077,826</b>	<b>\$ 300,391</b>	<b>\$ 167,767</b>	<b>\$ 91,523</b>	<b>\$ 1,637,507</b>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 45,211	\$ 41,221	\$ 40,717	\$ 9,686	\$ 136,835
Accrued liabilities:					
Payroll and related costs.....	167,301	302	-	-	167,603
Deposits and other.....	25,709	41,049	-	-	66,758
Deferred revenue.....	79,346	81,930	31,478	-	192,754
Due to other funds.....	8,721	3,000	-	5,375	17,096
Due to component unit.....	142	-	-	-	142
<b>Total liabilities.....</b>	<b>326,430</b>	<b>167,502</b>	<b>72,195</b>	<b>15,061</b>	<b>581,188</b>
<b>FUND BALANCES</b>					
Nonspendable.....	-	-	-	34,307	34,307
Restricted.....	-	-	95,572	42,155	137,727
Assigned.....	218,292	132,889	-	-	351,181
Unassigned.....	533,104	-	-	-	533,104
<b>Total fund balances.....</b>	<b>751,396</b>	<b>132,889</b>	<b>95,572</b>	<b>76,462</b>	<b>1,056,319</b>
<b>Total liabilities and fund balances.....</b>	<b>\$ 1,077,826</b>	<b>\$ 300,391</b>	<b>\$ 167,767</b>	<b>\$ 91,523</b>	<b>\$ 1,637,507</b>

## Reconciliation of the Balance Sheet

### Governmental Funds to the Statement of Net Position

#### June 30, 2013

(Amounts in thousands)

<b>Total fund balance - governmental funds.....</b>	<b>\$ 1,056,319</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements.....	1,628,051
Adjust deferred revenues to record revenues on an accrual basis.....	191,618
Internal service funds are included in the government-wide financial statements.....	66,985
Bond issuance costs are capitalized in the government-wide financial statements.....	7,274
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Those liabilities consist of:	
General obligation bonds and notes.....	(1,221,112)
Capital leases.....	(39,365)
Bond issue premiums/discounts, net.....	(94,721)
Deferred bond refunding losses.....	6,031
Accrued interest on bonds.....	(10,407)
Compensated absences.....	(181,283)
Landfill.....	(8,118)
Judgments and claims.....	(168,467)
Other postemployment benefits.....	(632,008)
Pollution remediation.....	(500)
	<u>(2,349,950)</u>
<b>Net position of governmental activities.....</b>	<b>\$ <u>600,297</u></b>

## Statement of Revenues, Expenditures and Changes in Fund Balances

### Governmental Funds Year Ended June 30, 2013

(Amounts in thousands)

	General	Special Revenue	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Real and personal property taxes.....	\$ 1,677,581	\$ -	\$ -	\$ -	\$ 1,677,581
Excises.....	221,254	-	-	-	221,254
Payments in lieu of taxes.....	72,335	-	-	-	72,335
Fines.....	58,835	17	-	-	58,852
Investment income.....	179	21	-	5,323	5,523
Licenses and permits.....	47,220	70	-	-	47,290
Departmental and other.....	87,585	41,225	-	2,822	131,632
Intergovernmental.....	504,656	232,523	12,190	-	749,369
<b>Total revenues.....</b>	<b>2,669,645</b>	<b>273,856</b>	<b>12,190</b>	<b>8,145</b>	<b>2,963,836</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	77,515	13,523	-	4,161	95,199
Human services.....	29,924	7,697	-	-	37,621
Public safety.....	553,851	34,920	-	-	588,771
Public works.....	102,789	11,942	-	-	114,731
Property and development.....	32,568	73,855	-	-	106,423
Parks and recreation.....	19,229	2,178	-	-	21,407
Library.....	30,888	2,559	-	-	33,447
Schools.....	879,898	155,930	-	-	1,035,828
Public health programs.....	67,845	1,260	-	-	69,105
Judgments and claims.....	3,010	-	-	-	3,010
Retirement costs.....	235,078	-	-	-	235,078
Other employee benefits.....	232,831	2,171	-	-	235,002
State and district assessments.....	176,300	-	-	-	176,300
Capital outlays.....	1,745	2,461	198,156	39,185	241,547
Debt service.....	140,900	5,784	-	-	146,684
<b>Total expenditures.....</b>	<b>2,584,371</b>	<b>314,280</b>	<b>198,156</b>	<b>43,346</b>	<b>3,140,153</b>
<b>Excess (deficiency) of revenues over (under) expenditures.....</b>	<b>85,274</b>	<b>(40,424)</b>	<b>(185,966)</b>	<b>(35,201)</b>	<b>(176,317)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Long-term debt and capital leases issued.....	-	718	193,613	40,805	235,136
Refunding bonds and leases issued.....	-	-	37,080	-	37,080
Payments to escrow agents.....	-	(2,701)	(33,274)	-	(35,975)
Premiums on long-term debt issued.....	-	3,836	21,646	-	25,482
Transfers in .....	-	-	22,120	30,788	52,908
Transfers out.....	(23,575)	-	(29,333)	-	(52,908)
<b>Total other financing sources (uses)...</b>	<b>(23,575)</b>	<b>1,853</b>	<b>211,852</b>	<b>71,593</b>	<b>261,723</b>
<b>Net change in fund balances.....</b>	<b>61,699</b>	<b>(38,571)</b>	<b>25,886</b>	<b>36,392</b>	<b>85,406</b>
<b>Fund balance - beginning of year.....</b>	<b>689,697</b>	<b>171,460</b>	<b>69,686</b>	<b>40,070</b>	<b>970,913</b>
<b>Fund balance - end of year.....</b>	<b>\$ 751,396</b>	<b>\$ 132,889</b>	<b>\$ 95,572</b>	<b>\$ 76,462</b>	<b>\$ 1,056,319</b>

See accompanying notes to the basic financial statements

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance

### Governmental Funds to the Statement of Activities

Year Ended June 30, 2013

(Amounts in thousands)

<b>Net change in fund balances - total governmental funds.....</b>	<b>\$</b>	<b>85,406</b>
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 (\$241,861) and loss on disposals (\$903) exceeded depreciation expense (\$93,947).....		148,817
Certain revenues in the statement of activities that are not reported as revenues in the governmental funds.....		(4,115)
Issuances of long-term debt (\$230,829) and notes (\$41,523) increase long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Repayment of bond, note, and lease principal (\$130,682) and payment to the escrow agent (\$24,800) are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net assets. This is the amount by which issuances exceed repayments and escrow payments.....		(116,870)
Bond premiums net (\$18,067) increase the long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Deferred gain on refunding net (\$1,483) increase long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Bond issuance costs, net (\$2,298) are expenditures in the governmental funds, but are deferred assets in the statement of position .....		(21,848)
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds.....		11,849
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the increase in liabilities for compensated absences (\$2,701), other postemployment benefits (\$38,985), and workers compensation (\$16,648) offset by a decrease in liabilities for judgments and claims (\$5,342), landfill closure and post closure costs (\$290) and interest payable (\$238). .....		(52,464)
Net income from the internal service fund, which is presented in the statement of activities, but not in the governmental funds.....		24,925
<b>Change in net assets of governmental activities.....</b>	<b>\$</b>	<b>75,700</b>

## Statement of Revenues and Expenditures

### Budgetary Basis

#### General Fund – Budget and Actual

Year Ended June 30, 2013 (with comparative actual amounts for 2012)

(Amounts in thousands)

	2013				
	Original Budget	Final Budget	Actual	Favorable (Unfavorable) Variance	2012 Actual
<b>REVENUES AND OTHER AVAILABLE FUNDS:</b>					
Real and personal property taxes, net.....	\$ 1,642,626	\$ 1,642,626	\$ 1,643,367	\$ 741	\$ 1,577,253
Excises.....	178,534	184,534	209,580	25,046	193,126
Commonwealth of Massachusetts.....	404,058	404,058	403,275	(783)	390,475
Departmental and other revenue.....	59,758	59,758	68,502	8,744	69,369
Fines.....	62,390	62,390	59,475	(2,915)	64,338
Payments in lieu of taxes.....	66,312	66,312	71,372	5,060	62,902
Investment income.....	900	900	179	(721)	982
Licenses and permits.....	38,743	38,743	45,574	6,831	51,932
Other available funds.....	17,015	17,015	3,023	(13,992)	4,030
<b>Total revenues and other available funds.....</b>	<b>2,470,336</b>	<b>2,476,336</b>	<b>2,504,347</b>	<b>28,011</b>	<b>2,414,407</b>
<b>EXPENDITURES:</b>					
General government.....	91,942	107,577	105,764	1,813	88,998
Human services.....	31,123	30,811	30,667	144	29,350
Public safety.....	515,982	516,462	531,682	(15,220)	520,723
Public works.....	103,691	103,244	103,926	(682)	92,152
Property and development.....	29,118	33,008	32,981	27	30,302
Parks and recreation.....	18,928	19,595	19,301	294	17,121
Library.....	31,177	31,177	31,069	108	30,152
Schools.....	873,694	881,229	881,203	26	831,343
Boston Public Health Commission.....	66,250	67,041	67,041	-	72,903
Judgments and claims.....	3,500	3,500	11,976	(8,476)	14,500
Other employee benefits.....	248,272	234,193	233,985	208	253,592
Retirement costs.....	141,177	141,177	141,111	66	130,530
Debt requirements.....	136,977	129,257	129,122	135	130,227
State and district assessments.....	178,505	178,065	176,300	1,765	160,547
<b>Total expenditures.....</b>	<b>2,470,336</b>	<b>2,476,336</b>	<b>2,496,128</b>	<b>(19,792)</b>	<b>2,402,440</b>
<b>Excess of revenues and other available funds over expenditures.....</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,219</b>	<b>\$ 8,219</b>	<b>\$ 11,967</b>

## Statement of Net Position

### Proprietary Fund

June 30, 2013

(Amounts in thousands)

	<u>Internal Service</u>
<b>ASSETS:</b>	
Current assets:	
Cash and cash equivalents.....	\$ 78,153
Due from component units.....	1,565
Due from other funds.....	3,439
Receivables, net.....	7,351
<b>Total current assets.....</b>	<b>90,508</b>
Noncurrent assets:	
Other assets.....	4,844
<b>Total noncurrent assets.....</b>	<b>4,844</b>
<b>Total assets.....</b>	<b>95,352</b>
<b>LIABILITIES:</b>	
Current liabilities:	
Warrants and accounts payable.....	6,505
Accrued liabilities .....	21,862
<b>Total current liabilities.....</b>	<b>28,367</b>
<b>NET POSITION:</b>	
Unrestricted.....	66,985
<b>Total net position.....</b>	<b>\$ 66,985</b>

## Statement of Revenues, Expenses and Changes in Net Position

### Proprietary Fund

Year Ended June 30, 2013

(Amounts in thousands)

	<u>Internal Service</u>
<b>OPERATING REVENUES:</b>	
Employee contributions.....	\$ 63,724
Employer contributions.....	246,420
<b>Total operating revenues.....</b>	<u>310,144</u>
<b>OPERATING EXPENSES:</b>	
Health benefits.....	285,219
<b>Total operating expenses.....</b>	<u>285,219</u>
<b>Operating income.....</b>	<u>24,925</u>
<b>Change in net position.....</b>	24,925
<b>Net position - beginning of year.....</b>	<u>42,060</u>
<b>Net position - end of year.....</b>	<u><u>66,985</u></u>

## Statement of Cash Flows

### Proprietary Funds

Year Ended June 30, 2013

(Amounts in thousands)

	<u>Internal Service</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from employees and employer.....	\$ 297,842
Cash paid to vendors.....	(273,281)
<b>Net cash provided by operating activities.....</b>	<b><u>24,561</u></b>
<b>Increase in cash and cash equivalents.....</b>	<b>24,561</b>
<b>Cash and cash equivalents - beginning of year.....</b>	<b>53,592</b>
<b>Cash and cash equivalents - end of year.....</b>	<b><u>\$ 78,153</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income .....	\$ 24,925
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in operating assets and liabilities:	
Accounts receivable .....	(7,298)
Other assets.....	(3,047)
Due from other funds and component units.....	(5,004)
Accounts payable and accrued liabilities.....	14,985
<b>Net cash provided by operating activities.....</b>	<b><u>\$ 24,561</u></b>



## Statement of Fiduciary Net Position

### Fiduciary Funds

Year Ended June 30, 2013

(Except Employee Retirement Plan, which is year ended December 31, 2012)

(Amounts in thousands)

	Employee Retirement Plan	OPEB Trust Fund	Private- Purpose Trusts	Agency Funds
<b>ASSETS:</b>				
Cash and cash equivalents.....	\$ 132,384	\$ 99	\$ 98,278	\$ 8,328
Receivables:				
Interest and dividends.....	8,379	-	-	-
Securities sold.....	34,927	-	-	-
Employer contributions.....	17,228	-	-	-
Other.....	8,047	-	1,097	-
Total receivables.....	68,581	-	1,097	-
Investments, at fair value:				
Short-term:				
Domestic.....	68,014	-	-	-
International.....	6,466	-	-	-
Equity:				
Domestic.....	965,742	76,490	-	-
International.....	722,526	25,615	-	-
Fixed-income:				
Domestic.....	617,016	67,159	-	-
International.....	267,211	-	-	-
PRIT Pooled Fund.....	1,325,114	-	-	-
Real estate.....	346,285	-	-	-
Venture capital funds.....	457,433	-	-	-
All asset fund.....	-	40,494	-	-
Total investments.....	4,775,807	209,758	-	-
Securities lending short-term collateral investment pool.....	162,759	-	-	-
<b>Total assets.....</b>	<b>5,139,531</b>	<b>209,857</b>	<b>99,375</b>	<b>8,328</b>
<b>LIABILITIES:</b>				
Accounts payable, accrued expenses and other liabilities.....	12,926	78	1,838	8,328
Securities purchased.....	52,822	-	-	-
Collateral held on securities lending.....	163,272	-	-	-
<b>Total liabilities.....</b>	<b>229,020</b>	<b>78</b>	<b>1,838</b>	<b>8,328</b>
<b>NET POSITION</b>				
Held in trust for pension benefits and other purposes.....	<b>\$ 4,910,511</b>	<b>\$ 209,779</b>	<b>\$ 97,537</b>	<b>\$ -</b>

## Statement of Changes in Fiduciary Net Position

### Fiduciary Funds

Year Ended June 30, 2013

(Except Employee Retirement Plan, which is year ended December 31, 2012)

(Amounts in thousands)

	Employee Retirement Plan	OPEB Trust Fund	Private- Purpose Trusts
<b>ADDITIONS:</b>			
<b>Contributions:</b>			
Employers.....	\$ 167,097	\$ 168,154	\$ -
Commonwealth of Massachusetts.....	94,846	-	-
Employees.....	125,763	-	-
Donations and other.....	-	-	19,312
<b>Total contributions.....</b>	<b>387,706</b>	<b>168,154</b>	<b>19,312</b>
<b>Investment earnings:</b>			
Realized and unrealized gains on investments.....	458,389	12,397	5,868
Investment income.....	118,234	4,790	885
Less investment expenses.....	(18,853)	(521)	-
<b>Net investment earnings.....</b>	<b>557,770</b>	<b>16,666</b>	<b>6,753</b>
<b>Securities lending activities:</b>			
Securities lending income.....	2,013	-	-
Less borrower rebates and fees.....	(562)	-	-
<b>Net income from securities lending activities.....</b>	<b>1,451</b>	<b>-</b>	<b>-</b>
<b>Total net investment income.....</b>	<b>559,221</b>	<b>16,666</b>	<b>6,753</b>
Intergovernmental.....	13,003		
<b>Total additions.....</b>	<b>959,930</b>	<b>184,820</b>	<b>26,065</b>
<b>DEDUCTIONS:</b>			
Benefits.....	487,772	124,659	-
Reimbursements.....	10,819	-	-
Refunds of contributions.....	14,548	-	-
Administrative expenses and other.....	7,880	-	20,178
<b>Total deductions.....</b>	<b>521,019</b>	<b>124,659</b>	<b>20,178</b>
<b>Change in net assets.....</b>	<b>438,911</b>	<b>60,161</b>	<b>5,887</b>
<b>Net position - beginning of year.....</b>	<b>4,471,600</b>	<b>149,618</b>	<b>91,650</b>
<b>Net position - end of year.....</b>	<b>\$ 4,910,511</b>	<b>\$ 209,779</b>	<b>\$ 97,537</b>

# NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2013

## 1. The Financial Reporting Entity

### a. Primary Government

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

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

### b. Blended Component Units Disclosure

- i. **The State-Boston Retirement System (SBRS)** is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprising five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor; and a fifth member chosen by the other members. The SBRS provides pension benefits to retired City, Boston Redevelopment Authority, Boston Housing Authority, Boston Water and Sewer Commission, and the Boston Public Health Commission employees. Although legally separate, the SBRS provides services entirely, or almost entirely, to the City and thus has been reported as a blended component unit among the City's fiduciary funds. The financial statements of SBRS are included for its fiscal year end which is December 31, 2012.
- ii. **Dudley Square Realty Corporation (DSRC) and Ferdinand Building Development Corporation (FBDC)** – The DSRC is a newly formed Qualified Active Low-Income Community Business, and is the owner and developer of the Dudley Municipal Center property. FBDC is the leverage lender of the Dudley Municipal Center property. Upon completion of the Dudley Municipal Center, FBDC will lease the property from DSRC and the City will sublease the property from FBDC. The DSRC and FBDC are non-profit organizations qualified as tax-exempt entities under Section 501(c)(3) of the Internal Revenue Code. Both entities are instrumentalities of the City, as the Mayor has full control of appointments to their boards of directors. Although legally separate, both DSRC and FBDC provide services entirely, or almost entirely, to the City and thus have been reported as blended component units. These funds are presented as non-major funds within the other governmental funds as of their fiscal year end, which is June 30, 2013.

**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 the organizations, meaning it appoints, at a minimum, a voting majority of the board of directors of the organization and is able to impose its will on the organizations or has a financial benefit or burden relationship with the organizations. Unless otherwise indicated, the Notes to the Financial Statements pertain only to the primary government because certain disclosures of the component units are not significant relative to the total component units and to the primary government. A description of the component units, criteria for inclusion, and their relationship with the City are as follows:

- i. **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.
- ii. **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.
- iii. **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.
- iv. **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, 2013.

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 20.

**d. *Related Organizations***

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

## 2. Summary of Significant Accounting Policies

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

### a. Government-wide and Fund Financial Statements

The Government-wide Financial Statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) 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 any business-type activities, which rely to a significant extent on fees and charges for support. The City currently reports no business-type activities. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

### b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

#### i. Government-wide Financial Statements

The Government-wide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the Proprietary Fund and Fiduciary Fund Financial Statements. The Agency Fund within the Fiduciary Fund Financial Statements has no measurement of results. 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 for recognition have been met.

#### ii. Governmental Fund Financial Statements

Governmental Fund Financial Statements are reported using the current financial resources measurement 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 and other 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 subject to availability requirements. 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 and other taxes are recognized as revenue in the year for which taxes have been levied or earned, provided they are collected within 60 days after year-end. Generally, intergovernmental revenues are recognized as revenue provided they are earned during the year and collected within one year after year-end, except for Massachusetts School Building Authority (MSBA) and Chapter 90 receivables which are considered available when received.

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to long-term liabilities including compensated absences, other postemployment benefits, workers' compensation and judgments and claims, are recorded only when payment is mature and due.

### iii. Proprietary Fund Financial Statements

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the provision of services. The principal operating revenues of the City's Internal Service Funds are receipts from employer and employees for health insurance premiums. Operating expenses for the Internal Service Fund include administrative expenses, vendor payments, and health benefits. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### iv. Description of Major Funds

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

1. 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.
2. 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.
3. The *Capital Projects Fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City's capital facilities.

*Proprietary fund* – The City reports the following proprietary fund:

4. The City 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 proprietary fund financial statements, it is not considered a major fund.

*Fiduciary Funds* – The City reports the following fiduciary fund types:

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

6. The *Pension Trust Fund* accounts principally for the activities of the State-Boston Retirement System, a blended component unit, which accumulates resources for pension benefit payments to retired employees of the City and other entities.
7. The *OPEB Trust Fund* is an irrevocable trust fund established for other postemployment benefits. The assets are appropriated from the General Fund and accumulate to reduce the unfunded actuarial liability for health care and other postemployment benefits. The assets of the trust are currently not used for direct payments of benefits.
8. The *Agency Funds* are used to report funds held by the City in a purely custodial capacity. The City currently operates a drug evidence account for proceeds of property seized from illegal drug-related activities. These funds are then used to offset the costs of technical equipment or expertise and investigations.

**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.”

**f. Uncollectible Tax and Other Receivables**

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

**g. Capital Assets**

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and intangible assets such as easements, land use rights, computer software, trademarks and patents. Capital assets are reported in the governmental activities column 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 one year. 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' useful lives are not capitalized.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

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

#### ***h. Compensated Absences***

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2013 is recorded in the Governmental Fund Financial Statements. The entire amount of the liability is reported in governmental activities in the Government-wide Financial Statements. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date that would be paid upon termination (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

#### ***i. Long-Term Obligations and Related Costs***

Long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method, which approximates the effective interest method. The unamortized portion is presented in the Government-wide Statement of Net Position. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as other assets.

The Governmental Fund Financial Statements recognize bond premiums and discounts, as well as bond issuance costs, during the period incurred. 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. Net Position and Fund Balance**

In the Government-wide and Proprietary Fund Financial Statements, net position is reported in the following categories:

*Net investment in capital assets:* Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted:* Net position the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation. Nonexpendable amounts are required to remain intact under such constraints.

*Unrestricted:* Remaining net position not considered net investment in capital assets or restricted.

For purposes of net position classification, 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.

In the Governmental Fund Financial Statements, fund balance is reported in the following categories:

*Nonspendable:* Amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact.

*Restricted:* Amounts the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation.

*Committed:* Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the City, this formal action takes the form of statutes which are passed by the City Council and approved by the Mayor.

*Assigned:* Amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted or committed. Under M.G.L. Chapter 190, Acts of 1982, the City Auditor has the authority to assign amounts to be used for specific purposes on behalf of the City.

*Unassigned:* Amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City. The City maintains a formal policy that unassigned fund balance in the General Fund be at least 15 percent of the current year's General Fund GAAP basis operating expenditures.

For purposes of fund balance classification, 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. When unrestricted resources are used, committed resources are used first, followed by assigned and unassigned resources, respectively.

**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. A liability for estimated future tax abatement refunds have been recorded in the Government-wide Statement of Net Position.

**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, 2013, 100% of the Gardner Street landfill site had been used and has 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, 2013.

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 Position. Expenditures related to the Gardner Street landfill site postclosure care in fiscal year 2013 were \$290 thousand.

**m. Use of Estimates**

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

**3. Short-Term Debt**

During fiscal year 2013, 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 \$3.0 million, which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. There was one supplemental appropriation in the amount of \$6.0 million required to meet current operating expenditures.

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 over expenditures in that department.

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

- i. 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).
- ii. Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget) but have no effect on GAAP expenditures.
- iii. Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the General Fund (budget).
- iv. 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, 2013 (in thousands):

	Revenue	Expenditures	Other financing uses, net	Excess (deficiency) of revenue and other financing sources
As reported on a budgetary basis	\$ 2,504,347	2,496,128	-	8,219
Adjustments:				
Revenues to modified accrual basis	70,452	-	-	70,452
Expenditures, encumbrances, and accruals, net	-	16,972	-	(16,972)
On-behalf contribution for teachers pension	94,846	94,846	-	-
Reclassifications:				
Debt Service	-	(1,455)	1,455	-
Housing Initiative	-	(22,120)	22,120	-
As reported on a GAAP basis	\$ 2,669,645	2,584,371	23,575	61,699

## 5. Deposits and Investments

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

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

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

### 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 or investments may not be returned. The City carries deposits that are fully insured by FDIC insurance or collateralized in the City's name. As of June 30, 2013, there are no uncollateralized or uninsured cash accounts. 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 discipline 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 foundation of that discipline is fixed by Massachusetts General Laws (M.G.L.) c. 44, sec. 55, which prohibits Massachusetts communities from investing in certain categories of high-risk investments; limits the amount of the City's bank deposits in any one financial institution; and establishes qualifying criteria for banking institutions. Further, all investments held by third parties are to be held in the City's name.

**c. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. It is the City of Boston Trust Funds' policy to limit the average duration of an actively managed fixed income portfolio to no more than seven years. The following is a listing of the City's fixed income investments (in thousands) and related maturity schedule (in years) as of June 30, 2013:

<b>Investment type</b>	<b>Fair value</b>	<b>Less than 1</b>	<b>1 – 5</b>
External investment pool	\$ 68,263	68,263	-
Bond mutual funds	226,238	226,238	-
U.S. Treasury notes and bonds	4,943	-	4,943
Domestic corporate	4,465	-	4,465
	<u>\$ 303,909</u>	<u>294,501</u>	<u>9,408</u>

**d. Credit Risk**

It is the City of Boston Trust Funds' policy that there shall be no specific limitation in regard to credit worthiness of securities, except the overall average quality of each fixed income portfolio shall be AA or better. The City's fixed income investments as of June 30, 2013 were rated by S & P and/or an equivalent national rating organization, and the ratings are presented below using the S & P rating scale (in thousands):

<b>Investment type</b>	<b>Fair value</b>	<b>Rating</b>
Bond mutual funds	\$ 226,238	Not Rated
External investment pool	68,263	Not Rated
Domestic corporate	4,465	AAA to B
	<u>\$ 298,966</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. No investments in a single issuer exceeded 5% of the City's investment portfolio.

**f. Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2013 the City of Boston Trust Funds held international equity mutual funds valued at \$32.1 million. Although this investment is not denominated in a foreign currency, the underlying securities are denominated in various foreign currencies.

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

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance or collateralized with securities held by the System or the System's agent in the System's name. As of December 31, 2012, all of the System's deposits were insured or collateralized.

**b. Investment Policy**

The provisions of M.G.L. C. 32, Sec 23(2) govern the System's investment practice. Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. C. 32, Sec. 3(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, PRIT 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, 2012:

Investment type	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes and bonds	\$ 70,057	-	38,696	7,689	23,672
U.S. agencies	57,487	-	-	3,550	53,937
Domestic corporate	376,789	23,559	82,473	182,231	88,526
Municipal	3,007	-	123	223	2,661
International corporate	163,708	4,521	10,416	22,797	125,974
International government	140,221	7,418	43,309	55,498	33,996
Asset-backed:					
CMOs	38,965	-	-	5,741	33,224
Mortgage-backed	2,299	-	-	-	2,299
Other	31,694	1,089	15,191	6,071	9,343
	<u>\$ 884,227</u>	<u>36,587</u>	<u>190,208</u>	<u>283,800</u>	<u>373,632</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, 2012 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.

The System's fixed income investments as of December 31, 2012 were rated by S & P and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the S & P rating scale:

Investment type	Fair value	AAA	AA	A	BBB	BB	B	CCC	Not rated
U.S. agencies	\$ 57,487	-	54,381	-	-	-	-	-	3,106
Domestic corporate	376,789	697	17,109	102,849	46,946	66,961	84,594	5,343	52,290
Municipal	3,007	-	864	2,143	-	-	-	-	-
International corp.	163,708	5,639	1,370	13,338	9,132	4,959	6,783	-	122,487
International gov't	140,221	13,189	8,188	16,562	6,617	877	-	-	94,788
Asset-backed:									
CMOs	38,965	16,466	2,441	1,094	2,717	-	-	17	16,230
Mortgage-backed	2,299	1,999	88	-	-	-	-	-	212
Other	31,694	14,136	7,086	1,959	-	-	-	-	8,513
	<u>\$ 814,170</u>	<u>52,126</u>	<u>91,527</u>	<u>137,945</u>	<u>65,412</u>	<u>72,797</u>	<u>91,377</u>	<u>5,360</u>	<u>297,626</u>

In addition to the above schedule, the System has approximately \$70.0 million invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

**e. Concentration Risk**

The System has no investments, at fair value, except for pooled funds, that exceed 5% of the System's total investments as of December 31, 2012.

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

**f. Foreign Currency Risk**

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

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

Currency	Cash and short-term investments	Fixed income	Equity	Alternative	Total
Australian dollar	\$ 249	1,616	23,955	11	25,831
Brazilian real	-	1,094	1,145	-	2,239
Canadian dollar	286	3,817	4,264	-	8,367
Danish krone	-	-	6,565	-	6,565
Euro currency	6,336	43,304	136,365	7,358	193,363
Hong Kong dollar	58	-	15,732	-	15,790
Indian rupee	-	-	-	-	-
Indonesian rupiah	-	-	302	-	302
Israeli Shekel	-	-	742	-	742
Japanese yen	1,301	47,176	79,268	-	127,745
Malaysian ringgit	200	3,706	-	-	3,906
Mexican peso	528	5,840	2,856	-	9,224
New Taiwan dollar	245	-	1,459	-	1,704
New Zealand dollar	127	1,172	-	-	1,299
Norwegian krone	773	5,890	5,187	-	11,850
Pakistan rupee	-	-	-	-	-
Philippine Peso	-	1,018	-	-	1,018
Polish zloty	93	2,216	-	-	2,309
Pound sterling	675	10,666	85,380	-	96,721
Singapore dollar	401	4,283	8,037	-	12,721
South African rand	44	-	3,254	-	3,298
South Korean won	15	-	4,284	-	4,299
Swedish krona	35	2,801	8,579	-	11,415
Swiss franc	16	827	34,871	-	35,714
Thailand Baht	17	1,018	-	-	1,035
Turkish Lira	-	-	1,630	-	1,630
Uruguayan peso	-	1,427	-	-	1,427
Total securities subject to foreign currency risk	\$ 11,399	137,871	423,875	7,369	580,514
U.S. dollars (securities held by international investment managers)*	-	43,506	32,986	-	76,492
Total international investment securities	\$ 11,399	181,377	456,861	7,369	657,006

#### g. PRIT Pooled Fund

The Commonwealth enacted Chapter 112, Section 17 of the Acts of 2010 that requires the System to invest all assets, current and future, related to Boston Teachers in the Pension Reserves Investment Trust (PRIT) fund. The PRIT fund is an external investment pool that is not registered with the Securities Exchange Commission.

The fair value of the PRIT fund is based on unit value as reported by management of the PRIT fund. The PRIT fund issues separately available audited financial statements with a year end of June 30.

On July 1, 2010, the System transferred 27% of its assets, or \$1.1 billion, to the PRIT Fund. As of December 31, 2012, the System had \$1.4 billion invested in the PRIT pooled fund.

#### h. 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.



## 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 accrual and modified accrual basis of accounting as described in note 2.

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

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On December 18, 2012, all properties with unpaid fiscal year 2012 property taxes were liened. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

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

## 7. Receivables

Receivables as of year-end for the City's individual major governmental funds, nonmajor governmental funds, and Internal Service Fund, including the applicable allowances for uncollectible accounts, are as follows (in thousands):

	General	Special revenue	Capital projects	Other nonmajor funds	Internal service	Total
Receivables:						
Property taxes	\$ 15,356	-	-	-	-	15,356
Other taxes	146,833	-	-	-	-	146,833
Intergovernmental	59,011	103,430	34,593	-	-	197,034
Other	27,297	59,515	247	29,466	7,351	123,876
Gross receivables	248,497	162,945	34,840	29,466	7,351	483,099
Less allowance for uncollectibles	(137,135)	-	-	-	-	(137,135)
Net total receivables	\$ 111,362	162,945	34,840	29,466	7,351	345,964

### a. Long-Term Receivable

The City participates in the Commonwealth's school building assistance program, which is administered by the MSBA. The MSBA provides financial assistance (up to 80% of total costs) to the City to build and/or renovate schools. As of June 30, 2013, under this program, the City was due funds totaling \$45.1 million.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown (in thousands) as of June 30, 2014 through 2018, and in five-year increments thereafter:

	<u>Anticipated revenue</u>
Fiscal year(s):	
2014	\$ 8,475
2015	8,176
2016	7,344
2017	6,720
2018	6,720
2019 – 2022	<u>7,665</u>
Total	\$ <u><u>45,100</u></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, 2013, under this program, the City determined that \$59.5 million was collectible. This amount is recorded in the City's Special Revenue fund.

**c. Deferred Revenue**

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

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent taxes receivable (General Fund)	\$ 20,615	-	20,615
Due from component units	11,450	-	11,450
Section 108 receivable	59,515	-	59,515
School building assistance receivable	45,100	917	46,017
Chapter 90	30,561	-	30,561
Other	<u>24,377</u>	<u>219</u>	<u>24,596</u>
Total unavailable/unearned revenue for governmental funds	\$ <u><u>191,618</u></u>	<u><u>1,136</u></u>	<u><u>192,754</u></u>

## 8. Capital Assets

Capital asset activity for the governmental activities for the year ended June 30, 2013 was as follows (in thousands):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,216	153	-	25,369
Construction in progress	8,525	185,333	(107,829)	86,029
Total capital assets not being depreciated	<u>33,741</u>	<u>185,486</u>	<u>(107,829)</u>	<u>111,398</u>
Capital assets being depreciated:				
Land improvements	179,410	7,963	-	187,373
Buildings and improvements	1,865,168	62,863	-	1,928,031
Furniture and equipment	309,772	35,370	(6,482)	338,660
Infrastructure	571,840	58,008	(7,600)	622,248
Total capital assets being depreciated	<u>2,926,190</u>	<u>164,204</u>	<u>(14,082)</u>	<u>3,076,312</u>
Less accumulated depreciation for:				
Land improvements	55,707	9,610	-	65,317
Buildings and improvements	1,007,007	36,759	-	1,043,766
Furniture and equipment	219,371	28,596	(7,385)	240,582
Infrastructure	198,612	18,982	(7,600)	209,994
Total accumulated depreciation	<u>1,480,697</u>	<u>93,947</u>	<u>(14,985)</u>	<u>1,559,659</u>
Total capital assets being depreciated, net	<u>1,445,493</u>	<u>70,257</u>	<u>903</u>	<u>1,516,653</u>
Governmental activities capital assets, net	<u>\$ 1,479,234</u>	<u>255,743</u>	<u>(106,926)</u>	<u>1,628,051</u>

Depreciation expense was charged to functions of the governmental activities as follows (in thousands):

General government	\$ 8,168
Human services	2,398
Public safety	15,685
Public works, including depreciation of general infrastructure assets	19,885
Property and development	4,278
Parks and recreation	8,373
Library	3,852
Schools	31,069
Public health	239
Total depreciation expense – governmental activities	<u>\$ 93,947</u>

## 9. Interfund Balances and Amounts Due To and From Component Units

Individual fund receivable and payable balances at June 30, 2013 are as follows (in thousands):

<b>Interfund balances</b>	<b>Receivable</b>	<b>Payable</b>
General	\$ 2,161	8,721
Special revenue	5,132	3,000
Capital projects	6,364	-
Non-major governmental funds	-	5,375
Internal service fund	3,439	-
Balances at June 30, 2013	<u>\$ 17,096</u>	<u>17,096</u>

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

Amounts due to and from discretely presented component units at June 30, 2013 are as follows (in thousands):

<b>Discrete component unit balances</b>	<b>Receivable</b>	<b>Payable</b>
Primary government:		
General	\$ 13,625	142
Internal service fund	1,565	-
Balances at June 30, 2013	<u>15,190</u>	<u>142</u>
Discretely presented component units:		
TPL	-	737
PHC	142	3,003
BRA	-	11,450
Balances at June 30, 2013	<u>\$ 15,332</u>	<u>15,332</u>

## 10. Long-Term Obligations

### Governmental Activities

The following is a summary of the long-term obligations of the governmental activities of the City as of June 30, 2013 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
<b>Bonds Payable:</b>						
General Obligation Bonds	2.0 - 5.75%	\$ 627,190	173,720	58,775	742,135	50,370
General Obligation Refunding Bonds	.125-5.0%	443,470	24,380	65,460	402,390	53,300
Total governmental general obligation bonds payable		\$ 1,070,660	198,100	124,235	1,144,525	103,670
Add (deduct):						
Unamortized bond premiums/discounts net					94,721	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(6,031)	
Current portion of long-term debt					(103,670)	
					<u>\$ 1,129,545</u>	
	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
<b>Notes, Leases and Other long-term obligations:</b>						
Notes payable	4.25-7.18%	\$ 40,382	41,523	5,318	76,587	4,106
Leases payable		32,565	32,729	25,929	39,365	12,853
Judgments and claims		47,380	10,533	15,875	42,038	39,037
Workers' compensation		109,781	33,296	16,648	126,429	41,540
Health and life claims		5,614	301,467	285,219	21,862	21,862
Compensated absences		178,582	53,218	50,517	181,283	50,507
Landfill closure and postclosure care costs		8,408	-	290	8,118	200
Pollution remediation		500	-	-	500	-
Other postemployment benefits		593,023	201,830	162,845	632,008	-
Total notes, leases, and other long-term obligations		\$ 1,016,235	674,596	562,641	1,128,190	170,105

The payment of long term obligations of the governmental activities, except for health and life claims, is the responsibility of the City's General Fund. Health and life claims are the responsibility of the City's Internal Service Fund.

The annual debt service requirements of the City's general obligation bonds, notes and leases payable as of June 30, 2013, including subsidies to be received for Build America Bonds and Qualified School Construction Bonds, are as follows (in thousands):

General obligation bonds:	Principal	Interest	Subsidy	Total
Year(s) ending June 30:				
2014	\$ 103,670	51,841	(3,527)	151,984
2015	98,560	47,665	(3,527)	142,698
2016	95,055	43,024	(3,527)	134,552
2017	91,100	38,381	(3,495)	125,986
2018	85,410	33,887	(3,430)	115,867
2019-2023	348,125	112,897	(15,448)	445,574
2024-2028	243,025	41,150	(4,798)	279,377
2029-2033	79,580	7,179	(214)	86,545
	<u>\$ 1,144,525</u>	<u>376,024</u>	<u>(37,966)</u>	<u>1,482,583</u>
Notes Payable:				
Year(s) ending June 30:				
2014	\$ 4,106	1,763	-	5,869
2015	2,285	1,596	-	3,881
2016	2,258	1,497	-	3,755
2017	1,961	1,413	-	3,374
2018	5,071	1,245	-	6,316
2019-2023	7,828	5,103	-	12,931
2024-2028	11,612	3,740	-	15,352
2029-2033	15,279	1,576	-	16,855
2034-2038	26,187	1,873	-	28,060
	<u>\$ 76,587</u>	<u>19,806</u>	<u>-</u>	<u>96,393</u>
Leases Payable:				
Year(s) ending June 30:				
2014	\$ 12,853	374	-	13,227
2015	9,851	259	-	10,110
2016	6,813	171	-	6,984
2017	4,362	107	-	4,469
2018	3,019	59	-	3,078
2019-2020	2,467	26	-	2,493
	<u>\$ 39,365</u>	<u>996</u>	<u>-</u>	<u>40,361</u>

On October 12, 2012, the City issued \$28.9 million of general obligation bonds, all of which were for funding the Dudley Municipal Center project. Interest on the bonds are payable semiannually each April 1 and October 1 until maturity in fiscal year 2032.

On March 14, 2013, the City issued \$169.2 million of general obligation and refunding bonds, \$144.8 million for various municipal capital projects, and \$24.4 million of refunding bonds for the purpose of refunding certain outstanding general obligation bonds of the City totaling \$24.8 million. Interest on the bonds are payable semiannually each March 1 and September 1 until maturity in fiscal years 2033 and 2026, respectively.

The cash flow difference and economic gain (the difference between the present value of the debt service payments on old and new debt) obtained from the March 13, 2013 refunding were \$2.2 million and \$1.9 million, respectively.

The City has entered into various capital lease agreements for equipment acquisition. Payments under these agreements are subject to annual appropriation and, by statute, are not included in the City's debt limit calculations. The gross amount of assets acquired under the equipment lease agreements totals \$32.7 million as of June 30, 2013. The City's operating lease with DSRC is described in note 19.

### *No Obligation Debt*

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

### *Defeased Debt*

The principal amount of debt refunded through in-substance defeasance transactions for governmental activities and still outstanding at June 30, 2013 was approximately \$95.6 million.

### *Debt Capacity*

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the Massachusetts Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Secretary of Administration and Finance. 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, 2013, the City may issue \$3.6 billion of additional general obligation debt under the debt limit. General obligation debt of \$687.6 million, subject to the debt limit, and \$85.0 million, exempt from the debt limit, are authorized but unissued as of June 30, 2013.

## **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

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

The System is administered by a five person Board of Retirement consisting of the City Auditor, who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor, and a fifth member chosen by the other members. A complete set of financial statements for SBRS for the fiscal year ended December 31, 2012 can be obtained through the SBRS, Boston City Hall, Room 816, Boston, MA 02201.

Participation in the System is mandatory for all permanent, full time employees immediately upon the commencement of employment. Participants who resign from employment and who are not eligible to receive a retirement allowance or who are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending on the number of years of creditable service, such participants are entitled to receive either none, 50%, or 100% of the regular interest which has accrued on those deductions.

Employees with 10 or more years of service are entitled to pension benefits beginning at retirement age 55; an earlier retirement is allowed upon completion of 20 years of service. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification. Participants become vested after 10 years of creditable service. Effective July 1, 1998, Chapter 32 of the M.G.L. assigns to the local retirement boards authority to establish and amend benefit provisions of the Plan and grant cost of living increases.

If a member in service dies, the surviving spouse and/or surviving dependent children may receive benefits, either in a lump sum or in the form of an annuity based on the length of service, contributions, age, and the cause of death. In the event there are no spouse and/or dependent children named, other beneficiaries may be entitled to a lump sum distribution. Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether or not the disability is work related, the participant's age, years of creditable service, level of compensation, veteran status, and group classification.

#### **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 the plan.

Investments are reported at fair value. Fair values of securities held directly are based on quotations from national securities exchanges, except for pooled funds, alternative investments, and real estate, for which fair values are estimated as detailed below:

- (1) Pooled funds – the fair value of shares in managed investment pools is based on unit values reported by the funds.
- (2) Alternative investments are carried at the limited partnership interest or redemption value, the equivalent of net asset value, which approximates fair value.
- (3) Real estate investments consist of interests in commercial properties held by various partnerships and other limited liability entities, some of which utilize debt financing. Fair values of such holdings are



reported based on the net asset values of the entities, which are estimated using third-party appraisals and other information provided by property managers.

**c. Membership**

Membership in the System consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	14,915
Terminated plan members entitled to but not receiving benefits	19,366
Active plan members	20,970
	<hr/>
Total membership	55,251
	<hr/>
Total number of participating employers	5
	<hr/>

**d. Contributions**

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% – 11% of their regular gross compensation. Non-teacher members hired after January 1, 1979 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining System-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The contributions of plan members and the participating employers are governed by Chapter 32 of the M.G.L. For the year ended December 31, 2012, the System was due \$261.9 million from all employers and the Commonwealth and received \$261.9 million in these contributions. For the years ended June 30, 2011, 2012 and 2013, exclusive of contributions related to the City's teachers, the City's required and actual contributions were \$190.9 million, \$123.6 million and \$137.0 million, respectively.

The Commonwealth of Massachusetts is statutorily required to fund the employer contributions required for the City's teachers. For the years ended June 30, 2011, 2012 and 2013, the Commonwealth's required and actual contributions were \$121.3 million, \$90.4 million and \$94.8 million, respectively. The 2013 amount is reported as intergovernmental revenue and retirement cost expenditures in the General Fund.

**e. Legally Required Reserve Accounts**

The balance in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2012 is as follows (in thousands):

Description	Amount	Purpose
Annuity savings fund	\$ 1,469,276	Active members' contribution balance
Annuity reserve fund	458,913	Retired members' contribution account
Military service credit	50	Members' contribution account while on military leave
Pension reserve fund	2,980,866	Amounts appropriated to fund future retirement benefits
Pension fund	1,406	Remaining net assets
	<hr/>	
	\$ 4,910,511	
	<hr/>	

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

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2012. 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, 2012, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System.

At December 31, 2012, the fair value of securities loaned by the System amounted to \$196.1 million, against which was held collateral of \$200.8 million as follows (in thousands):

Short-term collateral investment pool	\$	163,272
Noncash collateral		<u>37,557</u>
Total	\$	<u><u>200,829</u></u>

**g. Commitments**

At December 31, 2012, the System had contractual commitments to provide \$87.0 million of additional funding to private equity funds, and \$62.0 million to real estate funds.

**h. Funded Status and Funding Progress**

The funded status of the System as of January 1, 2012 is as follows (in thousands):

Actuarially accrued liability (AAL)	\$	7,902,175
Actuarial value of plan assets		<u>4,855,200</u>
Unfunded AAL (UAAL)	\$	<u><u>3,046,975</u></u>
Funded ratio (actuarial value of plan assets/AAL)		61.4%
Covered payroll (active plan members)	\$	1,301,803
UAAL as a percentage of covered payroll		234.1%

In the January 1, 2012 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 7.75% investment rate of return (8.25% for Boston teachers) projected salary increases of 5.0% (4.75% for Boston Teachers), and cost-of-living adjustments of 3.0% up to \$13,000 annually. The actuarial value of assets was determined using the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2012 was 13 years (28 years for Boston Teachers).

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the Commonwealth Statutes in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employee and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations or the pattern of cost sharing between the employee and members in the future.

**12. Other Postemployment Benefits (OPEB)**

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

In addition to the pension benefits described in note 11, the City provides postemployment healthcare and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. Participating retirees are City retirees. As of June 30, 2011, the most recent actuarial valuation date, approximately 14,000 retirees and 14,500 active members meet the eligibility requirements as put forth in Chapter 32B of M.G.L. The City sponsors and participates in an agent multi-employer defined benefit OPEB plan. The Boston Public Health Commission, a discretely presented component unit, also participates and contributes to the plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

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

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

**a. Funding Policy**

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The OPEB Plan is currently funded on a pay-as-you-go basis plus periodic advance funding contributions as amounts are available. The employers and plan members share the cost of benefits. As of June 30, 2011, the valuation date, the plan members contribute 10% to 26.25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

**b. Basis of Accounting**

The OPEB Trust Fund is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when made. Benefits are recognized when due and payable in accordance with the terms of each plan.

Investments are reported at fair value. Fair value of securities held directly are based on quotations from national securities exchanges.

**c. Annual OPEB Cost and Net OPEB Obligation**

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of 30 years. The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an interim actuarial valuation as of June 30, 2012 (in thousands):

ARC	\$	186,929
Interest on net OPEB obligation		42,994
Adjustment to ARC		(28,093)
Annual OPEB cost		201,830
Contributions made		(162,845)
Change in net OPEB obligation		38,985
Net OPEB obligation – beginning of year		593,023
Net OPEB obligation – end of year	\$	<u>632,008</u>

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

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2013	\$ 201,830	81%	\$ 632,008
2012	196,238	92%	593,023
2011	270,749	85%	577,294

**d. *Funded Status and Funding Progress of the Plan***

The funded status of the OPEB plan in the aggregate and the City's individual OPEB Plan as of the most recent actuarial valuation at June 30, 2011 was as follows (in thousands):

	<b>Plan</b>	<b>City</b>
AAL	\$ 3,171,670	3,018,252
Actuarial value of plan assets	111,038	109,736
UAAL	\$ 3,060,632	2,908,516
Funded ratio (actuarial value of plan assets/AAL)	3.50%	3.64%
Covered payroll (active plan members)	\$ 1,102,402	1,045,488
UAAL as a percentage of covered payroll	278%	278%

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

**e. *Actuarial Methods and Assumptions***

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

The most recent actuarial valuation was performed as of June 30, 2011. The projected unit credit cost method was used. The actuarial assumptions included a 7.25% investment rate of return, an inflation rate of 4.5% and an annual healthcare cost trend rate of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after 5 – 6 years. The actuarial value of assets was determined using the fair value of investments. The healthcare cost trend rate differs between the master medical and other healthcare plans. The City's UAAL is being amortized as a level percentage of pay on an open basis. The remaining amortization period at July 1, 2011 was 30 years.

### 13. Transfers

Transfers and their purposes during the year ended June 30, 2013 were as follows (in thousands):

	Governmental funds			
	General	Special revenue	Capital projects	Other governmental
Primary government:				
Capital Construction	(22,120)	-	22,120	-
Dudley Municipal Project	-	-	(29,333)	29,333
Debt Service	(1,455)	-	-	1,455
Total	<u>\$ (23,575)</u>	<u>-</u>	<u>(7,213)</u>	<u>30,788</u>

### 14. Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2013 in the following categories (in thousands):

Public safety:	
Police Department	\$ 11,805
Fire Department	3,596
Public Works:	
Snow Removal	1,287
Judgments and Claims:	
Execution of Courts	8,476
	<u>\$ 25,164</u>

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

## 15. Fund Balance Classification Details

The components of fund balance for the City's governmental funds as of June 30, 2013 are as follows (in thousands):

	<b>General</b>	<b>Special revenue</b>	<b>Capital projects</b>	<b>Other governmental funds</b>
<b>Fund Balances</b>				
<b>Nonspendable</b>				
Permanent fund principal	\$ -	-	-	4,974
Long-term notes receivable	-	-	-	29,333
Subtotal				34,307
<b>Restricted for:</b>				
General government	-	-	16,723	430
Public safety	-	-	38,706	-
Property and development	-	-	38,650	1,812
Parks and recreation	-	-	-	35,857
Library	-	-	1,493	-
Schools	-	-	-	4,056
Subtotal	-	-	95,572	42,155
<b>Assigned to:</b>				
General government	27,223	13,880	-	-
Human services	1,029	-	-	-
Public safety	3,631	87,497	-	-
Public works	595	26,982	-	-
Property and development	380	443	-	-
Parks and recreation	152	1,378	-	-
Library	62	110	-	-
Schools	36,598	2,599	-	-
Catastrophic Loss	21,522	-	-	-
Housing initiative	14,807	-	-	-
Debt service	7,162	-	-	-
Employee related costs	50,000	-	-	-
Designated for subsequent year expense	55,131	-	-	-
Subtotal	218,292	132,889	-	-
<b>Unassigned</b>	533,104			
<b>Total fund balances</b>	<b>\$ 751,396</b>	<b>132,889</b>	<b>95,572</b>	<b>76,462</b>

## 16. Commitments and Contingencies

The City has committed \$69.7 million in encumbrances for purchase orders and contracts in the General Fund, \$47.5 million in the Special Revenue Fund, \$154.2 million in the Capital Projects Fund, and \$326 thousand in Other Governmental Funds.

## 17. Public Health System

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

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

The PHC receives the majority of its funding from federal and state grants, lease agreements with BMC, and a City appropriation. During fiscal year 2013, the City appropriated \$67.0 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$66.4 million for the PHC for fiscal year 2014.

### *Due from PHC/BMC*

General obligation bonds issued by the City between December 1967 and October 1995 for which PHC is responsible for repayment total \$1.3 million as of June 30, 2013. 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 is also responsible for reimbursing the City for health insurance, equipment lease payments, workers' compensation, and other miscellaneous expenses paid for by the City.

## **18. Risk Management**

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

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

The City provides health insurance coverage for employees and retirees through a variety of insured and self-insured plans. The City budgets for and funds the premium costs for all plans through the General Fund. Self-insured plans are financially managed through the Internal Service Fund established in compliance with M.G.L. Chapter 32B, Section 3A. As of July 1, 2012, in addition to the plans managed by Blue Cross Blue Shield, the City moved the Harvard Pilgrim Health Care plans, which administered a majority of the City's premium based health insurance participants, to the Internal Service Fund. In FY13, a guiding policy for the more prudent management of the City of Boston Health Claims Trust Fund was established. This policy states that accounting for the fund will be in accordance with generally accepted accounting principles, and will ensure that all contributions and actual costs are shared between employers and their subscribers according to predetermined ratios.

For unexpected large losses, the City maintains a catastrophic risk reserve, which has an available balance of \$21.5 million at the end of fiscal 2013. To further protect the City's assets and finances from adverse loss, commercial insurance is purchased strategically for certain exposures. A catastrophic property insurance policy provides \$100.0 million for all risk protection after a \$10.0 million deductible. Boiler and machinery losses are insured up to \$25.0 million per incident, after a \$50 thousand deductible.



The City has established a liability based on historical trends of previous years and attorneys' 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, 2013 and 2012 are as follows (in thousands):

<b>Internal service fund</b>			
	<b>2013</b>	<b>2012</b>	
Health and life claims, beginning of year	\$ 5,614	6,550	
Incurred claims	301,467	85,641	
Payments of claims attributable to events of both the current and prior fiscal years:			
Health and life	(285,219)	(86,577)	
Health and life claims, end of year	\$ 21,862	5,614	
<b>Government-wide statements</b>			
	<b>2013</b>	<b>2012</b>	
Judgments and claims, beginning of year	\$ 157,161	117,695	
Incurred claims	58,805	106,022	
Payments of claims attributable to events of both the current and prior fiscal years:			
Workers' compensation	(16,648)	(28,932)	
Unemployment compensation	(3,993)	(5,369)	
Tax abatement liability	(21,600)	(32,200)	
Court judgments	(5,258)	(55)	
Judgments and claims, end of year	\$ 168,467	157,161	

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.

## **19. Dudley Square Realty Corporation (DSRC) and Ferdinand Building Development Corporation (FBDC)**

As described in note 1, the DSRC is a newly formed Qualified Active Low-Income Community Business, and is the owner and developer of the Dudley Municipal Center property. FBDC is the leverage lender of the Dudley Municipal Center property. As the project sponsor during fiscal year 2013, the City authorized and issued \$28.9 million in general obligation bonds and transferred proceeds to FBDC. FBDC, utilizing these bond proceeds, made loans totaling \$29.3 million to two investment funds. As of June 30, 2013 \$29.3 million is due to FBDC on such loans. The investment funds made these proceeds and funds from additional investments available to eight leverage lenders that made loans in the aggregate amount of \$40.8 million to DSRC to finance the Dudley Municipal Center project. This amount is recorded in the City's Notes and Leases Payable line of note 10. Upon completion of the Dudley Municipal Center project, FBDC will be the master tenant and will lease the project from DSRC.

DSRC will then sublease the majority of space of the project to the City. The schedule of payments is the same in the lease and the sublease as follows (in thousands):

Year(s) ending June 30:	Lease payments
2014	\$ -
2015	472
2016	943
2017	943
2018	943
2019-2023	6,404
2024-2028	18,125
2029-2033	18,125
2034-2038	18,125
2039-2043	18,125
2044-2046	10,875
Total	\$ 93,080

## 20. Discretely Presented Component Units

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

Condensed Statements of Net Position					
June 30, 2013					
(In thousands)					
	PHC	BRA	TPL	EDIC	Total
Assets:					
Current assets:					
Cash and investments	\$ 32,912	51,155	3,374	13,552	100,993
Cash and investments held by trustee	-	-	8,021	-	8,021
Receivables, net:					
Other	31,255	18,228	896	6,618	56,997
Other assets	1,374	191	20	420	2,005
Due from primary government	142	-	-	-	142
Total current assets	65,683	69,574	12,311	20,590	168,158
Noncurrent assets:					
Cash and investments held by trustee	-	-	54,722	-	54,722
Notes receivable	20,936	129,128	-	-	150,064
Other assets	643	-	-	71	714
Capital assets:					
Nondepreciable	12,866	15,384	150	-	28,400
Depreciable	15,459	2,650	553	32,963	51,625
Total noncurrent assets	49,904	147,162	55,425	33,034	285,525
Total assets	\$ 115,587	216,736	67,736	53,624	453,683

**Condensed Statements of Net Position****June 30, 2013****(In thousands)**

	<b>PHC</b>	<b>BRA</b>	<b>TPL</b>	<b>EDIC</b>	<b>Total</b>
<b>Liabilities:</b>					
<b>Current liabilities:</b>					
Warrants and accounts payable	\$ 17,731	1,471	1,074	3,699	23,975
Accrued liabilities:					
Other	2,415	312	465	1,733	4,925
Current portion of long-term debt and leases	416	-	-	908	1,324
Due to primary government	2,182	-	737	-	2,919
Deferred revenue	5,084	1,679	-	108	6,871
<b>Total current liabilities</b>	<b>27,828</b>	<b>3,462</b>	<b>2,276</b>	<b>6,448</b>	<b>40,014</b>
<b>Noncurrent liabilities:</b>					
Bonds notes and leases due in more than one year	273	1,475	-	14,900	16,648
Other noncurrent liabilities	3,664	159,722	-	927	164,313
OPEB	73,230	6,316	-	-	79,546
Deferred revenue	22,033	29,422	-	-	51,455
Due to primary government	821	11,450	-	-	12,271
<b>Total noncurrent liabilities</b>	<b>100,021</b>	<b>208,385</b>	<b>-</b>	<b>15,827</b>	<b>324,233</b>
<b>Total liabilities</b>	<b>127,849</b>	<b>211,847</b>	<b>2,276</b>	<b>22,275</b>	<b>364,247</b>
<b>Net position:</b>					
Net investment in capital assets	27,264	6,063	703	17,154	51,184
Restricted	-	-	62,133	704	62,837
Unrestricted	(39,526)	(1,174)	2,624	13,491	(24,585)
<b>Total net position</b>	<b>\$ (12,262)</b>	<b>4,889</b>	<b>65,460</b>	<b>31,349</b>	<b>89,436</b>

**Condensed Statements of Revenues, Expenses, and Changes in Net Position****Year ended June 30, 2013****(In thousands)**

	<b>PHC</b>	<b>BRA</b>	<b>TPL</b>	<b>EDIC</b>	<b>Total</b>
Expenses	\$ 177,217	19,475	9,898	30,590	237,180
Program revenues:					
Charges for services	54,848	9,935	1,787	19,084	85,654
Operating grants and contributions	47,742	3,247	10,323	13,615	74,927
Capital grants and contributions	1,405	-	-	-	1,405
Total program revenues	103,995	13,182	12,110	32,699	161,986
Net expenses	(73,222)	(6,293)	2,212	2,109	(75,194)
General revenues:					
Investment income	61	71	207	4	343
Sale of property	-	6,487	-	1,309	7,796
City appropriation	66,788	-	-	-	66,788
Miscellaneous income	-	1,278	1,958	183	3,419
Total general revenues	66,849	7,836	2,165	1,496	78,346
Change in net position	(6,373)	1,543	4,377	3,605	3,152
Net position – beginning of year	(5,889)	3,346	61,083	27,744	86,284
Net position – end of year	\$ (12,262)	4,889	65,460	31,349	89,436

**Required Supplementary Information****(Unaudited)**

(Amounts in thousands)

Schedules 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)
<b>Pension - Plan</b>						
01/01/12	\$ 4,855,200	7,902,175	3,046,975	61.4 %	\$ 1,301,803	234.1 %
01/01/11*	4,592,675	7,382,907	2,790,232	62.2	1,371,363	203.5
01/01/10	4,270,893	7,091,018	2,820,125	60.2	1,306,060	215.9
01/01/09*	4,089,989	6,900,229	2,810,240	59.3	1,364,068	206.0
01/01/08	4,458,002	6,596,148	2,138,146	67.6	1,299,112	164.6
01/01/07*	4,138,146	6,223,154	2,085,008	66.5	1,221,404	170.7

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

<b>OPEB - City</b>						
06/30/11	\$ 109,736	3,018,252	2,908,516	3.64 %	\$ 1,045,488	278.2 %
06/30/09	—	4,553,816	4,553,816	—	1,008,004	451.8
06/30/07	—	5,490,836	5,490,836	—	919,662	597.0
<b>OPEB - Plan</b>						
06/30/11	\$ 111,038	3,171,670	3,060,632	3.50 %	\$ 1,102,402	277.6 %
06/30/09	—	4,684,972	4,684,972	—	1,060,919	441.6
06/30/07	—	5,654,817	5,654,817	—	967,584	584.4

Schedules of Employer Contributions

	Annual required contribution	Percentage contributed
<b>Pension Plan</b>		
December 31, 2012	\$ 261,943	100 %
December 31, 2011	245,280	100
December 31, 2010	463,656	100
December 31, 2009	250,823	100
December 31, 2008	239,039	100
December 31, 2007	227,822	100
<b>OPEB - Plan</b>		
June 30, 2013	\$ 200,041	84 %
June 30, 2012	194,045	95
June 30, 2011	275,101	85
<b>OPEB - City</b>		
June 30, 2013	\$ 186,929	87 %
June 30, 2012	181,732	99
June 30, 2011	262,898	87

## **EXHIBIT II**

### **Schedules of Comparative Financial Statements for Fiscal Years 2009 - 2013**

The following schedules of Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Fund Equity for the fiscal years ended June 30, 2013, 2012, 2011, 2010, and 2009 have been prepared by the City of Boston Auditing Department based on information taken from the City's audited financial statements.

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**City of Boston**

**General Fund**

**Balance Sheets**

**Fiscal Years Ended June 30, 2013, 2012, 2011, 2010, and 2009**  
(in thousands)

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>ASSETS:</b>					
Cash and investments.....	\$ 950,678	\$ 925,637	\$ 823,210	\$ 880,912	\$ 863,606
Receivables :					
Property taxes.....	15,355	18,736	18,277	18,550	17,724
Motor vehicle excise.....	55,135	53,978	49,994	64,446	62,415
Intergovernmental.....	59,011	58,086	63,689	86,549	231,096
Departmental and other.....	27,297	23,417	33,253	34,039	15,256
Tax title and possession.....	91,698	90,837	90,950	87,869	85,052
Total receivables.....	<u>248,496</u>	<u>245,054</u>	<u>256,163</u>	<u>291,453</u>	<u>411,543</u>
Allowance:					
Abatement res/property tax allow.....	-	-	-	-	-
Tax title and possession.....	(45,436)	(90,810)	(90,950)	(87,869)	(85,034)
Motor vehicle excise.....	(91,698)	(45,265)	(45,010)	(57,647)	(57,617)
Other.....	-	(3,078)	(7,081)	(11,158)	(15,144)
Total allowances.....	<u>(137,134)</u>	<u>(139,153)</u>	<u>(143,041)</u>	<u>(156,674)</u>	<u>(157,795)</u>
Net receivable.....	111,362	105,901	113,122	134,779	253,748
Due from other funds.....	2,161	27	1,973	30,000	27,000
Due from component units.....	13,625	16,072	5,449	5,909	6,653
Total assets.....	<u>\$ 1,077,826</u>	<u>\$ 1,047,637</u>	<u>\$ 943,754</u>	<u>\$ 1,051,600</u>	<u>\$ 1,151,007</u>
<b>LIABILITIES:</b>					
Warrants and accounts payable.....	\$ 45,211	\$ 102,736	\$ 51,773	\$ 63,593	\$ 57,124
Accrued liabilities:					
Payroll and related costs.....	167,301	139,022	126,222	151,554	125,527
Other.....	25,709	19,561	20,133	22,468	23,655
Due to other funds.....	8,721	1,922	6,023	6,054	3,675
Due to component units.....	142	4	195	542	292
Deferred revenue.....	79,346	94,695	86,477	100,196	112,047
Total liabilities.....	<u>\$ 326,430</u>	<u>\$ 357,940</u>	<u>\$ 290,823</u>	<u>\$ 344,407</u>	<u>\$ 322,320</u>
<b>FUND BALANCE:</b>					
Assigned.....	218,292	177,942	141,891	-	-
Unassigned.....	533,104	511,755	511,040	-	-
Reserved for:					
Encumbrances.....	-	-	-	36,808	37,534
Unreserved:					
Designated for subsequent year expenditures.....	-	-	-	123,103	240,824
Undesignated.....	-	-	-	547,282	550,329
Total fund balance.....	<u>751,396</u>	<u>689,697</u>	<u>652,931</u>	<u>707,193</u>	<u>828,687</u>
Total liabilities and fund balance.....	<u>\$ 1,077,826</u>	<u>\$ 1,047,637</u>	<u>\$ 943,754</u>	<u>\$ 1,051,600</u>	<u>\$ 1,151,007</u>



**City of Boston**

**General Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Fiscal Years Ending June 30, 2013, 2012, 2011, 2010, and 2009**  
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>REVENUES:</b>					
Local:					
Real and personal property taxes, net.....	\$ 1,677,581	\$ 1,591,998	\$ 1,526,361	\$ 1,467,605	\$ 1,393,371
Excises.....	221,254	187,572	124,214	121,120	115,454
Payments in lieu of taxes.....	72,335	63,066	65,461	67,265	56,686
Fines.....	58,835	64,566	64,751	70,627	69,711
Investment income.....	179	982	4,733	3,246	18,289
Licenses and permits.....	47,220	48,753	41,676	32,907	40,822
Departmental and other revenue.....	87,585	78,438	65,498	74,861	82,087
Total local revenues.....	<u>2,164,989</u>	<u>2,035,375</u>	<u>1,892,694</u>	<u>1,837,631</u>	<u>1,776,420</u>
Intergovernmental:					
Intergovernmental.....	<u>504,656</u>	<u>486,379</u>	<u>395,374</u>	<u>404,619</u>	<u>454,252</u>
Total intergovernmental revenues.....	<u>504,656</u>	<u>486,379</u>	<u>395,374</u>	<u>404,619</u>	<u>454,252</u>
Total revenues.....	<u>2,669,645</u>	<u>2,521,754</u>	<u>2,288,068</u>	<u>2,242,250</u>	<u>2,230,672</u>
<b>EXPENDITURES:</b>					
Current:					
General government.....	77,515	68,828	65,459	70,514	69,524
Human services.....	29,924	28,604	29,233	29,324	29,722
Public safety.....	553,851	524,476	516,725	511,365	521,898
Public works.....	102,789	84,727	105,318	96,641	112,168
Property and development.....	32,568	30,089	35,138	30,247	28,959
Parks and recreation.....	19,229	16,653	16,634	16,818	17,571
Library.....	30,888	30,069	30,532	29,853	31,268
Schools.....	879,898	830,839	812,949	815,694	818,338
Public Health Programs.....	67,845	73,455	70,092	70,000	69,985
Judgments and claims.....	3,010	3,871	811	10,181	9,946
Retirement costs.....	235,078	220,340	195,976	235,282	82,332
Other employee benefits.....	232,831	251,194	294,200	224,156	191,597
State and district assessments.....	176,300	160,547	152,042	146,323	142,055
Capital outlays.....	1,745	6,950	2,588	734	566
Debt Service.....	140,900	138,210	132,156	129,670	119,294
Total expenditures.....	<u>2,584,371</u>	<u>2,468,852</u>	<u>2,459,853</u>	<u>2,416,802</u>	<u>2,245,223</u>
Excess (deficiencies) of revenues over (under) expenditures.....	<u>85,274</u>	<u>52,902</u>	<u>(171,785)</u>	<u>(174,552)</u>	<u>(14,551)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Payments to escrow agent to refund debt.....	-	-	-	-	-
Transfers in.....	<u>(23,575)</u>	<u>(16,136)</u>	<u>117,523</u>	<u>53,058</u>	<u>41,189</u>
Total other financing uses, net.....	<u>(23,575)</u>	<u>(16,136)</u>	<u>117,523</u>	<u>53,058</u>	<u>41,189</u>
Net change in fund balances.....	<u>61,699</u>	<u>36,766</u>	<u>(54,262)</u>	<u>(121,494)</u>	<u>26,638</u>
Fund balance, beginning of year.....	<u>689,697</u>	<u>652,931</u>	<u>707,193</u>	<u>828,687</u>	<u>802,049</u>
Fund balance, end of year.....	<u>\$ 751,396</u>	<u>\$ 689,697</u>	<u>\$ 652,931</u>	<u>\$ 707,193</u>	<u>\$ 828,687</u>

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**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, 2012, 2011, 2010, 2009, and 2008**

(in thousands)

	<b>2013</b>			<b>2012</b>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Fav. (Unfav.)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Fav. (Unfav.)</u>
<b>Revenues, Transfers and Other Available Funds:</b>						
Real and personal property taxes, net.....	\$1,642,626	\$1,643,367	\$ 741	\$1,575,373	\$1,577,253	\$ 1,880
Motor vehicle excise.....	38,484	47,169	8,685	40,075	40,507	432
Other excises.....	146,050	162,411	16,361	123,850	152,619	28,769
Commonwealth of Massachusetts.....	404,058	403,275	(783)	385,877	390,475	4,598
Departmental and other revenue.....	59,758	68,502	8,744	53,298	69,369	16,071
Fines.....	62,390	59,475	(2,915)	64,155	64,338	183
Payments in lieu of taxes.....	66,312	71,372	5,060	66,620	62,902	(3,718)
Investment income.....	900	179	(721)	1,150	982	(168)
Licenses and permits.....	38,743	45,574	6,831	33,750	51,932	18,182
Transfers from other available funds.....	17,015	-	(17,015)	51,096	4,030	(47,066)
Sale of property.....	-	3,023	3,023	-	-	-
Total revenues, transfers and other available funds.....	<u>2,476,336</u>	<u>2,504,347</u>	<u>28,011</u>	<u>2,395,244</u>	<u>2,414,407</u>	<u>19,163</u>
<b>Expenditures and Encumbrances:</b>						
General government.....	107,577	105,764	1,813	90,500	88,998	1,502
Human services.....	30,811	30,667	144	29,391	29,350	41
Public safety.....	516,462	531,682	(15,220)	503,088	520,723	(17,635)
Public works.....	103,244	103,926	(682)	103,933	92,152	11,781
Property and development.....	33,008	32,981	27	30,426	30,302	124
Parks and recreation.....	19,595	19,301	294	17,184	17,121	63
Library.....	31,177	31,069	108	30,157	30,152	5
Schools.....	881,229	881,203	26	831,467	831,343	124
Boston Public Health Commission.....	67,041	67,041	-	72,903	72,903	-
Judgments and claims.....	3,500	11,976	(8,476)	3,500	14,500	(11,000)
Other employee benefits.....	234,193	233,985	208	254,376	253,592	784
Retirement costs.....	141,177	141,111	66	130,680	130,530	150
State and district assessments.....	129,257	129,122	135	166,485	160,547	5,938
Debt requirements.....	178,065	176,300	1,765	131,154	130,227	927
Total expenditures.....	<u>2,476,336</u>	<u>2,496,128</u>	<u>(19,792)</u>	<u>2,395,244</u>	<u>2,402,440</u>	<u>(7,196)</u>
Excess of revenues available for appropriation over expenditures.....	<u>\$ -</u>	<u>\$ 8,219</u>	<u>\$ 8,219</u>	<u>\$ -</u>	<u>\$ 11,967</u>	<u>\$ 11,967</u>

(continued)

**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, 2013, 2012, 2011, 2010, and 2009**

(in thousands)

2011			2010			2009		
Budget	Actual	Variance Fav. (Unfav.)	Budget	Actual	Variance Fav. (Unfav.)	Budget	Actual	Variance Fav. (Unfav.)
\$ 1,502,324	\$ 1,504,566	\$ 2,242	\$ 1,429,325	\$ 1,440,193	\$ 10,868	\$ 1,364,580	\$ 1,365,272	\$ 692
33,570	46,977	13,407	36,025	40,134	4,109	39,545	44,676	5,131
106,775	112,064	5,289	92,629	103,900	11,271	92,450	105,100	12,650
395,700	395,201	(499)	545,126	413,209	(131,917)	610,018	573,278	(36,740)
137,094	144,438	7,344	64,120	68,706	4,586	64,051	75,661	11,610
70,133	65,051	(5,082)	73,015	70,376	(2,639)	75,075	70,053	(5,022)
57,303	71,999	14,696	57,350	60,920	3,570	56,100	56,493	393
2,000	1,392	(608)	6,500	3,182	(3,318)	18,500	17,835	(665)
32,490	39,887	7,397	31,260	30,558	(702)	40,585	41,008	423
72,139	48,139	(24,000)	72,088	72,088	-	59,219	53,219	(6,000)
-	-	-	-	-	-	-	-	-
2,409,528	2,429,714	20,186	2,407,438	2,303,266	(104,172)	2,420,123	2,402,595	(17,528)
77,806	75,879	1,927	92,096	90,932	1,164	115,628	113,114	2,514
29,670	29,377	293	29,468	29,466	2	29,888	29,734	154
499,243	504,759	(5,516)	497,269	507,558	(10,289)	500,058	504,717	(4,659)
101,032	106,239	(5,207)	101,419	97,138	4,281	105,027	112,420	(7,393)
30,205	30,145	60	29,485	29,485	-	31,178	31,178	-
16,838	16,747	91	16,945	16,916	29	17,693	17,490	203
30,378	30,378	-	29,862	29,862	-	31,230	31,211	19
821,382	821,375	7	817,882	817,830	52	833,299	810,006	23,293
69,808	69,808	-	70,000	70,000	-	69,446	69,446	-
3,500	21,022	(17,522)	3,500	15,970	(12,470)	3,500	4,806	(1,306)
249,481	243,624	5,857	205,322	205,242	80	195,666	195,612	54
196,207	195,998	209	239,035	112,608	126,427	217,430	217,378	52
153,048	152,043	1,005	150,307	146,323	3,984	147,458	142,055	5,403
130,930	126,410	4,520	124,848	124,848	-	122,622	119,294	3,328
2,409,528	2,423,804	(14,276)	2,407,438	2,294,178	113,260	2,420,123	2,398,461	21,662
\$ -	\$ 5,910	\$ 5,910	\$ -	\$ 9,088	\$ 9,088	\$ -	\$ 4,134	\$ 4,134

**City of Boston**

**Special Revenue Fund**

**Balance Sheets**

**June 30, 2013, 2012, 2011, 2010, and 2009**

**(in thousands)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS:</b>					
Cash and investments.....	\$ 132,314	\$ 159,581	\$ 128,083	\$ 132,917	\$ 168,216
Receivables, net:					
Intergovernmental.....	103,430	107,892	117,942	119,160	67,976
Departmental and other.....	59,515	64,048	73,752	65,831	61,528
Total receivables.....	<u>162,945</u>	<u>171,940</u>	<u>191,694</u>	<u>184,991</u>	<u>129,504</u>
Due from other funds.....	5,132	1,855	6,709	3,787	1,181
Total assets.....	<u>\$ 300,391</u>	<u>\$ 333,376</u>	<u>\$ 326,486</u>	<u>\$ 321,695</u>	<u>\$ 298,901</u>
<b>LIABILITIES:</b>					
Warrants and accounts payable.....	\$ 41,221	\$ 25,863	\$ 20,921	\$ 32,203	\$ 24,679
Accrued liabilities:					
Payroll and related costs.....	302	2,938	1,871	1,941	4,160
Other.....	41,049	46,329	45,129	34,716	33,120
Deferred revenue.....	81,930	86,786	81,751	79,703	56,142
Due to other funds.....	3,000	-	4,546	-	-
Total liabilities.....	<u>167,502</u>	<u>161,916</u>	<u>154,218</u>	<u>148,563</u>	<u>118,101</u>
<b>FUND BALANCES:</b>					
Restricted.....	-	72,903	91,293	-	-
Assigned.....	132,889	98,557	80,975	-	-
Reserved for:					
Encumbrances.....	-	-	-	49,418	42,206
Unreserved:					
Undesignated.....	-	-	-	123,714	138,594
Total fund balance.....	<u>132,889</u>	<u>171,460</u>	<u>172,268</u>	<u>173,132</u>	<u>180,800</u>
Total liabilities and fund balance.....	<u>\$ 300,391</u>	<u>\$ 333,376</u>	<u>\$ 326,486</u>	<u>\$ 321,695</u>	<u>\$ 298,901</u>

**City of Boston**

**Special Revenue Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Fiscal Years Ending June 30, 2013, 2012, 2011, 2010, and 2009**  
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>REVENUES:</b>					
Local:					
Fines.....	\$ 17	\$ 27	\$ 21	\$ 22	\$ 12
Investment income.....	21	26	33	25	194
Licenses and permits.....	70	85	74	-	308
Departmental and other revenue.....	41,225	43,871	34,659	14,381	21,931
Total local revenues.....	<u>41,333</u>	<u>44,009</u>	<u>34,787</u>	<u>14,428</u>	<u>22,445</u>
Intergovernmental:					
Intergovernmental.....	232,523	263,223	283,658	327,213	365,102
Total intergovernmental revenues.....	<u>232,523</u>	<u>263,223</u>	<u>283,658</u>	<u>327,213</u>	<u>365,102</u>
Total revenues.....	<u>273,856</u>	<u>307,232</u>	<u>318,445</u>	<u>341,641</u>	<u>387,547</u>
<b>EXPENDITURES:</b>					
Current operations:					
General government.....	13,523	10,689	7,492	3,165	9,021
Human services.....	7,697	6,802	6,775	8,690	7,585
Public safety.....	34,920	28,309	9,607	12,150	7,527
Public works.....	11,942	5,487	4,317	8,482	9,254
Parks and recreation.....	2,178	6,142	3,132	716	624
Libraries.....	2,559	1,730	3,024	3,578	5,366
Schools.....	155,930	173,329	161,883	147,009	154,989
County.....	-	-	-	69,040	129,603
Public health.....	1,260	281	288	1,214	1,408
Property & development.....	73,855	79,618	76,469	87,147	64,449
Other employee benefits.....	2,171	-	-	-	-
Capital outlays.....	2,461	3,239	2,383	5,485	1,151
Debt service.....	5,784	9	1,626	3,414	-
Total expenditures.....	<u>314,280</u>	<u>315,635</u>	<u>276,996</u>	<u>350,090</u>	<u>390,977</u>
Excess (deficiency) of revenues over expenditures.....	<u>(40,424)</u>	<u>(8,403)</u>	<u>41,449</u>	<u>(8,449)</u>	<u>(3,430)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Long-term debt and capital leases issued.....	718	7,010	1,366	11,360	-
Premiums on long-term debt issued.....	3,836	17,415	11,401	9,805	8,087
Payments to escrow agents.....	(2,701)	(12,857)	(1,118)	(5,384)	(1,922)
Transfers out, net.....	-	(3,973)	(53,962)	(15,000)	(12,000)
Total other financing sources (uses), net.....	<u>1,853</u>	<u>7,595</u>	<u>(42,313)</u>	<u>781</u>	<u>(5,835)</u>
Net change in fund balances.....	<u>(38,571)</u>	<u>(808)</u>	<u>(864)</u>	<u>(7,668)</u>	<u>(9,265)</u>
Fund balance, beginning of year.....	171,460	172,268	173,132	180,800	190,065
Fund balance, end of year.....	<u>\$ 132,889</u>	<u>\$ 171,460</u>	<u>\$ 172,268</u>	<u>\$ 173,132</u>	<u>\$ 180,800</u>

**City of Boston**

**Capital Projects Fund**

**Balance Sheets**

**June 30, 2013, 2012, 2011, 2010, and 2009**

**(in thousands)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS:</b>					
Cash and investments.....	\$ 118,829	\$ 96,472	\$ 88,394	\$ 62,006	\$ 38,017
Cash and investments held by trustees.....	7,734	2,253	1,838	2,341	4,914
Intergovernmental receivable.....	34,593	9,834	10,619	11,674	12,755
Department and other receivables.....	247	-	-	-	-
Due from other funds.....	6,364	67	1,457	1,846	2,031
Total assets.....	<u>\$ 167,767</u>	<u>\$ 108,626</u>	<u>\$ 102,308</u>	<u>\$ 77,867</u>	<u>\$ 57,717</u>
<b>LIABILITIES:</b>					
Warrants and accounts payable.....	\$ 40,717	\$ 28,843	\$ 20,907	\$ 18,948	\$ 13,206
Other accrued liabilities.....	-	416	2,827	2,427	1,693
Due to other funds.....	-	27	-	-	-
Deferred revenue.....	31,478	9,654	10,176	11,174	12,754
Total liabilities.....	<u>72,195</u>	<u>38,940</u>	<u>33,910</u>	<u>32,549</u>	<u>27,653</u>
<b>FUND BALANCES:</b>					
Restricted.....	95,572	69,686	68,398	-	-
Reserved for:					
Encumbrances and other.....	-	-	-	86,234	74,145
Future appropriations.....	-	-	-	24,108	30,087
Unreserved:					
Undesignated (deficit).....	-	-	-	(65,024)	(74,168)
Total fund balance.....	<u>95,572</u>	<u>69,686</u>	<u>68,398</u>	<u>45,318</u>	<u>30,064</u>
Total liabilities and fund balance.....	<u>\$ 167,767</u>	<u>\$ 108,626</u>	<u>\$ 102,308</u>	<u>\$ 77,867</u>	<u>\$ 57,717</u>

**City of Boston**

**Capital Projects Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Balance  
Fiscal Years Ending June 30, 2013, 2012, 2011, 2010, and 2009  
(in thousands)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>REVENUES:</b>					
Departmental and other revenue.....	\$ -	\$ 156	\$ -	\$ -	\$ -
Intergovernmental.....	12,190	22,889	28,722	10,632	56,558
Total revenues.....	<u>12,190</u>	<u>23,045</u>	<u>28,722</u>	<u>10,632</u>	<u>56,558</u>
<b>EXPENDITURES:</b>					
Capital outlays.....	198,156	178,188	135,434	120,449	139,592
Debt Service.....	-	-	-	-	-
Total expenditures.....	<u>198,156</u>	<u>178,188</u>	<u>135,434</u>	<u>120,449</u>	<u>139,592</u>
Excess (deficiency) of revenues over expenditures.....	<u>(185,966)</u>	<u>(155,143)</u>	<u>(106,712)</u>	<u>(109,817)</u>	<u>(83,034)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Long-term debt and capital leases issued.....	193,613	139,825	154,743	133,132	113,962
Refunding bonds issued.....	37,080	110,100	52,720	68,345	40,425
Payments to escrow agent.....	(33,274)	(83,019)	(14,372)	(68,256)	(40,308)
Premiums on long-term debt issued.....	21,646	16,470	-	(2,171)	-
Transfers in (out).....	<u>(7,213)</u>	<u>(26,945)</u>	<u>(63,299)</u>	<u>(5,979)</u>	<u>-</u>
Total other financing sources, net.....	<u>211,852</u>	<u>156,431</u>	<u>129,792</u>	<u>125,071</u>	<u>114,079</u>
Net change in fund balances.....	25,886	1,288	23,080	15,254	31,045
Fund balance, beginning of year.....	69,686	68,398	45,318	30,064	(981)
Fund balance, end of year.....	<u>\$ 95,572</u>	<u>\$ 69,686</u>	<u>\$ 68,398</u>	<u>\$ 45,318</u>	<u>\$ 30,064</u>



**City of Boston**

**Internal Service Fund**

**Statement of Net Position**  
**June 30, 2013, 2012, 2011, 2010, and 2009**  
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS:</b>					
Cash and cash equivalents.....	\$ 78,153	\$ 53,592	\$ 54,042	\$ 56,708	\$ 55,761
Receivables, net.....	7,351	53	164	134	170
Due from other funds and sources.....	3,439	-	430	421	463
Due from component units.....	1,565	-	-	-	-
Other assets.....	4,844	1,797	1,885	1,042	1,503
Total assets.....	<u>\$ 95,352</u>	<u>\$ 55,442</u>	<u>\$ 56,521</u>	<u>\$ 58,305</u>	<u>\$ 57,897</u>
<b>LIABILITIES:</b>					
Accrued Liabilities:					
Warrants and accounts payable.....	\$ 6,505	\$ 7,768	\$ -	\$ -	\$ -
Accrued liabilities.....	21,862	5,614	6,550	6,532	6,507
Total liabilities.....	<u>28,367</u>	<u>13,382</u>	<u>6,550</u>	<u>6,532</u>	<u>6,507</u>
<b>NET POSITION:</b>					
Unrestricted.....	66,985	42,060	49,971	51,773	51,390
Total net position.....	<u>66,985</u>	<u>42,060</u>	<u>49,971</u>	<u>51,773</u>	<u>51,390</u>
Total liabilities and net position.....	<u>\$ 95,352</u>	<u>\$ 55,442</u>	<u>\$ 56,521</u>	<u>\$ 58,305</u>	<u>\$ 57,897</u>

**City of Boston**

**Internal Service Fund**

**Statement of Revenues, Expenses, and Changes in Net Position**  
**Fiscal Years Ending June 30, 2013, 2012, 2011, 2010, and 2009**  
**(in thousands)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>REVENUES:</b>					
Employer contributions.....	\$ 246,420	\$ 58,543	\$ 61,845	\$ 64,655	\$ 65,874
Employee contributions.....	63,724	20,123	21,404	21,849	22,948
Total operating revenues.....	<u>310,144</u>	<u>78,666</u>	<u>83,249</u>	<u>86,504</u>	<u>88,822</u>
<b>EXPENSES:</b>					
Health Benefits.....	285,219	86,577	85,051	86,121	87,280
Total operating expenditures.....	<u>285,219</u>	<u>86,577</u>	<u>85,051</u>	<u>86,121</u>	<u>87,280</u>
Changes in net assets.....	24,925	(7,911)	(1,802)	383	1,542
Net position (deficit), beginning of year.....	42,060	49,971	51,773	51,390	49,848
Net position, end of year.....	<u>\$ 66,985</u>	<u>\$ 42,060</u>	<u>\$ 49,971</u>	<u>\$ 51,773</u>	<u>\$ 51,390</u>

**City of Boston**

**Enterprise Funds**

**Statements of Net Position**  
**Fiscal Years Ending June 30, 2013, 2012, 2011, 2010, and 2009**  
(in thousands)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>ASSETS:</b>					
Current assets:					
Cash and investments.....	\$ -	\$ -	\$ -	\$ 11,326	\$ 180
Cash and investments held by trustees.....	-	-	23,472	83,079	88,869
Receivables, net.....	-	-	-	-	-
Due from component units.....	-	-	8,335	-	-
Total current assets.....	-	-	31,807	94,405	89,049
Noncurrent assets:					
Due from component units.....	-	-	58,223	74,581	82,298
Due from other governments.....	-	-	-	-	-
Other assets.....	-	-	871	2,052	2,240
Total noncurrent assets.....	-	-	59,094	76,633	84,538
Total assets.....	-	-	90,901	171,038	173,587
<b>LIABILITIES:</b>					
Current liabilities:					
Warrants and accounts payable.....	-	-	-	-	-
Due to other funds.....	-	-	-	30,000	27,000
Other liabilities.....	-	-	1,421	2,304	2,449
Current portion of long-term debt.....	-	-	7,830	11,250	10,815
Total current liabilities.....	-	-	9,251	43,554	40,264
Noncurrent liabilities:					
Special obligation bonds.....	-	-	-	89,780	93,505
Revenue bonds.....	-	-	66,818	74,872	82,621
Total noncurrent liabilities.....	-	-	66,818	164,652	176,126
Total liabilities.....	-	-	76,069	208,206	216,390
<b>NET POSITION:</b>					
Restricted for debt service.....	-	-	14,832	-	-
Unrestricted.....	-	-	-	(37,168)	(42,803)
Total net position.....	\$ -	\$ -	\$ 14,832	\$ (37,168)	\$ (42,803)

**City of Boston**

**Enterprise Funds**

**Statement of Revenues, Expenditures, and Changes in Net Position  
Fiscal Years Ending June 30, 2013, 2012, 2011, 2010, and 2009**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Operating revenues:</b>					
State Aid - pledged for debt service.....	\$ -	\$ -	\$ 58,508	\$ 43,887	\$ 36,605
Departmental and other - pledged for debt service.....	-	-	-	-	-
Total operating revenues.....	-	-	58,508	43,887	36,605
<b>Operating expenditures:</b>					
Contributions to State.....	-	-	-	9,022	-
Total operating expenses.....	-	-	-	9,022	-
Operating (loss) income.....	-	-	58,508	34,865	36,605
<b>Nonoperating revenue (expenditure):</b>					
Intergovernmental - state grants.....	-	-	1,172	5,567	1,116
Investment earnings - pledged for debt service.....	-	2,688	3,561	3,567	5,910
Investment earnings - other.....	-	-	-	-	389
Interest expense.....	-	(2,523)	(4,852)	(8,364)	(8,826)
Loss on extinguishment of debt.....	-	(257)	(7,509)	-	-
Total nonoperating revenue (expense).....	-	(92)	(7,628)	770	(1,411)
Income before transfers.....	-	(92)	50,880	35,635	35,194
Transfer to (from) general fund.....	-	13,954	(39,569)	(30,000)	(27,000)
Transfer from capital projects.....	-	26,945	38,219	-	-
Transfer from special revenue.....	-	3,973	2,470	-	-
Special item - forgiveness of note receivable.....	-	(59,612)	-	-	-
Change in net position.....	-	(14,832)	52,000	5,635	8,194
Total net position - beginning.....	-	14,832	(37,168)	(42,803)	(50,997)
Total net position - ending.....	\$ -	\$ -	\$ 14,832	\$ (37,168)	\$ (42,803)

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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 of Boston (the “City” or “Boston”) 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**

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

In 2010, Boston had a population of 617,594, as enumerated by the U.S. Department of Commerce Bureau of the Census (the “Bureau of the Census”). The most recent estimate as of 2011 places the population of the City as 674,050. The City also had 686,239 jobs, as of 2012 as stated in a series by the U.S. Department of Commerce, Bureau of Economic Analysis (the “Bureau of Economic Analysis”) for Suffolk County pro-rated for Boston. The ratio of jobs to population indicates that the City provides a direct source of employment and income for an area that extends well beyond its borders. Measured in terms of jobs, the City’s economy comprises approximately 16.0% of the Massachusetts economy and 7.4% of that of the six New England states.

### ***Overview of Recent Economic Conditions***

Boston’s economy experienced moderate growth from 2004 through much of 2008. Employment grew by 7.3% over those four years. In the spring of 2008, as the national economy began to experience rising unemployment and more rapidly deteriorating economic conditions, Boston still showed growth. However, in late 2008 Boston began to show signs of a weakening labor market and the same deteriorating conditions then prevalent in the rest of the country. From 2008 to 2010 Boston employment declined by 2.3%. Employment grew by 2.2% from 2010 to 2011, and from 2011 to 2012 employment grew another 1.8%. Currently, Boston’s unemployment rate is lower than the nation’s rate and Boston’s rate of job gain in 2012 was close to the national rate. Although Boston’s housing market experienced rising vacancy rates and a correction in prices through year end 2011, growth in housing sales and a rise in housing values were evident in 2013.

Unemployment rates in Boston, which had been as low as 3.9% as recently as April of 2008, reached a high of 8.7% in July 2010. The national unemployment rate, which was in the range of 4.3% to 5.0% throughout 2007 crested at 10.6% in January 2010. Massachusetts and New England also had higher peak unemployment rates than the City of Boston, in January 2010, both at 9.6% versus 8.6% for Boston. As of December 2013 Boston’s unemployment rate was 6.2%, compared to 6.7% for Massachusetts and 6.5% for the U.S. All unemployment rates cited are not seasonally adjusted.

Boston’s office real estate market experienced a downward shift beginning in the last half of 2008 through mid-2010. Similarly, Boston’s hotel sector showed weakening numbers in 2008 and 2009, but has been recovering strongly since 2010 as revenue per available room grew by 10.2% compared to the previous year. The housing market in Boston, hurt by rising foreclosures and the tight lending market, had weakened sales volumes and small to moderate drops in prices. Boston, however, has not experienced the same level of price declines experienced in many other large markets across the U.S. and prices and sales volume showed improvement in 2013.

### ***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 “BEA”); the U.S. Department of Labor, Bureau of Labor Statistics (the “Bureau of Labor Statistics”); and the City of Boston 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. The most recent decennial Census data is from the 2010 Census. In addition, some monthly, quarterly and annual data are available through December 2013 on certain topics for the region, the Commonwealth, and Metropolitan Boston. The Bureau of the Census also has the American Community Survey (ACS) which provides data through 2012 also on a citywide basis and for census tracts within 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 for Metropolitan Boston are for 2012. The most recent quarterly national statistics are for the third quarter of 2012. The City accounts for approximately 85.5% 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. The most recent monthly data are for December 2013.

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

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

### ***Population, Income and Employment***

Boston's population from the 2010 Bureau of the Census enumeration was 617,594 which represented a 4.8% increase from the 2000 count of 589,141. The Bureau of the Census population count for Metropolitan Boston at 4,552,402 was an increase of 3.7% since 2000. Massachusetts' 2010 Census enumeration was 6,547,629, a gain of 3.1% over the 2000 count. Boston's 2.9% growth rate from the 2010 enumeration count to the 2012 estimated population topped the comparative population growth rates for both the metropolitan Boston and Massachusetts.

#### **Population of Massachusetts, Metropolitan Boston <sup>(1)</sup> and the City of Boston 1990, 2000 and 2010 <sup>(2)</sup>**

	1990	2000	2010 <sup>(2)</sup>	1990-2000		2000-2010	
				Population Change	Percent Change	Population Change	Percent Change
Massachusetts	6,016,425	6,349,097	6,547,629	332,672	5.5%	198,532	3.1%
Metropolitan Boston <sup>(1)</sup>	4,133,895	4,391,344	4,552,402	257,449	6.2	161,058	3.7
City of Boston	574,283	589,141	617,594	14,858	2.6	28,453	4.8

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

(2) The 2012 population estimates for Massachusetts, Metropolitan Boston, and the City of Boston were released in the Summer of 2013. Massachusetts: 6,645,303, Metropolitan Boston: 4,640,802, City of Boston: 636,479.

Source: U.S. Census Bureau, January 2014.

The 2010 Census showed that Boston's racial composition was: White, Non-Hispanic 47.0%; Black, Non-Hispanic 22.4%; Hispanic 17.5%; Asian/Pacific Islander 8.9%; Multi-racial 2.4%; other single race 1.6%; and Native American 0.2%. Changes between 2000 and 2010 shows population growth for Hispanic (27%) and Asian (28%) populations and flat to marginal decreases in white, non-Hispanic (-0.4%) and black, non-Hispanic (-1.6%) populations. All other categories combined (American Indian, Alaskan, Hawaiian, Other single race and Multi-racial), totaling 26,446, persons is 6.1% lower than in 2000.

According to the 2010 Census, Boston continues to be a city of young adults due to the large number of students and young professionals living and working in the City. Thirty-five percent of all persons in Boston in 2010 were between 20 and 34 years old compared to 33% in 2000. Between 2000 and 2010, the largest growth of an age group in Boston was individuals between 55 and 64, which saw a 26.7% increase. This is consistent with national trends and the aging of the baby boomer population. Boston's elderly population (aged 65 and over) grew slightly in number but fell in share between 2000 and 2010 as that segment comprised 62,337 people, a 10.1% share of the population. Boston also saw a large decline in children ages 5 to 14, a -24.2% decrease in population, accounting for 8.6% of the total population.

The 2012 ACS shows that the trend toward fewer families (related people living together) and to more non-family households (comprised of single persons and roommates) continues in Boston from 2010 to 2012. There was a decrease in trend toward other "non-traditional" households (those with same-sex partners and those with extended families or grandparents with grandchildren), falling from 133,581 in 2010 to 130,458. Overall, the total number of households decreased from 2010 to 2012 by 4,467, a 1.9%



decrease. The percentage of family households trended from 46% to 47% (within that category the share of households with children as a percentage of total city households went from 21% to 20%) while the share of non-family households (mainly roommates and single people) remained at 53%. The percentage of single-person households remained at 38%; married couple families with children under 18 (at 9%) decreased from 10%; while the percentage of single-parent families with children remained at 21%. Group quarters population continued to increase both for the institutionalized and non-institutionalized populations, the majority of which are the nursing home and student dormitory population groups. Household size increased from 2.26 to 2.39 persons while average family size also showed a gain from 3.08 to 3.26 persons.

The six-state New England region had a combined population of 14.5 million people and 9.1 million jobs in 2012 according to BEA annual data. Total personal income in New England grew at an annual average compound rate of 2.6% from 2006 through 2012, below the 2.8% national rate for the same period. Employment in New England decreased by a net of -30,473 jobs from 2007 through 2012, a very small percentage loss, as employment growth peaked in 2008. The region experienced job losses from 2008 to 2010, but in 2011 the trend reversed. From 2011 to 2012 jobs grew 133,096, a 1.4% increase from the previous year. Employment remains below that 2008 high mark.

Massachusetts had a population of 6.6 million people and 4.25 million jobs in 2012, according to BEA annual data. Total personal income in Massachusetts grew at a 2.4% annual average rate from 2007 through 2012, better than both the 2.1% rate of increase for New England, and the 2.3% national rate. Massachusetts gained 49,175 jobs between 2007 and 2012, a 1.1% increase. Employment surpassed the peak of 2008.

The Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area, defined by the Office of Management and Budget (OMB) to include Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties in Massachusetts, and Rockingham and Strafford counties in New Hampshire ("Metropolitan Boston"), had 4.6 million people and 3.1 million jobs in 2011. Total personal income from 2007 through 2012 topped the national rate with an annual average increase of 2.4%. The most recent employment data from BEA, only through 2011, show a net gain of 3,187 jobs for the 2007-2011 period, an annual rate of 0.5%.

### Population, Income and Employment 2007-2012

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
(Income in current year dollars)						
United States						
Total Personal Income						
(\$000).....	\$11,990,244,000	\$12,429,284,000	\$12,073,738,000	\$12,423,332,000	\$13,179,561,000	\$13,729,063,000
Population.....	301,231,207	304,093,966	306,771,529	309,326,225	311,587,816	313,914,040
Per Capita Income.....	39,804	40,873	39,357	40,163	42,298	43,735
Employment.....	179,899,700	179,643,900	174,225,700	173,043,700	176,341,700	179,613,300
New England						
Total Personal Income						
(\$000).....	\$690,945,777	\$708,601,374	\$693,911,920	\$714,709,113	\$753,452,605	\$780,561,980
Population.....	14,279,205	14,340,115	14,403,575	14,462,988	14,517,309	14,562,704
Per Capita Income.....	48,388	49,414	48,176	49,416	51,900	53,600
Employment.....	9,155,746	9,167,780	8,940,895	8,873,862	8,992,177	9,125,273
Massachusetts						
Total Personal Income						
(\$000).....	\$323,230,563	\$333,246,085	\$327,863,467	\$337,931,599	\$358,217,598	\$372,025,854
Population.....	6,431,559	6,468,967	6,517,613	6,563,259	6,607,003	6,646,144
Per Capita Income.....	50,257	51,515	50,304	51,488	54,218	55,976
Employment.....	4,201,391	4,217,199	4,123,064	4,112,882	4,177,918	4,250,566
Boston-Cambridge-Quincy, MA-NH (MSA)						
Total Personal Income						
(\$000).....	\$243,350,855	\$250,591,142	\$245,647,245	\$253,656,143	\$269,575,863	\$280,244,116
Population.....	4,447,838	4,483,141	4,527,220	4,563,863	4,603,344	4,640,802
Per Capita Income.....	54,712	55,896	54,260	55,579	58,561	60,387
Employment.....	3,121,064	3,142,675	3,077,165	3,082,568	3,124,251	

The Boston-Cambridge-Quincy, MA, NH MSA (Metropolitan Statistical Area) includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford. Source: The U.S. Department of Commerce, Bureau of Economic Analysis and the Census Bureau.

Source: U. S. Department of Commerce, Bureau of Economic Analysis and U.S. Census Bureau, January 2014. BEA Data last updated November 21, 2013.

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

The economy of Metropolitan Boston rests primarily on high technology, finance, professional and business services, defense, and educational and medical institutions. The City's economy is more specialized in the financial, governmental, business and professional services, and educational and medical sectors than the suburban economy, which is more specialized in high technology and the defense industry.

The table below shows Boston's employment growth by industry category for 2009 through 2012. The industry categories are in the North American Industrial Classification System ("NAICS") format, which the Bureau of Economic Analysis began using in 2001. Employment data from the BEA is through 2012. Suffolk County data is mathematically reduced to the Boston geography using unemployment insurance coverage data (Employment Security, ES-202, for cities and towns from the Massachusetts Department of Workforce Development, "DWD", and Quarterly Census of Employment and Wages "QCEW" from the U. S. Bureau of Labor Statistics for Counties and States).

Employment trends for the three recession years of 2008 through 2010 for Boston show that 15,837 jobs were lost, a 2.3% decline. Between 2010 and 2011 job gains totaled 13,905, an increase of 2.1%. Between 2011 and 2012 jobs gains totaled 12,192, a 1.8% increase. Losses during 2012 were in utilities, finance and insurance, administrative support, and government. Largest gains were evident in construction, professional, scientific and technical services, food service and drinking places, and health care. Most of the other major industries showed either marginal losses or marginal gains.

**City of Boston Employment 2009 – 2012**  
**NAICS (North American Industry Classification System)**

<b>Industry</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Absolute Change '11-'12</b>	<b>Percent Change '11-'12</b>
Agriculture/Fishing/Mining .....	175	219	246	206	-40	-16.1%
Utilities .....	2,291	2,404	2,285	1,446	-839	-36.7
Construction .....	14,856	13,857	13,787	14,906	1,119	8.1
Manufacturing .....	8,915	8,788	9,092	8,915	-178	-2.0
Wholesale Trade .....	9,700	9,301	9,282	8,999	-282	-3.0
Retail Trade (excludes food service) .....	29,839	30,065	30,947	31,393	447	1.4
Transportation and Warehousing .....	18,531	18,639	18,892	19,269	377	2.0
Information .....	16,124	15,991	15,265	15,704	438	2.9
Finance and Insurance .....	82,677	79,954	79,965	77,665	-2,300	-2.9
Banking .....	23,067	20,822	21,033	20,216	-817	-3.9
Securities & other Financial Investment Activities .....	38,624	37,981	37,804	36,450	-1,354	-3.6
Insurance Carriers and related Activities .....	20,987	21,152	21,129	21,000	-129	-0.6
Real Estate and Rental and Leasing .....	22,090	22,857	23,382	23,405	23	0.1
Professional, Scientific, and Technical Services .....	72,597	73,272	77,033	81,814	4,780	6.2
Legal Services .....	19,787	19,633	19,187	19,159	-29	-0.1
Accounting, Tax Preparation, Bookkeeping .....	9,276	8,867	9,645	10,957	1,312	13.6
Architectural, Engineering, Design and Related .....	8,523	8,199	8,498	8,925	427	5.0
Computer Systems Design and Related Services .....	7,084	7,454	8,736	11,402	2,666	30.5
Management, Scientific, Technical Consulting .....	13,857	14,916	15,898	16,176	278	1.8
Scientific Research and Development Services .....	8,729	8,438	8,662	8,233	-429	-4.9
Other Professional, Scientific, and Technical Services .....	5,341	5,766	6,407	6,958	551	8.6
Management of Companies and Enterprises .....	6,481	6,175	6,355	7,153	798	12.6
Admin. & Support and Waste Mgmt. and Remediation Ser. ....	38,417	33,176	34,339	33,896	-444	-1.3
Educational Services .....	50,137	51,764	53,260	54,653	1,393	2.6
Colleges and Universities .....	43,446	45,196	46,250	47,162	912	2.0
Health Care and Social Assistance .....	118,973	122,748	125,070	127,120	2,050	1.6
Hospitals .....	82,276	85,671	85,710	86,494	783	0.9
Social Assistance .....	12,276	13,156	13,591	13,795	204	1.5
Arts, Entertainment, and Recreation .....	14,119	14,323	14,674	14,990	316	2.2
Accommodation and Food Services .....	48,147	49,613	53,410	56,659	3,249	6.1
Accommodation .....	10,916	10,931	10,999	11,201	201	1.8
Food Service and Drinking Places .....	37,231	38,683	42,411	45,458	3,048	7.2
Other Services (except public administration) <sup>(1)</sup> .....	28,811	28,726	29,100	30,745	1,645	5.7
Government .....	78,418	78,273	77,663	77,303	-361	-0.5
<b>Total .....</b>	<b>661,301</b>	<b>660,145</b>	<b>674,074</b>	<b>686,239</b>	<b>12,192</b>	<b>1.8</b>

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

Source: The employment figures are from the Bureau of Economic Analysis Series for Suffolk County, pro-rated to the City's geographical boundary using data from DWD. See the footnotes above. Due to use of pro-rating factors, minor discrepancies of 1 to 3 units between totals and employment categories may result.

A more recent picture of employment trends for the Commonwealth and Metropolitan Boston is available from the Bureau of Labor Statistics Current Employment Statistics (CES). As of January 2014, data through the month of November 2013 were available, and are presented in the following tables. Employment fell every month relative to the same month of the previous year from January 2009 through March 2010. Beginning in April 2010 employment has grown monthly from the previous year indicating

that economic growth has returned, however. For the 12 months between December 2012 and December 2013 these data show a net gain of 53,600 jobs in Metropolitan Boston (2.1%). The December 2013 employment estimate was 209,300 (8.1%) above the low employment mark of February 2010 (not seasonally adjusted).

**Boston NECTA <sup>(1)</sup>**  
**Boston Metropolitan Area, Current Employment Statistics (CES)**  
**Monthly, 2011-2013**  
**(Not seasonally adjusted, employment in 000's)**

<b>Month</b>	<b>2011 Employment</b>	<b>Change from Previous Year</b>	<b>2012 Employment</b>	<b>Change from Previous Year</b>	<b>2013 Employment</b>	<b>Change from Previous Year</b>
January .....	2,397.7	0.5%	2,417.4	0.8%	2,488.3	2.8%
February.....	2,404.6	0.8	2,418.4	0.6	2,488.7	2.8
March.....	2,416.6	0.9	2,435.0	0.8	2,502.2	2.7
April .....	2,449.7	1.1	2,470.4	0.8	2,531.7	2.4
May .....	2,456.3	0.7	2,495.8	1.6	2,556.4	2.4
June .....	2,463.1	1.0	2,518.6	2.3	2,580.4	2.4
July .....	2,447.5	1.1	2,496.9	2.0	2,561.9	2.5
August .....	2,434.7	0.9	2,487.6	2.2	2,559.4	2.8
September.....	2,447.5	0.7	2,495.1	1.9	2,572.2	3.0
October.....	2,467.8	0.4	2,518.3	2.0	2,592.5	2.9
November.....	2,469.2	0.3	2,539.3	2.1	2,591.5	2.0
December .....	2,464.3	-0.1	2,539.9	3.0	2,593.5	2.1
ANNUAL.....	2,443.3	0.7	2,499.2	2.2	NA	NA

(1) The Boston-Cambridge-Quincy, MA-NH Metropolitan New England City and Town Area (NECTA), which includes portions of seven counties in Massachusetts (Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester) and portions of two counties in New Hampshire (Hillsborough and Rockingham); as defined by the Office of Management and Budget (OMB).

Source: Bureau of Labor Statistics (Current Employment Statistics [CES], January 2014). Seasonally adjusted data is available for total employment but not by industry. Non-seasonally adjusted data is used here to be consistent with data in the next table.

Between November 2012 and November 2013 job losses in Greater Boston were most notable in manufacturing, wholesale trade, and financial services. Gains were evident in all of the other major industry sectors with the most noteworthy increases in education and health services, construction, leisure and hospitality services, and information.

**Boston NECTA <sup>(1)</sup>**  
**Metropolitan Boston, Current Employment Statistics by Industry**  
**November 2012 and November 2013**  
**(Not seasonally adjusted, employment in 000's)**

<b>Industry</b>	<b>November 2012</b>	<b>November 2013</b>	<b>Change</b>	<b>Percent</b>
TOTAL EMPLOYMENT.....	2,539.3	2,591.5	52.2	2.0%
Natural Resources and Mining.....	0.5	0.5	0.0	0.0
Construction .....	88.3	95.1	6.8	7.2
Manufacturing .....	193.8	193.0	-0.8	-0.4
Durable Goods .....	134.7	134.1	-0.6	-0.4
Non-Durable Goods .....	59.1	58.9	-0.2	-0.3
Trade, Transportation & Utilities.....	414.2	420.4	6.2	1.5
Wholesale Trade .....	91.3	91.5	0.2	0.2
Retail Trade.....	260.3	265.6	5.3	2.0
Transport, Warehousing & Utilities.....	69.7	70.4	0.7	1.0
Information Services .....	76.3	81.8	5.5	6.7
Financial Activities .....	173.3	173.1	-0.2	-0.1
Professional & Business Services.....	425.7	437.1	11.4	2.6
Education & Health Services.....	527.7	542.8	15.1	2.8
Leisure & Hospitality Services .....	230.4	234.5	4.1	1.7
Other Services .....	99.2	100.1	0.9	0.9
Government.....	309.9	313.1	3.2	1.0

(1) The Boston-Cambridge-Quincy, MA-NH Metropolitan New England City and Town Area (NECTA), which includes portions of seven counties in Massachusetts (Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester) and portions of two counties in New Hampshire (Hillsborough and Rockingham); as defined by the Office of Management and Budget (OMB).

Source: Bureau of Labor Statistics (790 Series of Non-Agricultural Employment (CES), January, 2014.

The following table indicates that, as of 2012, 68% of employed City residents were white-collar workers and 32% were blue-collar and service workers, as compared to 1970 when the shares for the same categories were 55% and 45% respectively. Between 2000 and 2012, the proportion of white collar workers in the City actually declined slightly while the blue-collar jobs share has risen primarily due to the growth in blue-collar services occupations.

**Occupational Change in the City's Resident Labor Force, 1970 -2012**

	<b>1970</b>		<b>1980</b>		<b>1990</b>		<b>2000</b>		<b>2012</b>	
	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>	<b>Number</b>	<b>%</b>
White-Collar .....	146,657	55	154,456	60	191,251	67	197,049	69	221,688	68
Managerial, Professional & Related .....	59,929		77,217		107,206		123,850		151,649	
Sales & Office .....	86,728		77,239		84,045		73,199		70,039	
Blue-Collar & Service .....	119,848	45	101,561	40	97,453	33	88,810	31	104,973	32
Construction, Extraction, Maintenance.....	27,157		19,772		18,453		14,118		13,642	
Production, Transportation, & Related .....	36,695		24,825		19,971		23,630		21,292	
Service and Farm & Fishing .....	55,996		56,964		59,029		51,062		70,039	
Total.....	266,505	100	256,017	100	288,704	100	285,859	100	326,661	100

Source: 1990-2000 from the decennial census reports, U.S. Census Bureau., 2012 American Community Survey.

**Unemployment**

According to the Bureau of Labor Statistics in 2012, Boston's unemployment rate was 6.4%, significantly better than the 8.1% national rate. Metropolitan Boston, Massachusetts and New England had rates of 6.1%, 6.7%, and 7.2%, respectively.

**Annual Unemployment Rates, 2007-2012  
(not seasonally adjusted)**

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
City of Boston	4.4%	5.1%	7.6%	7.9%	6.9%	6.4%
Metropolitan Boston <sup>(1)</sup>	4.1	4.9	7.6	7.6	6.6	6.1
Massachusetts	4.5	5.3	8.2	8.3	7.3	6.7
New England	4.5	5.4	8.1	8.5	7.8	7.2
United States	4.6	5.8	9.3	9.6	8.9	8.1

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

Sources: Bureau of Labor Statistics for United States, New England, Massachusetts and Metro and Massachusetts Executive Office of Labor and Workforce Development for the City, January 2014.

The following table presents monthly data for Boston, the Boston metropolitan area, Massachusetts and New England from 2011 through December 2013. By December 2013, Boston's unemployment rate of 6.2% was better than the U.S. rate of 6.7%, while rates for Metropolitan Boston, Massachusetts, and New England were 5.9%, 7.0% and 6.8%, respectively, according to the Labor Area Unemployment Statistics (LAUS) program of the U.S. Bureau of Labor statistics and the Massachusetts Executive Office of Labor and Workforce Development.

**Monthly Unemployment Rates for City of Boston, Metropolitan Boston <sup>(1)</sup>, Massachusetts,  
New England and the United States for 2011, 2012 and 2013 <sup>(2)</sup>**

	<b>City of Boston</b>			<b>Metropolitan Boston <sup>(1)</sup></b>			<b>Massachusetts</b>			<b>New England</b>			<b>United States</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Jan.	8.5%	7.5%	6.7%	7.5%	6.6%	6.5%	7.7%	6.8%	6.7%	8.1%	7.2%	7.1%	9.8%	8.8%	7.9%
Feb.	8.1	7.3	5.8	7.1	6.4	6.0	7.6	6.7	6.5	8.0	7.2	7.0	9.5	8.7	7.0
Mar.	7.7	6.9	5.8	6.7	6.0	5.9	7.5	6.6	6.4	7.9	7.1	6.9	9.2	8.4	7.6
Apr.	7.1	6.3	5.9	6.3	5.7	5.7	7.4	6.6	6.4	7.9	7.2	6.8	8.7	7.7	7.5
May	7.1	6.5	6.8	6.4	5.8	6.1	7.4	6.7	6.6	7.8	7.3	6.9	8.7	7.9	7.6
Jun.	7.6	6.9	7.8	7.0	6.4	6.8	7.4	6.7	7.0	7.9	7.3	7.1	9.3	8.4	7.6
Jul.	7.5	7.0	7.5	6.9	6.5	6.5	7.4	6.8	7.2	7.9	7.4	7.2	9.3	8.6	7.4
Aug.	7.1	6.7	7.1	6.5	6.1	6.2	7.3	6.8	7.2	7.8	7.4	7.3	9.1	8.2	7.3
Sep.	7.2	6.6	7.0	6.7	6.1	6.3	7.2	6.8	7.1	7.7	7.3	7.2	8.8	7.6	7.2
Oct.	6.7	6.3	6.9	6.1	5.8	6.3	7.1	6.7	7.2	7.6	7.2	7.1	8.5	7.5	7.3
Nov. <sup>(3)</sup>	6.4	6.2	6.3	5.8	5.6	5.8	7.9	6.7	7.1	7.5	7.2	6.9	8.2	7.8	7.0
Dec. <sup>(3)</sup>	6.6	6.6	6.2	5.9	5.9	5.9	6.9	6.7	7.0	7.3	7.1	6.8	8.3	7.8	6.7

(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 NECTA.

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

(3) Preliminary, subject to change for most recent two months of data.

Sources: Bureau of Labor Statistics for United States, New England and Massachusetts; and Massachusetts Department of Workforce Development for the City of Boston, January, 2014.

### ***Largest Private Employers in Boston***

The following lists the 53 largest private employers in Boston as of the fall of 2013, which in the aggregate represented over 147,334 employees, or about 24.7% of all private sector employment in that year.

#### **Largest Private Employers in Boston 2013**

##### **Over 10,000 Employees**

Brigham & Women's Hospital  
Massachusetts General Hospital

##### **5,000 to 9,999 Employees**

Beth Israel Deaconess  
Boston University  
Children's Hospital  
Fidelity Investments (FMR Corp.)  
Harvard University (Graduate Schools)  
State Street Bank & Trust Co.

##### **2,000 to 4,999**

ARAMARK Corporation  
Blue Cross Blue Shield of Massachusetts, Inc.  
Boston College  
Boston Globe/New York Times  
Boston Medical Center  
Brown Brothers Harriman & Co.  
Dana-Farber Cancer Institute  
John Hancock (Manulife Financial)  
Liberty Mutual Group  
Northeastern University  
St. Elizabeth Medical Center/ Steward Health Care  
Tufts Medical Center

##### **1,000 to 1,999 Employees**

American Cleaning Co.  
American International Group  
Allen & Gerritsen  
New England Financial/ Met Life  
Bank of New York Mellon  
Berklee College of Music

##### **1,000 to 1,999 Employees Continued**

Cambridge Associates  
CBS/Viacom  
Christian Science Monitor/Publishing  
Deloitte LLP  
Dunkin' Donuts  
Ernst & Young  
Faulkner Hospital  
Gillette Co. (Proctor & Gamble)  
Hebrew Rehabilitation Center  
LPL Financial Corp.  
Massachusetts Eye and Ear Infirmary  
MFS Investment Management  
NSTAR  
Partners Health Care Services, Inc.  
Pearson Education Inc.  
Pioneer Investments Management Inc.  
Putnam Investments Management Inc.  
Ropes & Gray  
Shaw's  
Simmons College  
Stop & Shop  
Suffolk University  
Thomas Reuters  
Tufts University (Graduate Schools)  
Verizon New England Inc.  
Wellington Management

Source: "The Largest Employers in the City of Boston", Boston Redevelopment Authority Research Division, November 2013.

In addition to private employers, the public sector has large numbers of employees in the City. According to a preliminary estimate by the BRA, using a series consistent with the Bureau of Economic Analysis, there were an estimated 77,303 federal, state and local government workers in the City in 2012. Certain large state government offices, federal regional offices, U.S. Postal Service facilities, state-chartered authorities and commissions (such as the Massachusetts Port Authority and the Boston Water and Sewer Commission), and the City's local government agencies and departments, are located within Boston.

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

According to the Bureau of the Census, the City's resident labor force has been steadily increasing from 1980 through 2010. 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. Census data show that by 1990, the City's population had increased by 2.0% compared to 1980, while the City's employed resident workforce increased by 10.6%. During the 1990s Boston's population continued to rise, posting a 2.6% increase while the number of workers (aged 16+) grew by 3.2%. From 2000 through 2010 Boston's population rose by 3.1% and the employed resident workforce grew by 5.0%. Boston's population grew by 2.9% to 636,479 from 2010 to 2012 and the employed resident workforce grew by 0.6% to 367,666.

General improvement in educational attainment of residents (aged 25 and over) continued throughout the 1980-2012 period. The percentage of this population that had completed four or more years of college more than doubled during this period from 20.3% to 43.0%. This change, in part, reflected the trend for an increasing percentage of Boston public school system graduates to seek higher education. This percentage

increased from 62% in 1993 to 73% in 2006 (source: “Getting to the Finish Line: College Enrollment and Graduation – A Seven Year Longitudinal Study of the Boston Public Schools Class of 2000,” by the Center for Labor Market Studies of Northeastern University, November 2008). Improving educational attainment levels and shifting occupational patterns suggest a concurrent transformation of the City’s workforce as the City’s economy has moved to a service and knowledge dominated employment base.

The City supports a wide-range of workforce development activities for adults and youth including the following: adult basic education; English for Speakers of Other Languages; English for Employment; Adult Diploma Program; GED (General Equivalency Degree – High School Diploma); Bridges to College preparation; occupational skills training; transitional job experience; and support services such as counseling and case management. In 2012, the Jobs and Community Services division (“JCS”) of the BRA, the City’s workforce development agency, provided job training to more than 500 adults through multiple public funding sources and employed over 5,000 youth in publicly-supported summer jobs. Additionally, nearly 5,000 adults received adult literacy services through Boston’s Adult Literacy Initiative and English for New Bostonians. Linkage contributions paid into the Neighborhood Jobs Trust provide supplemental sources of funding for job training and adult education programs. For a full discussion of the City’s jobs linkage program as well as the housing linkage program see “The Linkage Program,” later in this section.

#### **Years of School Completed for Boston Residents Age 25 and Over, 1980-2012**

	1980		1990		2000		2012	
	Persons	Percent	Persons	Percent	Persons	Percent	Persons	Percent
Fewer than nine years .....	54,932	16.6%	37,824	10.3%	34,321	9.1%	34,114	8.2%
9 to 12 years, no diploma .....	49,407	14.9	51,051	14.0	45,308	12.0	29,117	7.0
High school graduate (or GED) .....	115,787	35.0	97,233	26.6	90,568	24.0	93,924	22.6
Some college or Associates .....	43,451	13.2	69,889	19.1	73,125	19.4	78,289	18.8
Bachelors, Masters, or Prof. ....	67,073	20.3	109,711	30.0	134,252	35.5	179,975	43.3
Total .....	330,650	100.0	365,708	100.0	377,574	100.0	415,419	100.0

Note: GED stands for General Equivalency Diploma, which is equivalent to regular high school diploma and is earned by someone for completing work for graduation after having left high school.

Source: 1980-2000 from the decennial census reports, U.S. Census Bureau. Data for 2012 are from U.S. Census Bureau, “American Community Survey, 2012” one-year estimates.

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

Per capita personal income for Suffolk County was \$57,033 in 2012, 23% above the national per capita personal income of \$43,735, 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 through 2012 Suffolk County’s per capita income has been growing at a rate greater than that for the nation. Over that same 30 year span, Suffolk County’s per capita income grew at a faster rate than those of both New England and Massachusetts, and just less than the rate of growth for Metropolitan Boston’s per capita personal income. The City’s median household income (in current year dollars), based on Census data from the 2012 ACS, rose from \$39,629 in 2000 to \$51,642, in 2012. The figures in this paragraph and the chart on the next page reflect earned income of persons residing in the named areas plus rents, interest and other unearned income and transfer payments from governmental entities. As such, these figures take into account certain income sources not included in the survey of average annual wages in the following paragraph, which reflects earned income of persons who work (but do not necessarily reside) in the named areas.

**Per Capita Personal Income Comparison, 1980, 1990 and 2000, and 2006-2012**  
(In current year dollars not adjusted for inflation)

	<b>United States</b>	<b>New England</b>	<b>Massachusetts</b>	<b>Metropolitan Boston <sup>(1)</sup></b>	<b>Suffolk County <sup>(2)</sup></b>
1980.....	\$10,091	\$10,598	\$10,570	\$11,005	\$10,368
1990.....	19,354	22,462	22,797	24,416	24,457
2000.....	30,319	36,610	38,222	41,944	38,377
2006.....	38,127	46,078	47,993	52,336	50,421
2007.....	39,804	48,388	50,257	54,712	52,690
2008.....	40,873	49,414	51,515	55,896	53,024
2009.....	39,357	48,176	50,304	54,260	51,276
2010.....	40,163	49,416	51,488	55,579	52,272
2011.....	42,298	51,900	54,218	58,561	55,691
2012.....	43,735	53,600	55,976	60,387	57,033

(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 NECTA.

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

Source: Bureau of Economic Analysis, January, 2014.

Data from the Bureau of Economic Analysis indicate that the average annual wage and salary disbursement per job for 1980 through 2012 by place of work have been consistently higher over time in Suffolk County than in Metropolitan Boston and the Commonwealth. In 2011, Suffolk County's average wage per job (\$76,629) was 20% greater than that in the Boston metropolitan area (\$63,602) and 33% greater than the state (\$58,564).

**Average Wage per Job, 1980, 1990, 2000 and 2006-2012**  
(In current year dollars not adjusted for inflation)

	<b>United States</b>	<b>New England</b>	<b>Massachusetts</b>	<b>Metropolitan Boston <sup>(1)</sup></b>	<b>Suffolk County <sup>(2)</sup></b>
1980.....	\$14,000	\$13,359	\$13,527	\$14,094	\$15,461
1990.....	23,423	25,442	26,311	27,709	31,244
2000.....	35,054	40,044	43,277	47,093	55,468
2006.....	42,645	48,186	51,348	55,929	68,996
2007.....	44,538	50,576	54,027	58,961	73,461
2008.....	45,653	51,741	55,536	60,369	75,283
2009.....	45,637	51,368	55,005	59,700	73,012
2010.....	46,992	52,955	56,760	61,616	74,801
2011.....	48,322	55,647	58,564	63,602	76,629
2012.....	49,612	55,647	59,859	*	*

(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 NECTA.

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

\* Wage and salary employment data for Metropolitan Boston and Suffolk County discontinued for 2012 from BEA.

Source: Bureau of Economic Analysis, January 2014.

During the years 2002-2010, based on the Bureau of Labor Statistics Consumer Price Index, the cost of living index rose at an annual average rate of 2.4% in Metropolitan Boston, while the national index increased at a 2.3% annual rate. Between 2010 and 2011 the change in the cost of living was 2.7% for metropolitan Boston and 3.2% for the nation. Comparing the CPI-U change between November 2012 and November 2013 reveals that the rate rose by 0.9% in the metropolitan Boston area and by 1.2% in the U.S. economy.



**Consumer Price Index for All Urban Consumers**  
**For 2002 through November, 2013**  
**(CPI-U) <sup>(1)</sup>**

	United States Index	Percent Change	Metropolitan Boston <sup>(2)</sup> Index	Percent Change
2002.....	179.9	1.6%	196.5	2.6%
2003.....	184.0	2.3	203.9	3.8
2004.....	188.9	2.7	209.5	2.7
2005.....	195.3	3.4	216.4	3.3
2006.....	201.6	3.2	223.1	3.1
2007.....	207.3	2.8	227.4	1.9
2008.....	215.3	3.8	235.4	3.5
2009.....	214.5	-0.4	233.8	-0.7
2010.....	218.1	1.6	237.4	1.5
2011.....	224.9	3.2	243.9	2.7
2012 (November)* .....	230.2	1.8	249.9	2.0
2013 (November)* .....	233.1	1.2	252.2	0.9

(1) Index based upon 1982-1984=100.0. Monthly data not seasonally adjusted.

(2) Includes all or parts of sixteen counties: eight counties in Massachusetts (Bristol, Essex, Hampden, Middlesex, Norfolk, Plymouth, Suffolk and Worcester), four counties in New Hampshire (Hillsborough, Merrimack, Rockingham and Strafford), one county in Maine (York), and one county in Connecticut (Windham) which together comprise the Boston-Brockton-Nashua MA-NH-ME-CT CMSA (Combined Metropolitan Statistical Area).

\* Note: Change for monthly data is based on the index from the same month as the previous year.

***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 these institutions as well as their employees, patients, students and visitors stimulate the City's trade and service sectors.

There are twenty-one in-patient hospitals along with the Joslin Diabetes Center ambulatory care center located within the City. The largest of these are: Massachusetts General Hospital, Brigham and Women's Hospital, Beth Israel Deaconess Medical Center, Boston Children's Hospital, Tufts New England Medical Center, and Boston Medical Center. All together the 21 hospitals had a combined total of 6,161 beds in 2012. According to the most recent data from the American Hospital Association, in 2012, the Boston hospitals admitted 249,356 in-patients and had over 6.58 million outpatient visits. The City is also the home of the medical, dental, and public health schools of Harvard, Tufts and Boston University, and of 25 public neighborhood health clinics, as well as private health maintenance organizations and membership clinics.

From 1999 through 2013 Boston experienced the completion of 22 hospital/clinical projects with over 2.7 million square feet of medical/clinical in- and out-patient treatment area including several neighborhood health center expansions. Major projects include the Massachusetts General Hospital Building for the Third Century (Lunder Building), the Brigham and Women's Center for Advanced Medicine, the Dana Farber Yawkey Center for Cancer Care, Children's Hospital Patient Care Main Building expansion, the Massachusetts General Hospital Ambulatory Care (Yawkey) building, the Boston University Moakley Cancer Care Center and the Spaulding Rehabilitation Hospital in the Charlestown neighborhood.

Over the same time span of 1999 through 2013 there were also 15 medical research and academic buildings constructed with about 2.8 million square feet of research laboratory or teaching space. Among the largest projects were the Merck building on the Emmanuel College campus, the Harvard Institutes of Medicine expansion, an expansion of the Genzyme research and manufacturing space in Allston, the 2 Bio-Square Phase 1 buildings, the Jaharis Family Center for Biomedical Nutrition and Research at Tufts University, the Biosquare-2 NEIDL (National Emerging Infectious Diseases Laboratories) Building, a new science building at Boston University, the Blackfan Research Center Karp Laboratories, the Mass. Biologic Laboratories and manufacturing building in the Mattapan neighborhood, the opening of Vertex Pharmaceuticals' new 1.1 million square foot global headquarters in the Innovation District, and a major addition to Tufts University Dental School.

As of January 2014 construction continues on the \$400 million Brigham and Women's Building for the Future, a 358,000 square foot research and clinical building, the Brigham Patient Parking Garage and Thea and James M. Stoneham Centennial Park, a 406-car parking garage and park, and the Longwood Center Project in the Longwood Medical and Academic Area, both of which are expected to be completed in the Fall of 2014. In addition, 2.7 million square feet of research and clinical space with an approximate total development cost of \$2.8 billion is approved for construction in the City of Boston.

For 18 consecutive years Boston has received more National Institutes of Health (NIH) funding than any other city in the nation. Boston's total NIH awards received for fiscal year 2012 was \$1.78 billion. Funding levels reached a record high in 2009 due to economic stimulus dollars created by the American Recovery and Reinvestment Act (ARRA). During the next two years, NIH funding in Boston decreased as the supplementary ARRA funding ended. However, Boston once again saw an increase in NIH funding from 2011 to 2012 – the first annual increase since before ARRA. Excluding the ARRA funding in 2009 and 2010, 2012 would mark the second highest amount of NIH funding in Boston over the last 18 years.

The Boston metropolitan area remains the nation's foremost region for the life sciences industry for consecutive years 2011 and 2012 according to the "2012 Life Sciences Cluster Report" a study by the realty group Jones Lang LaSalle. Metropolitan Boston, amidst the various metro areas of the northeastern United States, shows continued leadership among the nation's regions in the various life sciences clusters given extensive university networks and talented workforce. Boston benefits from its: skilled labor force availability, leading universities in basic academic science fields, innovative research and development districts; proximity to major research hospitals, and strategic presence of venture capital resources. The study estimates that there are 74,000 employees in Greater Boston within the industry sub-sectors of pharmaceuticals, biotechnology and medical devices; within the nation only San Diego has a greater percentage of its workforce in these industries. However, Greater Boston also has the additional presence of teaching and research hospitals affiliated with many of its top universities which conduct medical research, much of which is funded through the NIH funding mentioned above. Boston is home to five of the top eight (62.5%) NIH-funded hospitals in the nation; and Massachusetts is home to five of the top Universities that anchor those hospitals: Harvard, the University of Massachusetts, Boston University, MIT and Tufts. Cambridge is the core life sciences cluster but Boston is gaining in size and strength with growth in the Longwood Medical and Academic Area ("LMAA"), the Innovation District in the South Boston Waterfront and other emerging areas such as the South End Boston Medical Center-Albany Street area and the former Charlestown Navy Yard. The Massachusetts Biotechnology Council (MassBio) states that the Massachusetts biopharma industry has grown by 42% in employment over the past ten years.

Boston's life sciences cluster became even stronger in 2013. In addition, Boston is home to the 1st and 3rd largest lab facility development projects scheduled to be completed in 2014 in Massachusetts – Vertex Pharmaceuticals and the Longwood Center. Vertex Pharmaceuticals' 1.1 million square feet of space recently opened. Nearly 1,300 employees are expected to work in the headquarters, and 500 more jobs are expected to be added. Longwood Center is the \$350 million project located in the heart of the LMAA with a completion date in October 2014. The Longwood Center development will be adding 350,000 square feet of R&D space in Boston's strongest life sciences cluster. One-third of Longwood Center has already been leased to Dana Farber and the developer is in active negotiations with other life sciences lessees. In 2013, six new life sciences companies moved to Boston contributing approximately 50 jobs to the Boston economy, and five companies expanded their presence in Boston adding 33 new jobs.

As of academic year 2012-2013, data from the City of Boston's University Accountability Ordinance report and the U.S. Department of Education, National Center for Education Statistics, indicate that the City's 35 universities, colleges, and community colleges had a combined enrollment of 154,860 full- and part-time students. These numbers include some of the professional and graduate schools of Harvard and Tufts, whose principal campuses are in Cambridge and Medford, respectively. Based on total graduate, undergraduate, and professional school enrollment, Boston University was the largest university in Boston in the fall of 2013, with 31,855 students. Boston, with nearly 10% of the state's population, has about one third of the statewide college student enrollment.

From 2006 through 2013 major higher education academic projects and college housing were completed in Boston, including projects for: Harvard University, Simmons College, the Massachusetts College of Pharmacy and Health Sciences, Northeastern University, Boston College, Suffolk University, Emerson College, Emmanuel College, Berklee College of Music, Boston University, Wheelock College, Wentworth Institute of Technology and the Massachusetts College of Art and Design.

As of January 2014, five college or university academic building projects are under construction and six other projects have been approved by the BRA Board. The buildings now under construction include: the Boston Conservatory academic and practice facility, the Boston University School of Law renovation and addition, Northeastern University's GrandMarc dormitory, Suffolk University's 20 Somerset Street academic building, and Wentworth Institute of Technology's 525 Huntington Avenue dormitory. Among the approved projects to be started soon are: Boston College's St. Thomas More Hall dormitory; Harvard University's Chao Center executive education building; Northeastern University's Integrated Science and Engineering Building; and Emerson College's 1-3 Boylston Place dormitory. There are five projects related to the University of Massachusetts system located in Boston, two projects at the Massachusetts College of Art and Design (MCAD): gallery renovations and ad Design and Media Center, and two projects at UMass-Boston: an Integrated Science Complex and a General Academic Building. Construction continues on the Kennedy Institute for the U.S. Senate at Columbia Point, which is on the UMass-Boston campus, though technically not part of the university.

College dormitory construction has also been undertaken. Between 2000 and 2013, 33 dormitories with 12,199 dormitory beds (11,233 undergraduate and 958 graduate) opened to house Boston's college students. As of January 2014, two college dormitories with 1,025 dorm beds are under construction (at Northeastern University and Wentworth Institute of Technology) and an additional dormitory at Boston College is expected to break ground in fall 2014. Another dorm at the New England Conservatory has been approved but has yet not begun construction. As college enrollment grows, completion of new student residences is taking students out of neighborhood housing which will eventually reduce market housing costs and ameliorate a currently tight housing vacancy rate.

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

Boston ranks among the top ten destinations in North America for conventions, meetings, and trade shows, based on the number and quality of the shows booked. Boston currently has three main convention sites—the John B. Hynes Veterans Memorial Convention Center (“Hynes”), the Seaport World Trade Center, and the 2.1 million square-foot Boston Convention & Exhibition Center (“BCEC”), the largest building in New England and capable of hosting large national and international events. In 2012 the Hynes and the BCEC hosted a combined total of 245 events with an aggregate of 654,119 attendees. This resulted in approximately 561,279 hotel room nights and generated an overall economic impact of approximately \$656 million, according to the Massachusetts Convention Center Authority (“MCCA”).

Since 2000, several cultural facilities have opened. The New England Aquarium completed an expansion including opening the Simons IMAX Theater in 2001. The Boston Center for the Arts and the Huntington Theatre combined to complete the joint development of two new theaters next to the Boston Center for the Arts in the South End in 2004—the first new live stage theaters in downtown Boston in 75 years. Clear Channel, Inc. completed its \$22.0 million renovation of The Boston Opera House on Washington Street in 2004. A newly constructed Institute of Contemporary Art museum opened on the South Boston waterfront in 2006. In April 2007 the Boston Children's Museum completed the \$47 million construction of a 23,000 square feet of new facilities in addition to a 50,000 square-foot renovation. The Emerson College renovation of the Paramount Theater opened in 2009. The Suffolk University renovation of The Modern Theater was finished in 2010. In 2011, The Museum of Fine Arts completed and opened its “Art of the Americas” wing, a 462,400 square-foot multi-phase expansion. In January 2012, the Gardener Museum completed its \$114 million expansion adding 70,000 square feet of new building space. The 19,000 square-foot Tea Party Shipyard Museum and the \$28 million project, opened in July 2012.

In May 2005, CreateBoston was launched, an economic development program at the BRA that is designed to help creative businesses and entrepreneurs to achieve their full potential for success. The program provides resources for financial and site location assistance, workforce development and business advocacy, and is geared specifically toward business development and job creation. The goal of the program is to create the conditions that will further improve the performance of creative industries and entrepreneurs in the city, state and region. The program continues to play a key role in strengthening and growing digital media, specifically the Boston-area videogame industry. In 2008, the program established the first Boston-area Game Industry Steering Committee to address the issues and challenges facing the industry and further the BRA's effort to raise Boston's profile as a global leader in the game industry.

In 2007, CreateBoston in partnership with Northeastern University and local video game companies convened the “PoweringUpBoston” conference on workforce development, funded in-part by the Mass Cultural Council (MCC). Area video game companies' annual revenues have increased to over \$2 billion and several colleges and universities have since launched master's degree programs in game design and

interactive multimedia and game engineering. CreateBoston again in partnership with MCC, the steering committee, academic institutions, game companies and game organizations hosted a second Powered-Up Conference and Expo on business development on October 14-15, 2010 in the city's Innovation District. In February 2011 the annual gaming festival PAX, originally launched in Seattle in 2004 and expanded to the east coast in 2010, and had 60,000 visitors to its PAX East weekend show in Boston. They announced that their annual eastern convention will be held in Boston through 2023 with plans to boost eventual yearly attendance to more than 100,000. The PAX-East conference has far exceeded expectations. This year's event is scheduled to be held on April 11th-13th and sold out within days of the registration going live. According to the Entertainment Software Association (ESA) report, "Improving the Economy," the video game industry overall contributes an estimated \$21 billion to the U.S. economy and Massachusetts is ranked amongst the top five states nationally in video game personnel, with 4,692 direct and indirect jobs. The CreateBoston program works collaboratively with industry stakeholders to continue to raise the City's, state's and region's profile as key players in the video game space.

### ***Hotel Market***

Between July 1997 and December 2009, Boston built 7,020 rooms in 33 new hotels and 5 hotel expansions. Boston's favorable hotel market and the decision to build the BCEC stimulated considerable new development over this period. Since 1992, Boston's annual occupancy rates have exceeded 72% in 17 out of the 20 years.

From 2004 through 2008, the following hotels were completed: an 81-room Courtyard by Marriott in the Back Bay; the Hotel Onyx, a 112-room Kimpton hotel near North Station; the Hampton Inn at Crosstown, in Roxbury; The Back Bay Hotel, a 220-room hotel in the Back Bay; the Bulfinch Clarion Hotel, an 80-room adaptive reuse development near North Station; a 164-room Courtyard by Marriott in the South Bay/Roxbury district; the 40 room Hotel 140 in the Back Bay; the 793-room Westin BCEC Headquarters Hotel, attached to the BCEC in South Boston; the 424-room Intercontinental Hotel on the downtown waterfront; the 308-room Liberty Hotel, which includes the adaptive reuse of the historic Charles Street Jail; the 471-room Marriott Renaissance on the South Boston waterfront; the 150-room Battery Wharf Fairmount on the downtown waterfront; the 149-room Mandarin Oriental, in the Back Bay; and the 16-room Inn at St. Botolph. Two hotels opened in 2009: the 114-room Ames Hotel, an adaptive reuse of an historic office building near Government Center, and the 235-room "W" Hotel in the Theater District. Two additional hotels completed construction and opened in 2013. A 175 room Marriott Residence Inn was built in the Fenway/Kenmore district and another 120 room Marriott Residence Inn was developed through the adaptive reuse of the Stillings Building in South Boston, near the BCEC convention center. As of December 2013, there were a total of 19,453 hotel rooms in establishments of fifty or more rooms in Boston.

Between 1991 and 2000, average annual occupancy rates grew from 70.1% to 78.4% and average daily room rates rose steadily from \$118.17 to \$198.00 according to Pinnacle Advisory Group, an independent hospitality industry consultant. In 2001 the occupancy rate fell to 69.6% and the room rate to \$180.58. By 2003 hotel room demand was growing again, but room supply continued its steady growth too, resulting in a 71.1% occupancy rate and \$155.52 average daily rate in that year. Between 2003 and 2008 Boston room demand grew by 27.2% over these five years and 2008 occupancy reached 74.6% with average daily rates averaging \$213.94. Revenue per available room was \$159.54 in 2008, just below the high mark of \$159.95 reached in 2007. Room demand fell 3.7% in 2009, reducing annual average occupancy to 70.8% and the average room rate declined by 13.1% to \$186.01. Revenue per available room fell 17.4% to \$131.79. Boston hotel room demand revived in 2010, growing 7.8% and lifting occupancy to 76.3%, average room rates to \$190.39 and raising revenues per available room by 10.2% to \$145.26. 2011 saw further growth, as occupancy reached 77.0%, average daily rates hit \$199.55 and revenue per available room rose to \$153.59, according to the Pinnacle Advisory Group. In 2013 Boston hotels reached 80.3% occupancy, the highest level since 1998. The average daily room rate of \$222.51 and revenue per available room of \$178.63 were all-time highs. Revenue per available room was 5.4% above that of 2012.

The table on the next page shows the occupancy rate, average daily room rate, and revenue per available room for Boston hotels for 1990, 2000 and 2003 through 2013.

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

Year	Room Supply	Occupancy Rate %	Average Daily Rate	Percent Change	Revenue Per Available Room	Percent Change
1990	12,070	74.3%	\$118.72	-	\$ 88.21	-
2000	14,002	78.4	198.00	66.8%	155.33	76.1%
2005	15,782	75.4	176.73	4.5	133.24	5.8
2006	16,936	76.4	196.61	11.2	150.23	12.8
2007	17,244	76.1	210.28	7.0	159.95	6.5
2008	18,014	74.6	213.94	1.7	159.54	-0.3
2009	18,363	70.8	186.01	-13.1	131.79	-17.4
2010	18,363	76.3	190.39	2.4	145.26	10.2
2011	18,363	77.0	199.55	4.8	153.59	5.7
2012	18,363	78.5	214.97	7.2	169.83	9.5
2013	18,658	80.3	222.51	3.4	178.63	4.9

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

### **Transportation**

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

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

The MBTA Draft Capital Investment Program FY2015-FY2019 (CIP) includes \$6.1 billion in capital spending. \$3.0 billion of which represents the Transportation Finance Legislation, and the remaining \$3.1 billion invested in infrastructure and system expansion. The investment in CIP consists of four major programmatic areas: (i) reinvestment in the infrastructure (\$2.38 billion); (ii) accessibility improvements (\$222 million); (iii) enhancement of existing service (\$415 million); and (iv) system expansion efforts (\$26 million). The major infrastructure projects include: vehicles (\$938 million); station modernization (\$243.1 million); rail signaling systems (\$149.7 million); track/right-of-way (\$64.9 million); bridges (\$445.7 million); technology, other (\$29.5 million); power (\$232.8 million); maintenance facilities, including rail car houses and bus garages (\$90.3 million); fare equipment (\$21.3 million); administration facilities (\$109.5 million); and communications (\$6.2 million).

Boston's South Station, one of three major high speed rail terminals on Amtrak's Northeast Corridor (NEC), currently hosts high speed intercity passenger rail (HSIPR), including Amtrak Acela Express and Northeast Regional services. It is also the terminus for Amtrak's Lake Shore Limited service between Boston and Chicago. The MBTA also operates commuter rail, subway, and guideway bus services at the station. The station's Bus Terminal is the hub for private intercity and regional motor coach carriers in eastern Massachusetts.

The completion and timing of these capital projects may depend upon the resolution of ongoing MBTA budget issues. The MBTA currently projects a budget deficit for fiscal year 2014. New revenues and reductions in service are being considered to bring the MBTA budget into balance. The Massachusetts Department of Transportation (MassDOT) was awarded federal funding of \$32.5 million on October 28, 2010 for environmental clearance and preliminary design for an expansion of South Station. The South Station HSIPR Expansion Project will advance the design, and complete state and federal environmental permitting, to expand South Station from its current 13 terminal platform track configuration to 20 total platform tracks. The HSIPR Expansion Project would enable faster and more efficient operations, as well as planned increases in both Amtrak and MBTA commuter rail services.

The State Transportation Improvement Program (STIP) is a federally mandated prioritized listing of highway, bridge, intermodal and transit projects expected to be undertaken during the next four federal fiscal years. The document is a compilation of those state, regional and local transportation priorities funded by the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA), and must be financially-constrained to the federal amounts allocated to Massachusetts. The project lists are updated annually and include projects programmed by the state's ten metropolitan planning organizations (MPOs) and the three non-MPOs. There are several Boston-based projects listed in the FY2013-FY2016 TIP including design of a new Rutherford Avenue and the Sullivan Square-Rutherford Avenue intersection and repairs to the Alford Street Bridge; work on state-owned bridges include repairs to the Bowker Street overpass and the Morton Street Bridge over the MBTA/CSX rail lines. Beyond FY2013 some of the larger projects include Commonwealth Avenue reconstruction (Amory St. to Alcorn St.), repairs to the Massachusetts Avenue Bridge, repairs to the North Washington Street Bridge, reconstruction of Melnea Cass Boulevard and reconstruction of the Warren Street-Blue Hill Avenue corridor. The most recent STIP (FY2014-FY2017) adds more reconstruction projects including improvements to the Multi-use Trail from Ruggles Station to Fan Pier, and improvements along Gainsborough Street, St. Botolph Street and Audubon Circle.

MBTA capital improvements within Boston for 2013 through 2016 include the following projects: The Fairmount Line Improvements; State Street and Orient Heights Station accessibility improvements, reconstruction and accessibility changes to the Government Center Station; and new vehicles for the Red and Orange subway lines. In addition, Fitchburg Line Improvements have been added to the capital improvements for 2014 through 2018 according to the MBTA's newest draft capital improvement plan.

For a description of the 1980-2010 Central Artery Tunnel project see "Large Public Sector Projects," below.

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

The Massachusetts Port Authority ("Massport") was created by the state legislature to develop and manage the City's major air and sea transportation centers. Massport is financially independent, and the City is not responsible for any debt or other obligations incurred by Massport. Heavy use of Boston Logan International Airport ("Logan Airport") and the Port of Boston have compelled significant expansion of both facilities. Massport's net investment in its facilities, according to its June 2013 financial report for fiscal year 2013 through fiscal year 2017 is projected to exceed \$1.11 billion, consisting of \$934.9 million invested in airports and \$77.9 million invested in maritime development and other capital projects.

The Port of Boston serves the six-state New England region as a natural deep-water port supporting import and export of containerized bulk and general cargo. The port also provides ship repair supply services, customs and international freight forwarding services, intermodal cargo warehouse facilities, and other maritime support services. Massport's Conley Container Terminal provides all-water access to world ports. The Port of Boston is also a major cruise port. The total number of cruise passengers in 2013 (382,885) increased by 0.7% compared to 2012. The cruise port mainly operates in the months of May through November.

The Port of Boston ranked as the 12th largest container port on the U.S. Atlantic Coast by container volume. During fiscal 2012, the Port activity of 107,477 boxed containers increased 0.6% over that of fiscal 2011, while the 51,200 automobiles handled in 2013 increased by 24.5% from 2012 and the 144,027 tons (in bulk tonnage) for 2013 decreased by 0.9% from 2012's bulk tonnage.

In 2013, Logan Airport served a total of 20.2 million passengers, a 3.4% increase from the 29.2 million passengers served in 2012. A report on 2012 prepared by Airports Council International ("ACI") showed that Logan was the most active airport in New England, the 20th most active in North America and the 52nd most active in the world. Logan Airport also plays an important role as a center for processing domestic and international air cargo. In fiscal year 2012, total combined cargo and mail volume was 248,036 metric tonnes, a 1.3% decrease from the 251,297 metric tonnes handled in fiscal 2011.

#### ***Construction Activity***

The following table sets forth construction activity in the City from fiscal years 2002-2013. It should be noted that the issuance of a building permit and payment of a fee do not necessarily result in construction activity. The estimated revenue from building permit fees during fiscal 2013 indicated that total construction activity is projected to total \$3.44 billion compared with an estimate of \$3.83 billion for fiscal 2012. Between fiscal 2003 through fiscal 2013 revenue from building permit fees increased eight

different times and decreased three times. Annual fiscal 2013 building permit revenue of \$29.2 million was well above the annual average of \$24.7 million from fiscal 2002 through 2013.

**Boston Building Permit Revenues and Estimated Construction Activity  
Eleven Fiscal Years, 2003-2013**

	<b>Building Permit Revenues <sup>(1)</sup></b>	<b>Estimated Potential Construction Activity</b>	
		<b>Current Dollars <sup>(2)</sup></b>	<b>Constant Dollars <sup>(3)</sup></b>
2003.....	20,145,888	\$ 2,370,104,471	\$ 2,959,303,899
2004.....	22,724,810	2,673,507,019	3,235,636,991
2005.....	23,213,600	2,731,011,765	3,223,327,040
2006.....	26,253,029	3,088,591,647	3,499,046,805
2007.....	27,861,224	3,277,791,059	3,616,018,782
2008.....	31,007,327	3,647,920,824	3,834,921,427
2009.....	26,966,242	3,172,499,105	3,377,465,262
2010.....	14,764,792	1,737,034,301	1,828,298,057
2011.....	23,461,018	2,760,119,766	2,806,535,671
2012.....	32,565,249	3,831,205,732	3,831,205,732
2013.....	29,252,825	3,441,508,824	3,441,508,824
Total 2003-2013 .....	\$278,216,003	\$32,731,294,511	\$36,262,792,116
Annual Average 2003-2013 .....	\$ 23,184,667	\$ 2,727,607,876	\$ 3,021,899,343

(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 July constant dollars (CPI-U for the U.S.) for each year to get fiscal year with base being the June 2013 value of 232,944.

Source: City of Boston, Auditing Department and City of Boston Annual Reports. Compiled by Boston Redevelopment Authority's Research Division (January 2014).

**Large Public Sector Projects**

In addition to major construction projects of the MBTA and Massport, Boston has witnessed several other major public sector projects in recent years including the BCEC Project, the Central Artery/Tunnel ("CA/T"), the downtown highway tunnel through the City including the Ted Williams tunnel under Boston Harbor, and the Callahan Tunnel Rehabilitation Project.

The Callahan Tunnel Rehabilitation Project is designed to totally rehabilitate the Callahan Tunnel which connects the North End and Logan International Airport as well as Route 1A in East Boston. The project is expected to take fourteen months, but the tunnel itself closed for only two and a half months. Initial construction estimates project that the project will cost approximately \$26.5 million.

The CA/T Project includes the Ted Williams Tunnel, connecting Logan Airport and the North Shore to Downtown Boston and the western suburbs, the Leverett Circle Connector Bridge, a four-lane bridge over the Charles River carrying traffic between Leverett Circle in downtown Boston and U.S. 93 in Charlestown, the extension of U.S. 90 under Fort Point Channel to South Boston connecting with the highway with the Ted Williams Tunnel and Logan Airport in East Boston, and the Central Artery and the Leonard P. Zakim Bunker Hill Bridge over the Charles River. The CA/T Project, with an estimated total cost of \$14.63 billion, was funded in part by the federal government while the remainder was the responsibility of the Commonwealth.

The BCEC Project was constructed on a 60-acre site in South Boston through the joint efforts of the City, the Commonwealth, the BRA, and the MCCA. The 2.1 million square-foot facility was completed in 2004 and includes approximately 516,000 square feet of contiguous exhibition space on one level, approximately 160,000 square feet of meeting space and a 40,000 square-foot ballroom, as well as banquet and lecture halls. The BRA was authorized by the Convention Center Act to acquire and prepare the site for the BCEC Project and now the MCCA is the owner and operator of the BCEC. In 2012 the BCEC hosted conventions with 654,119 attendees and since opening in late 2004 has hosted 7.2 million conventioners. In addition to the BCEC Project, a 793-room convention center hotel on the northeast corner of the BCEC Project site opened in June 2006.

The Massachusetts Water Resources Authority ("MWRA"), an independent state authority has also spent over \$7.8 billion on capital improvements, including the Boston Harbor Project, since its inception.

The MWRA's FY2014 Capital Improvements Program enumerates five major initiatives that have been completed, the Boston Harbor Program, the MetroWest Water Supply Tunnel, the Carroll Water Treatment Plant, and the Combined Sewer Overflow Control Plan. To date the MWRA has spent \$5.9 billion on these five initiatives, with the Boston Harbor project being the most expensive, costing \$3.8 billion.

The City prepares a 5-7 year Capital Plan. These capital investments represent improvements to schools, libraries, parks and recreation sites, roads and bridges, and other City properties. See "City Indebtedness—Capital Planning and Borrowing Program" in the City's Information Statement dated as of March 1, 2014.

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

The City and its inner neighborhoods currently have approximately 61.6 million square feet of office space. During the fourth quarter of 2013, Boston's direct vacancy rate according to realty firm Colliers Meredith & Grew was 11.9%. Boston had an annual absorption of 1,399,985 square feet. However, in 2013 Jones Lang LaSalle, another realty firm, reports a negative absorption for Boston of 980,197 square feet. The discrepancy between the two figures can be attributed to a difference in collection methods. Colliers Meredith & Grew calculates absorption based on the physical movements of tenants. Jones Lang LaSalle measures positive and negative absorption as soon as a space is listed as available to the public (negative) or as soon as a lease is signed to fill the space (positive), regardless of whether the tenant has physically left or entered the space at the time. Colliers Meredith & Grew use the method most common in the industry.

#### **Boston Office Market—Fourth Quarter, 2013**

<b>Market</b>	<b>Inventory Square Foot</b>	<b>Annual Absorption</b>	<b>Vacancy</b>	<b>Available</b>	<b>Average Asking Rent *</b>
Back Bay .....	12,682,940	806,560	8.1%	13.7%	\$52.62
Charlestown .....	2,843,898	41,162	10.6	15.7	30.35
Financial District.....	33,599,226	169,724	14.7	20.2	49.87
North Station.....	1,863,372	88,013	3.8	3.9	30.32
Seaport District .....	6,563,191	303,399	9.2	13.1	44.37
South Station.....	1,184,017	-52,259	21.1	8.0	42.55
Crosstown .....	1,025,000	27,740	1.4	*	*
Fenway/Kenmore.....	1,826,057	15,646	6.1	*	*
Total .....	61,587,701	1,399,985	11.9	16.8	49.11

\* Average asking rent and availability are reported from Jones Lang LaSalle and do not include Crosstown or Fenway/Kenmore data.

Source: Colliers Meredith & Grew Market Snapshot Fourth Quarter 2013.

Boston ranks near the middle of downtown office markets around the nation. As of the third quarter of 2013, realty firm Cushman & Wakefield ranked Boston's downtown office market as having the eleventh best overall vacancy rate among the twenty largest downtown office markets in the U.S. with a rate of 13.2%.

#### **Comparative Office Vacancy Rates 20 Largest Downtown Office Markets—Third Quarter, 2013**

<b>City</b>	<b>Vacancy Rate</b>	<b>City</b>	<b>Vacancy Rate</b>
Manhattan (Midtown South).....	6.5%	Boston.....	13.2%
Pittsburgh .....	8.2	Orange County, CA.....	14.5
San Francisco .....	8.6	Philadelphia.....	14.7
Manhattan (Midtown) .....	9.2	Seattle .....	14.8
Manhattan (Downtown) .....	9.6	Chicago.....	16.4
Houston .....	11.9	Minneapolis.....	17.5
Cleveland.....	12.0	Los Angeles.....	17.8
Portland .....	12.3	Dallas.....	18.9
Washington DC.....	12.5	Phoenix.....	21.7
Denver .....	13.0	Detroit.....	22.4

National Average <sup>(1)</sup> ..... 15.2%

(1) National Average is based on 61 downtowns.

Source: Cushman & Wakefield "Marketbeat: United States CBD", Third Quarter 2013

From 2006 through 2009 downtown office projects included: Lincoln Plaza, a renovation of an existing building in the South Station sub-market to mixed uses with 119,000 square feet of office space; Atlantic Wharf, a 517,000 square foot building in the downtown waterfront; and Two Financial Center, a



214,000-foot building in the South Station district. In 2010 the 500,000 square foot One Marina Park Drive at Fan Pier in the South Boston Seaport District was completed. In February 2011, Weston Associates also completed their renovation of the existing 38,852 gross square foot structure at 90 Smith Street in Mission Hill, which will provide office space for the Harvard School of Public Health. Also opening in 2011 was the 660,000 square foot Russia Wharf at 540 Atlantic Avenue on the downtown waterfront.

As of January 2014, four major office space permits have been issued. North Andover, MA-based sneaker giant Converse will relocate their headquarters to 186,525 square feet of space in the Hoffman Building, one of the structures on Boston's Lovejoy Wharf. The Beal Companies is in the process of an upgrade and is expanding the existing 11-story Hoffman Building located at 160 North Washington Street into a 241,000 square-foot office structure. Converse will occupy all but one floor in the Hoffman Building. The move to downtown Boston followed an extensive search for a new company headquarters in the greater Boston metropolitan area. The new office space will be developed as part of the revitalized Lovejoy Wharf project led by Related Companies and The Beal Companies, and will also include a residential component in the next phase. The investment supports Converse's long-term business growth and commitment to Boston and the Commonwealth.

Skanska USA Commercial Development Inc. is investing \$210 million in a 440,000 square-foot office building in the South Boston Waterfront's Innovation District that will be occupied primarily by PricewaterhouseCoopers (PwC). Construction on the 17-story office building in Seaport Square began in 2013 and is anticipated to be ready for occupancy in late 2015. PwC, the professional services firm and one of downtown Boston's largest employers, signed a 15-year lease for 333,000 square feet in the building. The firm expects to move about 3,000 employees to the custom-designed workplace. PwC currently has more than 2,500 partners and staff working at 125 High Street.

The Burnham Building will contain approximately 100,000 square-foot of retail space on the ground floor and first basement level, and at least one upper floor. Above the retail floors will be approximately 185,000 square-foot of office space. Construction is currently already underway with Arnold Worldwide and its sister agency Havas Media signed as major tenants in the building.

The Boston Landing project proposes to redevelop underutilized property in Allston-Brighton along Guest Street, adjacent to the existing New Balance Headquarters to create a new vibrant health and wellness district. The project calls for a 1.43 million square-foot development: 250,000 square-foot new world headquarters building for New Balance, a 350,000 square-foot sports complex, a 140,000 square-foot boutique hotel, three office buildings totaling 650,000 square-foot, and 65,000 square-foot of retail/restaurant uses. The project will add to the transformation of the Brighton/Guest Street Planning Area in Brighton from a former light industrial area into a mixed-use economic engine for the City.

### ***Retail Market***

For 2012, from the table in a previous section in this Appendix titled "Employment Structure, Employment Trends and Occupational Changes", it is estimated that there are about 76,851 employees in retail stores, and food service and eating and drinking establishments in the City, with 31,393 in retail, and 45,458 in food service and eating and drinking. In 2007, according to the Census of Retail Trade, about 2,157 retail establishments were located in the City with estimated total sales of \$6.81 billion. The food service and eating and drinking establishment industry in Boston (restaurants and bars) consists of an additional 1,986 establishments with \$2.35 billion in sales. The retail sector is also complemented by an estimated 14,000 employees in the personal services businesses, which includes such services as repair and maintenance, hair and nail care, and laundry and dry cleaning service. The 2007 Census of Retail Trade data was released in January of 2010 and is only done once every five years. The 2012 Census of Retail Trade data is expected to be released later in March, 2014. Therefore more recent information for the following table is not yet available.

**Massachusetts, Metropolitan Boston, and Boston Retail Sales, 1992-2007<sup>(1)</sup>**  
**(In thousands, not adjusted for inflation)**

	<b>Massachusetts</b>	<b>Metropolitan Boston<sup>(2)</sup></b>	<b>City of Boston</b>
1992.....	\$47,663,248	\$33,798,207	\$4,180,888
1997.....	65,859,804	48,348,686	5,608,411
2002.....	83,220,180	59,918,502	7,163,717
2007.....	99,812,744	71,721,631	9,161,215
Annual rate '92-'07 .....	5.05%	5.14%	5.37%
Annual rate '02-'07 .....	3.70%	3.66%	5.04%

(1) Total retail sales includes the census definition of retail sales (NAICS) from the series of Retail Trade plus the “food services and drinking places” category from the series of Accommodation and Food Services.

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

Source: 1992 data are from the 1992 Economic Census for Retail Trade. 1997 data are from the 1997 Economic Census for Retail Trade (for retail) and for the 1997 Census for Accommodations and Food Services (for food services and drinking places). 2002 data from the 2002 Economic Census for Retail Trade (for retail) and for the 2002 Census for Accommodations and Food Services (for food services and drinking places). 2007 Census from the 2007 Economic Census, January 2010.

There are now 20 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. In fiscal year 2013, 103 new businesses opened in Main Streets districts, creating 663 new jobs. Technical assistance was provided to 1,856 small businesses. 393 special district events generated over 31,000 volunteer hours and the local Main Streets Programs has kept its storefront occupancy rates at an average of 95%.

The retail market in 2013 was strong, with vacancies being low and rents strong, particularly in the Downtown core and immediate surrounding areas. The brokerage community projects a healthy season of activity for 2014. National and world retailers have taken note and are entering to serve Boston’s growing urban population. Fashion outlet Nordstrom Rack and neighborhood retailer Walgreen’s have opened with a combined 60,000 square-foot retail space. High-end retailers are also making a larger footprint into the Boston market with the addition of the 40,000 square-foot Restoration Hardware and Chanel Inc’s retail store moving from a 3,000 square-foot to a 10,000 square-foot building.

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. Recently in Jamaica Plain, a 14,000 square-foot Whole Foods Market replaced the Hi Lo Foods, and a 9,000 square-foot Harvest Co-op Markets began operations at Arboretum Place. A Whole Foods Market opened in Charlestown in the summer of 2013. There are currently 41 supermarkets in Boston. However several more projects are underway. New stores are planned for the North and South Ends, as well as Jamaica Plain. The City has also announced plans to bring a Wegmans Food Market to Fenway and Roche Brothers to Downtown Crossing.

***Industrial Market and Recent Developments***

The Boston/Suffolk County sub-market has approximately 20,500,000 square feet of industrial space and 6,250,000 square feet of flex space. The vacancy rates at the end of 2013 were approximately 7% for industrial and 10.5% for flex. The average asking rent for industrial was \$8.50 per square foot NNN (“Net-Net-Net”, or net property tax, insurance, and maintenance), and \$13.00 per square foot NNN for flex. Since January 1, 2012, rental rates for industrial have increased 8.7% and flex increased by 5.2%.

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 2013, Back Streets successfully assisted over 90 companies with expansion projects, technical assistance and created or retained over 320 jobs. In addition, Back Streets helped companies such as Boston Salads, NECAT, GrandTen Distilling, Sky Zone Sports, Max Ultimate Foods, and Wicked Catering with their efforts to find new space or to expand at a current location in Boston. These companies alone account for over 75,000 square feet of new space in the City. By working with Back Streets, these programs had access to financing options, real estate expansion sites, workforce development and permitting assistance.

The Boston Marine Industrial Park consists of over three million square feet of developed real estate. Kavanagh Advisory Services has been awarded conditional development rights for the development of 360,000 square feet of research and development space on a four acre parcel. Kavanagh expects to secure financing and tenant procurement in 2014. Construction should commence in 2015. Cargo Ventures is expected to begin construction of a 120,000 square foot cold storage facility on the North Jetty in 2014 as

well. Several acres of maritime and industrial parcels are available with multiple suitors in conversation with EDIC.

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

There were 272,481 housing units in Boston according to the 2010 Census. Of the 252,699 occupied units, 32.2% were owner-occupied and 67.8% were renter-occupied. Vacant housing units totaled 19,782 while the homeowner unit vacancy rate was 2.2% and the rental unit vacancy rate was 5.2%. The 2012 ACS results showed that the median monthly cost for home owners with a mortgage was \$2,153 and the gross monthly rent (for existing renters rather than advertised rents) was \$1,234. Gross rents are what tenants pay out of their pocket and the presence of public and subsidized housing makes this value much lower than advertised market rents for newly available units.

Preliminary data for 2013 real estate trends done by the City's Department of Neighborhood Development showed that the median rent for an apartment in Boston in 2013 as advertised by the Multiple Listing Service (MLS) was \$2,400 per month for all apartment sizes and types. The median advertised rents were up 4.2% from the same time period in 2012, when the average rent was \$2,300. Median rents for an apartment in Boston's neighborhoods ranged from a high of \$3,150 in the Central planning district (Downtown) to a low of \$1,425 in Mattapan.

### **Median Monthly Rent of Newly Rented Apartments in Boston Neighborhoods And the Volume of All Newly Rented Apartments 2012 and 2013**

<b>Neighborhood</b>	<b>Q1-Q3, 2012 Median- Monthly Rent</b>	<b>Q1-Q3, 2013 Median- Monthly Rent</b>	<b>Percent Change</b>	<b>2012 Volume</b>	<b>2013 Volume</b>	<b>Percent Change</b>
Allston/Brighton.....	\$1,775	\$1,900	6.6%	\$558	\$344	-38.4%
Back Bay/Beacon Hill.....	2,900	2,850	-1.8	594	651	9.6
Central .....	3,000	3,150	4.8	655	493	-24.7
Charlestown.....	2,450	2,600	5.8	165	175	6.1
Dorchester .....	1,550	1,600	3.1	251	223	-11.2
East Boston.....	1,495	1,750	14.6	79	81	2.5
Fenway/Kenmore .....	2,100	2,400	12.5	271	175	-35.4
Hyde Park .....	1,300	1,450	10.3	42	32	-23.8
Jamaica Plain.....	1,825	2,300	20.7	104	89	-14.4
Mattapan .....	1,400	1,425	1.8	37	22	-40.5
Roslindale.....	1,600	1,600	0.0	72	78	8.3
Roxbury.....	1,500	1,650	9.1	82	111	35.4
South Boston .....	2,400	2,500	4.0	378	431	14.0
South End.....	2,800	2,800	0.0	312	328	5.1
West Roxbury.....	1,600	1,600	0.0	100	97	-3.0
Citywide .....	2,300	2,400	4.2	3,700	3,330	-10.0

Source: City of Boston, Department of Neighborhood Development using Multiple Listing Service (MLS), January 2014. MLS rental listings are created by local real estate agents and the system helps to market and manage property listings.

Data is for Q1-Q3 only in order to calculate change as Q4 data is not yet available for 2013.

Existing home prices in Greater Boston peaked in 2005 and declined by 19.5% to its annual low in 2009 but were 4.1% higher by 2011 according to The National Association of Realtors ("NAR"). The third quarter 2013 median sales price was \$393,700, 11.6% above the third quarter low recorded in 2009.

**Greater Boston Annual Median Sales Prices for Existing Homes, 2006-2013 <sup>(1)</sup>**  
**(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>
2006.....	\$390,400	\$421,100	\$412,300	\$388,000	\$402,200	-2.7%
2007.....	387,400	413,300	414,700	380,700	395,600	-1.6
2008.....	357,100	366,100	374,100	336,000	361,100	-8.7
2009.....	290,700	336,100	348,000	332,800	332,500	-7.8
2010.....	321,800	360,800	366,500	346,300	357,300	7.4
2011.....	322,100	355,700	367,700	325,000	346,200	-3.1
2012.....	311,500	362,100	365,800	344,000	351,200	-0.5
2013.....	332,200	382,200	393,700	NA	NA	7.6*

(1) Greater Boston as used here by the National Association of Realtors (NAR) is defined as the Boston Metropolitan Statistical Area (MSA) excluding the New Hampshire portion.

\* 2013 change is based on Third Quarter rate from 2012 through 2013.

Source: National Association of Realtors (January 2014).

Within the City, the median sales price for a single-family home in Boston increased by 2.7% between the fourth quarter 2006 (\$354,000) and the fourth quarter of 2013 (\$380,250), as well as a 9.4% increase from the fourth quarter in 2012. Condominium prices showed a gain by 29.3% from the fourth quarter 2006 price of \$351,500 to the \$480,000 price reached in the first quarter of 2013.

**Median Residential Sales Prices for Boston**  
**First Quarter 2006 through Fourth Quarter 2013**  
**(Current Year Dollars)**

<b>Year</b>	<b>Quarter</b>	<b>Single-Family</b>	<b>Two-Family</b>	<b>Three-Family</b>	<b>Condominium</b>
2006	First .....	\$365,000	\$480,000	\$530,000	\$351,500
	Second.....	388,250	490,000	530,000	359,000
	Third.....	370,000	475,000	525,000	340,000
	Fourth.....	354,000	465,000	510,000	339,000
2007	First .....	\$365,500	\$467,000	\$500,000	\$351,500
	Second.....	379,500	450,000	467,500	370,000
	Third.....	373,750	430,000	468,100	345,000
	Fourth.....	346,500	399,000	444,000	350,000
2008	First .....	\$325,000	\$378,500	\$341,000	\$352,000
	Second.....	354,500	318,250	340,000	385,000
	Third.....	348,950	305,750	290,500	377,750
	Fourth.....	295,000	270,000	250,000	325,000
2009	First .....	\$270,000	\$272,500	\$242,450	\$298,350
	Second.....	346,000	281,000	250,000	355,000
	Third.....	351,250	320,000	258,000	345,000
	Fourth.....	323,000	290,500	300,000	330,000
2010	First .....	\$320,000	\$265,000	\$270,000	\$332,000
	Second.....	372,750	299,500	290,000	355,000
	Third.....	363,805	327,000	290,000	375,000
	Fourth.....	337,250	330,000	308,750	385,000
2011	First .....	\$319,250	\$297,500	\$330,000	\$352,750
	Second.....	357,000	325,500	315,875	385,000
	Third.....	354,500	332,520	326,500	375,000
	Fourth.....	330,750	327,000	350,000	380,000
2012	First .....	\$323,500	\$316,250	\$372,000	\$382,000
	Second.....	362,850	362,850	379,500	415,000
	Third.....	369,000	380,000	389,500	399,000
	Fourth.....	344,500	371,000	375,000	395,000
2013	First .....	\$360,000	\$340,000	\$395,000	\$408,500
	Second.....	427,500	412,500	433,000	429,000
	Third.....	404,000	422,000	440,000	435,000
	Fourth.....	380,250	447,500	442,500	480,000

Source: City of Boston, Department of Neighborhood Development using Banker & Tradesman data (February 2014).

The change in the total number of residential sales from 2012 to 2013 showed a 8% gain (from 7,180 to 7,797). The sales volume of single-family homes also rose 8%. Sales of condominiums were up by 7%, and sales of multi-family non-condominiums properties increased by 12% comparing data for 2012 and 2013.

**Annual Residential and Condominium Sales in Boston <sup>(1)</sup>  
2001-2013**

Year	Single-Family Sales	Percent Change	Multi-Family Residential Sales (2)	Percent Change	Total Condominium Sales	Percent Change	Residential and Condo Sales (3)	Percent Change
2001	1,193	-3%	2,136	-16.0%	4,045	-11	7,374	-11.0%
2002	1,272	7.0	2,078	-3.0	4,804	19	8,154	11.0
2003	1,308	3.0	2,146	3.0	5,030	5	8,484	4.0
2004	1,644	26.0	2,688	25.0	7,100	41	11,432	35.0
2005	1,452	-12.0	2,536	-6.0	6,943	-2	10,931	-4.0
2006	1,236	-15.0	2,026	-20.0	6,411	-8	9,673	-12.0
2007	1,128	-9.0	1,535	-24.0	5,996	-6	8,659	-10.0
2008	957	-15.0	1,393	-9.0	4,823	-20	7,173	-17.0
2009	974	2.0	1,403	1.0	4,338	-10	6,715	-6.0
2010	999	3.0	1,455	4.0	4,282	-1	6,736	0.4
2011	938	-6.0	1,484	2.0	3,872	-10	6,294	-7.0
2012	1,205	22.0	1,124	-32.0	4,851	20	7,180	12.0
2013	1,316	8.0	1,277	12.0	5,204	7	7,797	8.0

(1) These do not include sales of apartment buildings larger than three-family structures. Condominium sales include buildings of any size.

(2) Includes two- and three-family homes only.

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

Source: Banker and Tradesman (February 2014).

Prices and sales volumes for single-family homes and for condominiums are shown by neighborhoods for calendar years 2012 and 2013. 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 \$195,000 in Roxbury to \$2.6 million in the Back Bay, with the citywide median at \$398,000. The median sales price increased by 12% while the sales volume was up by 9% between 2012 and 2013.

**Short Term Trends in Housing Prices  
Median Sales Prices and Sales Volume of Single Family Homes  
In Boston's Neighborhoods, Calendar Years 2012 and 2013  
(Not inflation adjusted)**

Neighborhood	2012 Single-Family Price	2013 Single-Family Price	Percent Change	2012 Sales Volume	2013 Sales Volume	Percent Change
Allston/Brighton	\$427,500	\$ 492,940	13%	59	70	16%
Back Bay/Beacon Hill	2,625,000	2,600,000	-1	32	37	14
Central	*	*	*	5	9	44
Charlestown	637,500	700,000	9	84	81	-4
Dorchester	304,000	332,500	9	147	150	2
East Boston	270,000	295,000	8	31	51	39
Fenway/Kenmore*	*	*	*	3	0	*
Hyde Park	260,000	305,000	15	171	149	-15
Jamaica Plain	557,450	660,000	16	62	74	16
Mattapan	191,500	247,000	22	52	43	-21
Roslindale	327,000	400,000	18	138	170	19
Roxbury	220,000	195,000	-13	45	66	32
South Boston	425,000	515,000	17	87	97	10
South End	1,750,000	1,860,000	6	25	29	14
West Roxbury	391,500	415,000	6	264	292	10
Citywide	350,000	398,000	12	1205	1318	9

\* Medians or percentages with a sample size of less than ten are not reliable.

Note 1: 2013 data are for 1/1/2013 through 12/12/2013.

Note 2: 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.

Note 3: Data in the above table do not include "paired-sales" so the size, quality and type of houses sold vary from year-to-year.

Note 4: 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 using Banker & Tradesman data January 2014.

Condominium sales volume and prices also showed variability across the neighborhoods of Boston in 2012 and 2013. The three most expensive neighborhoods for condominiums (median price greater than \$575,000) were the Central neighborhood (comprising Downtown, the North End, the West End, and the Waterfront), Back Bay/Beacon Hill, and the South End neighborhood, which all together form the core residential pockets closest to downtown. Four neighborhoods had moderately expensive condominiums (median price between \$495,000 and \$350,000): Charlestown, South Boston, Jamaica Plain and Fenway/Kenmore. Six neighborhoods had moderate condominium median prices (\$300,000 and \$214,000): West Roxbury, Allston/Brighton, Roslindale, Dorchester, East Boston and Roxbury. Two neighborhoods had less expensive condominium prices (below \$205,125): Hyde Park, and Mattapan. The median citywide condominium price as of calendar year 2013 was \$439,000, up by 9.1% in price from calendar year 2012, while the sales volume rose by 6.8%.

**Short Term Trends in Housing Prices**  
**Median Sales Prices and Sales Volume of Condominiums**  
**In Boston's Neighborhoods, Calendar Years 2012 and 2013**  
**(Not inflation adjusted)**

Neighborhood	2012 Single- Family Price	2013 Single- Family Price	Percent Change	2012 Sales Volume	2013 Sales Volume	Percent Change
Allston/Brighton.....	\$254,750	\$295,000	13.6%	428	542	21.0%
Back Bay/Beacon Hill.....	618,000	691,250	10.6	728	592	-23.0
Central .....	643,750	700,000	8.0	588	717	18.0
Charlestown.....	440,000	495,000	11.1	340	413	17.7
Dorchester .....	220,500	284,000	22.4	332	367	9.5
East Boston.....	194,000	290,000	33.1	110	88	-25.0
Fenway/Kenmore .....	352,000	379,500	7.2	188	212	11.3
Hyde Park.....	151,000	168,000	10.1	50	45	-11.1
Jamaica Plain.....	354,000	377,000	6.1	347	360	3.6
Mattapan.....	110,000	164,500	33.1	29	34	14.7
Roslindale.....	254,000	300,000	18.3	132	173	23.7
Roxbury .....	214,500	280,000	23.4	100	129	22.5
South Boston .....	409,000	449,500	9.0	761	762	0.1
South End .....	575,000	640,000	10.2	591	649	8.9
West Roxbury.....	265,000	237,000	-11.8	127	121	-5.0
Citywide .....	399,000	439,000	9.1	4,851	5204	6.8

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.

Note 2: Data in the above table do 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 using Banker & Tradesman data, February 2014.

When housing prices began to fall and sales volume slackened following 2005, foreclosure deeds rose through 2008, peaking at 1,215, while petitions to foreclose (the first step in the foreclosure process) peaked at 2,432 in 2007. By 2013 foreclosure deeds had declined to an annual total of 94, a total drop of 92% from 2008. Petitions to foreclose fell by 284% from 2012 to 2013 (890 to 232).

Since 1999, 24,458 new units with a total value of \$8.4 billion have been permitted in Boston, 85% (20,488) of these housing units have been completed and occupied with 3,970 units now currently in construction. Ten large housing developments (mainly private rental apartments but some with assisted units) now in construction have over 2,700 (more than two-thirds) of these housing units being built as of February 2013: Pier 4, the Kensington, the Victor, West Square, 120 Kingston Street, Waterside Place, Millennium Phase 3 at Hayward Place, Avalon/Exeter Residences, and 319 A Street (Boston Wharf Tower). Since 1999, of the total housing units permitted for construction (complete and under construction) 18,333 were in private-sector, market rate housing while 6,125 have been publicly-assisted through various federal, state or local funding sources.

The Boston Housing Authority ("BHA") is a public agency that provides subsidized housing to low- and moderate-income individuals and families. The BHA administers two distinct housing programs. First, the Authority manages conventional public housing within the City of Boston. The Authority owns 60 developments, a few of which have both state and federal components and has also participated in the mixed-finance redevelopment of seven of its developments. The BHA owns and manages some scattered site properties throughout the City of Boston as well. Of the 60 developments, 36 are designated as

elderly/disabled developments and 24 are designated as family developments. Two of the 24 family developments have elderly/disabled housing on site and one of the elderly developments has designated units for families. The BHA currently owns and/or oversees approximately 14,000 units of public housing in Boston and houses about 27,000 people under this program. In addition, the BHA administers approximately 14,500 tenant-based and project-based rental assistance vouchers, along with some moderate rehabilitation programs that allow families and individuals to either rent in the private market and apply a subsidy to their rent or to live in subsidized affordable housing in the city. Through this assistance, residents are able to pay approximately 30-40 percent of their income toward rent and the BHA pays the remainder. The BHA helps provide housing to approximately 33,000 people under these programs.

The BHA between 1997 and 2013 completed major revitalization initiatives at seven public housing developments: Mission Main, in the Mission Hill neighborhood of Boston; Orchard Gardens, in Roxbury; West Broadway in South Boston; Franklin Hill in Dorchester; Maverick Gardens in East Boston; Washington Beech in Roslindale; and Old Colony in South Boston, which is currently in its second phase of redevelopment. The BHA was able to undertake revitalization of five of these developments through the use of HOPE VI grants awarded from the U.S. Department of Housing and Urban Development (“HUD”). The grants, totaling \$157 million, were used to implement a new approach to public housing financing, incorporating innovative partnerships with public and private entities that leveraged additional development funds. The initiatives not only revitalized the BHA sites, but the surrounding neighborhoods as well. West Broadway, a State funded public housing development, was redeveloped through the use of a public/private partnership that included State and City funding. In addition, the BHA completed redevelopment of the Franklin Hill public housing development in 2009 through a fifth public/private partnership and recently completed redevelopment of the Washington Beech housing development in Roslindale under a partnership that includes HOPE VI and federal stimulus funding. Additional federal stimulus funding recently awarded to the BHA, as well as a subsequent HOPE VI grant, led to the redevelopment efforts at the Old Colony development in South Boston. In addition, some building renovations at both the Cathedral development in the South End and the Heath Street development in Jamaica Plain were recently completed as a result of Recovery Act funding. BHA is also in the midst of implementing an energy performance contract project that will bring about \$63 million in energy efficient/infrastructure improvements to 13 BHA developments throughout the City.

### ***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, 2001, and again in 2013, 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 \$10.01 per square-foot of construction over 100,000 square feet, of which \$1.67 per square-foot goes to the job training fund and \$8.34 per square-foot goes for affordable housing purposes. The fee was last adjusted as of October 17, 2013.

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 and enter into Housing Payment Agreements for selected projects or to recommend approval of Housing Creation Proposals by the BRA. Since the inception of the linkage program through December 2013, the NHT has awarded approximately \$141.5 million in grant funds to 200 various affordable housing developments. Based on data through 2013, NHT funding contributed to the complete or pending construction or renovation of 12,198 housing units in 200 developments in the City's neighborhoods. Affordable housing units for low and moderate-income residents comprise 86% (10,490 affordable units) of this total. The linkage funds, for the most part, account for less than 5% of the total development cost of the projects. NHT grant awards are allocated to fund low and moderate-income housing through the renovation of old buildings and schools and the construction of new housing. Projects have included rental developments of family-sized units, single room occupancy units, units set aside for homeless or formerly homeless households, elderly housing units, and units exclusively for other special needs populations. In addition, the NHT grants support the development of housing ownership opportunities in condominiums, housing cooperatives, and single family homes.



Between fiscal years 1988 and 2013 over \$29 million of funds were committed to the job training component of the City's linkage program and over \$26 million of funds had been awarded to a broad range of community-based job training and adult education programs. Services funded under this program include: model program designs for entry-level job training, adult education, English for Speakers of Other Languages, and transitional employment. The NJT is particularly interested in supporting innovative education and training activities which result in high-wage employment, new or non-traditional employment opportunities, and community-based projects that respond to specific neighborhoods' documented education and training needs. The NJT is committed to providing appropriate services to the residents of neighborhoods where, or adjacent to where, a given development project is located, while also ensuring that residents throughout the City have access to new jobs resulting from development.

**PROPOSED FORM OF LEGAL OPINION****APPENDIX B**

March \_\_, 2014

Meredith Weenick  
Chief Financial Officer and Collector-Treasurer  
City of Boston  
Boston, Massachusetts

Re: City of Boston, Massachusetts  
General Obligation Bonds, 2014 Series A

We have acted as Bond Counsel to the City of Boston, Massachusetts (the “City”), in connection with the issuance by the City of \$153,000,000 General Obligation Bonds, 2014 Series A (the “Bonds”) dated the date hereof. In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

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

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

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

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

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

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

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

EDWARDS WILDMAN PALMER LLP

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**PROPOSED FORM OF  
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Boston, Massachusetts (the “Issuer”) in connection with the issuance of its \$153,000,000 General Obligation Bonds, 2014 Series A (the “Bonds”) dated March 26, 2014. The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated March 12, 2014 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth (except for the omission, if any, of a statement of fixed assets). If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give notice, in accordance with the provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

7. Modifications to rights of the Owners of the Bonds, if material.
  8. Bond calls, if material, and tender offers.
  9. Defeasances.
  10. Release, substitution or sale of property securing repayment of the Bonds, if material.
  11. Rating changes.
  12. Bankruptcy, insolvency, receivership or similar event of the Issuer.\*
  13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
  14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

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\* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

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

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

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

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

Date: March \_\_, 2014

CITY OF BOSTON, MASSACHUSETTS

By \_\_\_\_\_  
Collector-Treasurer, Chief of Finance & Budget

\_\_\_\_\_  
Mayor

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

[EXHIBIT A: Filing Information for the MSRB]  
[EXHIBIT B: Form of Notice of Failure to File Annual Report]

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