

NEW ISSUE**Ratings†**

Fitch	Moody's	S&P
AA	Aa1	AA

In the opinion of Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. See "Tax Exemption" herein.

CITY OF BOSTON, MASSACHUSETTS

\$127,775,000

GENERAL OBLIGATION BONDS

2005 SERIES A

Dated: February 1, 2005**Due: January 1, as shown below**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2006	\$ 5,125,000	4.00%	2.235%	1008527H9	2016	\$10,075,000	5.00%	3.48%	1008527T3 *
2007	5,125,000	4.00	2.434	1008527J5	2017	5,755,000	5.00	3.56	1008527U0 *
2008	5,125,000	2.50	2.50	1008527K2	2018	3,480,000	4.00	3.78	1008527V8 ††*
2009	5,125,000	3.00	2.62	1008527L0	2019	2,995,000	4.00	3.85	1008527W6 ††*
2010	10,315,000	5.00	2.80	1008527M8	2020	2,995,000	4.00	3.92	1008527X4 ††*
2011	13,540,000	5.00	2.95	1008527N6	2021	2,660,000	4.00	3.98	1008527Y2 ††*
2012	9,415,000	5.00	3.08	1008527P1	2022	2,660,000	4.00	4.02	1008527Z9 ††
2013	12,350,000	5.00	3.20	1008527Q9	2023	2,660,000	4.00	4.07	1008528A3 ††
2014	11,680,000	5.00	3.30	1008527R7	2024	2,660,000	4.00	4.12	1008528B1 ††
2015	11,375,000	5.00	3.40	1008527S5	2025	2,660,000	4.00	4.15	1008528C9 ††

(Accrued interest from February 1, 2005 to be added.)

The Bonds will be issued by means of a book entry system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company and its participants. Details of payment of the Bonds are set forth in this Official Statement and the Official Notice of Sale for the Bonds dated February 1, 2005 (the "Official Notice of Sale").

Interest on the Bonds will be payable on July 1, 2005 and semiannually on each January 1 and July 1 thereafter until maturity or redemption prior to maturity. The Bonds will be subject to redemption as more fully described herein under "The Bonds—Redemption Prior to Maturity." The Bonds will be issued (i) for the purpose of funding various capital projects, as more fully described in Appendix C hereto, and (ii) for the purpose of advance refunding certain outstanding general obligation bonds of the City as more fully described herein under "Plan of Refunding." The Bonds will be valid general obligations of the City for the payment of the principal of and interest on which all taxable property in the City is subject to the levy of ad valorem taxes without limit as to rate or amount as more fully described herein under "Security for the Bonds."

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

The Bonds were sold by the City after competitive bidding pursuant to the Official Notice of Sale, and are offered subject to the final approving opinion of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City, and to certain other conditions described herein. Public Financial Management, Inc., Boston, Massachusetts, serves as Financial Advisor to the City. U.S. Bank National Association, Boston, Massachusetts, will act as paying agent for the Bonds and escrow agent for the refunded bonds described herein under "Plan of Refunding." It is expected that the Bonds will be available at the Depository Trust Company in New York, New York, or its custodial agent, on or about February 24, 2005.

February 9, 2005

† See "Credit Ratings."

†† The scheduled payment of the principal of and interest on the Bonds maturing in the years 2018 through 2025, when due, will be insured by MBIA Insurance Corporation, as more fully described herein under "Bond Insurance."

* Priced to the January 1, 2015 optional redemption date. See "The Bonds—Redemption Prior to Maturity—Optional Redemption."

No dealer, broker, salesperson or other person has been authorized by the City of Boston or the underwriters of the Bonds to give any information or to make any representations in connection with the Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained herein has been furnished by the City and certain information has been obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the underwriters of the Bonds or, as to information from other sources, of the City. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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New Hampshire Residents:

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

OFFICIAL STATEMENT
of the
CITY OF BOSTON, MASSACHUSETTS
relating to
\$127,775,000
GENERAL OBLIGATION BONDS, 2005 SERIES A

INTRODUCTION

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the “City”), and the \$127,775,000 General Obligation Bonds, 2005 Series A (the “Bonds”), to be issued by the City as described herein. Certain credit factors concerning the Bonds are described throughout this Official Statement, which should be read in its entirety. This Official Statement speaks only as of its date and the information contained herein is subject to change after this date.

The Bonds will be general obligations of the City, for the payment of the principal of and interest on which the full faith and credit of the City will be pledged. The Bonds are payable from ad valorem taxes which may be levied on all taxable property in the City without limit as to rate or amount as more fully described under “Security for the Bonds,” below. The proceeds of the Bonds will be used for the purposes of advance refunding certain outstanding general obligation bonds of the City and to fund various capital projects, including the acquisition, design or construction of, or major renovation to, public buildings, school buildings, roadways, bridges and parks, the acquisition of certain departmental equipment, and certain neighborhood improvements. See “Authorizations and Purposes,” below.

THE CITY

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

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

AUTHORIZATIONS AND PURPOSES

The Bonds will be issued under the statutory authorizations and loan orders of the City Council and for the purposes identified in “Appendix C—Authorizations and Purposes.” Proceeds of the Bonds in the aggregate principal amount of \$75,000,000 will be used to finance various capital projects of the City, as more fully described in said Appendix C. Proceeds of the Bonds in the aggregate principal amount of \$52,775,000 will be used to advance refund certain of the City’s outstanding general obligation bonds, as more fully described under “Plan of Refunding,” below.

SECURITY FOR THE BONDS

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

Chapter 643 of the Acts of 1983 of the Commonwealth, as amended (the “Bond Procedure Act of 1983”), requires that the debt and interest charges on all general obligation indebtedness of the City (including the Bonds), if

not otherwise provided for, be included in the City's annual tax levy. The Bond Procedure Act of 1983 also mandates assessment of taxes in excess of the levy limits imposed by the statewide property tax limit ("Proposition 2½") to the extent that the debt service on City obligations is not otherwise provided for in the tax levy or from other sources, with no allowance made for any other expenditures of the City. See "City Revenues—Property Taxes—Proposition 2½" in "Appendix A – Information Statement of the City of Boston." Holders of City obligations do not have a statutory priority with respect to or a security interest in the portion of the tax levy attributable to such obligations. See "City Indebtedness—Classification of City Debt" in "Appendix A – Information Statement of the City of Boston."

In the opinion of Bond Counsel, the City is subject to suit on the Bonds, and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the Bonds from available funds or, in the absence of available funds, to order the inclusion of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors, including the current operating needs of the City and the availability and adequacy of other remedies.

Payment of the principal and interest on the Bonds is not secured by or limited to a pledge of any particular revenue source of the City. Chapter 190 of the Acts of 1982 of the Commonwealth (the "1982 Funding Loan Act") and the Bond Procedure Act of 1983 authorize the City to pledge to the payment of any of its general obligation notes or bonds all or any part of the revenues of the City derived from any tax, fee, distribution or reimbursement payable to the City (except distributions and reimbursements required by law to be specifically used for statutorily defined purposes), including state aid distributions and the proceeds of the City's annual property tax levy. No obligations are currently outstanding which are secured by such a pledge. The Bond Procedure Act of 1983 also authorizes the City to issue special obligation bonds payable solely from the revenues of a revenue-producing facility, and Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), authorizes the City to pledge certain excise receipts and other revenues of the City to the payment of bonds of the City issued under the authority of the Convention Center Act. The only special obligation indebtedness of the City outstanding as of June 30, 2004 was \$112.5 million of the City's Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the "Convention Center Bonds") and \$120.4 million of the City's Special Obligation Refunding Bonds, Boston City Hospital Issue (the "2002 BCH Refunding Bonds"). See "City Indebtedness—Special Obligation Debt" in "Appendix A – Information Statement of the City of Boston." To the extent required for the payment of any such secured indebtedness, the revenues pledged to their payment would not be available to pay the Bonds.

Except to the extent specifically pledged to the payment of certain indebtedness, state aid distributions to the City are generally available for the payment of bonds or notes of the City, but, under certain circumstances, they may be unavailable to the extent such distributions are applied to the payment of "qualified bonds" issued by the City (none of which bonds have been issued), or to the extent that such distributions may be applied under state law to the satisfaction of unpaid assessments due the Commonwealth from the City for debt issued by the Massachusetts Bay Transportation Authority, or for obligations of the City or of the Boston Water and Sewer Commission issued to the Massachusetts Water Pollution Abatement Trust. See "City Indebtedness—Classification of City Debt" in "Appendix A – Information Statement of the City of Boston."

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

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

Commonwealth has not agreed to maintain existing levels of state distributions and the law requiring the Commonwealth to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the state's annual appropriation act is often delayed beyond the beginning of the fiscal year, and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

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

THE BONDS

Description

The Bonds will be dated February 1, 2005 and will mature on January 1 of the years, and in the amounts, and will bear interest calculated on the basis of 30-day months and a 360-day year at the rates, shown on the cover page of this Official Statement. Interest on the Bonds will be payable on July 1, 2005 and semiannually thereafter on each January 1 and July 1, provided that if such day is not a business day, interest will be payable on the next business day.

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

U.S. Bank National Association, Boston, Massachusetts, will act as paying agent for the Bonds (the "Paying Agent") and escrow agent for the Refunded Bonds, as defined below.

Redemption Prior To Maturity

Optional Redemption

The Bonds maturing on or before January 1, 2015 will not be subject to redemption prior to maturity. The Bonds maturing on and after January 1, 2016 will be subject to redemption prior to maturity at the option of the City, on or after January 1, 2015, as a whole or in part at any time, in such order of maturity as the City may determine and by lot within each maturity as selected by DTC and its participants, at the par amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

Notice of Redemption

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

Book-Entry-Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an

authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of that maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners

will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, its nominee, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

BOND INSURANCE

MBIA Insurance Corporation

The scheduled payment of principal of and interest on the Bonds maturing in the years 2018 through 2025 (the "Insured Bonds"), when due, will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the Bonds by MBIA Insurance Corporation ("MBIA"). Information concerning MBIA and its policy has been furnished by MBIA and is included in Appendix F. The City has not made any independent investigation of MBIA or its policy, and reference should be made to Appendix F for a description thereof and to Appendix G for the specimen form of the policy. The original purchasers of the Insured Bonds will pay the premium for the policy.

PLAN OF REFUNDING

The Bonds are being issued in part to advance refund: (i) \$5,000,000 aggregate principal amount of the City's General Obligation Bonds, 1996 Series A, dated November 15, 1996; (ii) \$8,385,000 aggregate principal amount of the City's General Obligation Bonds, 1998 Series A, dated January 15, 1998; (iii) \$5,215,000 aggregate principal amount of the City's General Obligation Bonds and Refunding Bonds, 1998 Series B, dated April 15, 1998; (iv) \$34,090,000 aggregate principal amount of the City's General Obligation Bonds, 1998 Series C, dated October 15, 1998; and (v) \$4,190,000 aggregate principal amount of the City's General Obligation Bonds, 2000 Series A, dated February 1, 2000 (collectively, the "Refunded Bonds").

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

Verification of Mathematical Accuracy

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

SCHEDULE OF DEBT SERVICE PAYMENTS

The following table sets forth the gross debt service requirements on the City's outstanding general obligation bonds as of February 1, 2005, the portion of such gross debt service requirements related to the Refunded Bonds to be paid from the Refunding Escrow Fund, the gross debt service requirements on the Bonds, and the resulting gross debt service requirements on general obligation bonds of the City following the issuance of the Bonds.

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

Fiscal Year Ending June 30	Bonds Outstanding as of February 1, 2005 ⁽¹⁾		The Refunded Bonds		The Bonds		Total Principal and Interest
	Principal	Interest	Principal	Interest	Principal	Interest	
2005	\$ 4,780	\$ 3,507	\$ —	\$ (1,025)	\$ —	\$ —	\$ 7,262
2006	72,022	35,331	—	(2,669)	5,125	5,342	115,151
2007	71,516	32,404	—	(2,669)	5,125	5,623	111,999
2008	66,692	29,318	—	(2,669)	5,125	5,418	103,884
2009	64,583	26,057	—	(2,669)	5,125	5,290	98,386
2010	61,364	23,154	(5,600)	(2,564)	10,315	5,136	91,805
2011	57,135	20,329	(9,790)	(2,309)	13,540	4,620	83,525
2012	55,470	17,615	(5,600)	(1,807)	9,415	3,943	79,036
2013	51,210	15,025	(8,775)	(1,553)	12,350	3,473	71,730
2014	44,580	12,689	(8,095)	(1,153)	11,680	2,855	62,556
2015	40,090	10,572	(7,780)	(792)	11,375	2,271	55,736
2016	36,950	8,672	(7,680)	(376)	10,075	1,702	49,343
2017	33,360	7,008	(3,030)	(118)	5,755	1,198	44,173
2018	30,280	5,551	(530)	(28)	3,480	911	39,664
2019	26,365	4,141	—	—	2,995	772	34,273
2020	21,475	3,008	—	—	2,995	652	28,130
2021	16,990	2,030	—	—	2,660	532	22,212
2022	13,140	1,203	—	—	2,660	426	17,429
2023	9,640	569	—	—	2,660	319	13,188
2024	2,570	109	—	—	2,660	213	5,552
2025	—	—	—	—	2,660	106	2,766
Totals	\$780,211	\$258,291	\$ (56,880)	\$ (22,401)	\$ 127,775	\$50,802	\$1,137,800

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

* Rows and columns may not add due to rounding.

Source: City of Boston Auditing Department

Rate of Principal Retirement

The City will retire the following amounts of principal of its outstanding 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:

Term of Retirement	Debt Outstanding	Percentage of	Debt Outstanding	Percentage of
	as of February 1, 2005 to be retired (in thousands)	Debt Outstanding as of February 1, 2005 to be retired	After Issuance of the Bonds to be retired (in thousands)	Debt Outstanding After Issuance of the Bonds to be retired
Fiscal 2005-2010	\$340,956	43.7%	\$366,171	43.0%
Fiscal 2011-2015	248,485	31.8	266,805	31.4
Fiscal 2016-2020	148,430	19.1	162,490	19.1
Fiscal 2021-2025	<u>42,340</u>	<u>5.4</u>	<u>55,640</u>	<u>6.5</u>
Total	\$780,211	100.0%	\$851,106	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 Underwriters, (d) contesting the power of the City to levy and collect taxes to pay the Bonds (e) contesting the corporate existence or boundaries of the City, or (f) contesting the title of officials of the City who have acted with respect to the proceedings for the issuance and sale of the Bonds to their respective offices.

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

TAX EXEMPTION

In the opinion of Palmer & Dodge LLP, Bond Counsel to the City (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

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

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The City has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that any pending, proposed or future legislation, including amendments to the Code, if enacted into law, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective holders of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or

the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a holder of the Bonds. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

CREDIT RATINGS

FitchRatings ("Fitch"), One State Street Plaza, New York, New York, Moody's Investors Service Inc., ("Moody's"), 99 Church Street, New York, New York, and Standard & Poor's Rating Services, a division of the McGraw-Hill companies ("Standard & Poor's"), 55 Water Street, New York, New York, have assigned the ratings of "AA," "Aa1," and "AA," respectively, to the Bonds, reflecting the City's capacity to pay debt service. Fitch, Moody's and Standard & Poor's have also assigned ratings of "AAA," "Aaa," and "AAA," respectively, to the Insured Bonds, and have done so with the understanding that, upon delivery of such Insured Bonds, MBIA will issue its financial guaranty insurance policy guaranteeing the regularly scheduled payments of principal and interest when due on the Insured Bonds. See "Bond Insurance" herein, and Appendices F and G. 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 February 9, 2005, in accordance with the Official Notice of Sale dated February 1, 2005. Goldman, Sachs & Co. ("Goldman Sachs") was the successful bidder for the Bonds. Information provided by Goldman Sachs regarding the interest rates and reoffering yields of the Bonds is set forth on the cover of this Official Statement. The Bonds are being purchased from the City by Goldman Sachs at an aggregate price of \$137,895,517.54, plus accrued interest, reflecting the principal amount of \$127,775,000.00, plus net original issue premium of \$10,409,050.10, less the underwriters' discount of \$288,532.56. Goldman Sachs, and any of its associates underwriting the Bonds, may offer to sell the Bonds to certain dealers and others at prices other than the initial public offering prices, and the public offering prices may be changed from time to time by the underwriters.

LEGAL MATTERS

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

INDEPENDENT AUDITORS

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

FINANCIAL ADVISOR

Public Financial Management, Inc. ("PFM") has served as financial advisor to the City for the issuance of the Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement. 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 underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), the City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 365 days after the end of each fiscal year (the "Annual Report"), and to provide notices of occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix E. 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.

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 made hereunder 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/ Lisa C. Signori
Chief Financial Officer and Collector-Treasurer

Dated: February 9, 2005

CITY OF
BOSTON, MASSACHUSETTS



INFORMATION STATEMENT
Dated February 1, 2005

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

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

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

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

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THE CITY

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

The Mayor is the chief executive officer of the City. Thomas M. Menino, the Mayor of the City, was reelected to serve a third four-year term from January 2002 through January 2006. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The portion of the City budget covering appropriations for all departments and operations of the City, except the School Department, the Boston Public Health Commission, and the Office of the Sheriff of Suffolk County, is prepared under the direction of the Mayor. Prior to his first elected term, Mayor Menino had served for approximately four months as acting Mayor. Prior to his service as acting Mayor, the Mayor served on the City Council. He served as Chairman of the City Council's Ways and Means Committee from 1988 to 1992, and was elected President of the City Council in 1993.

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

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

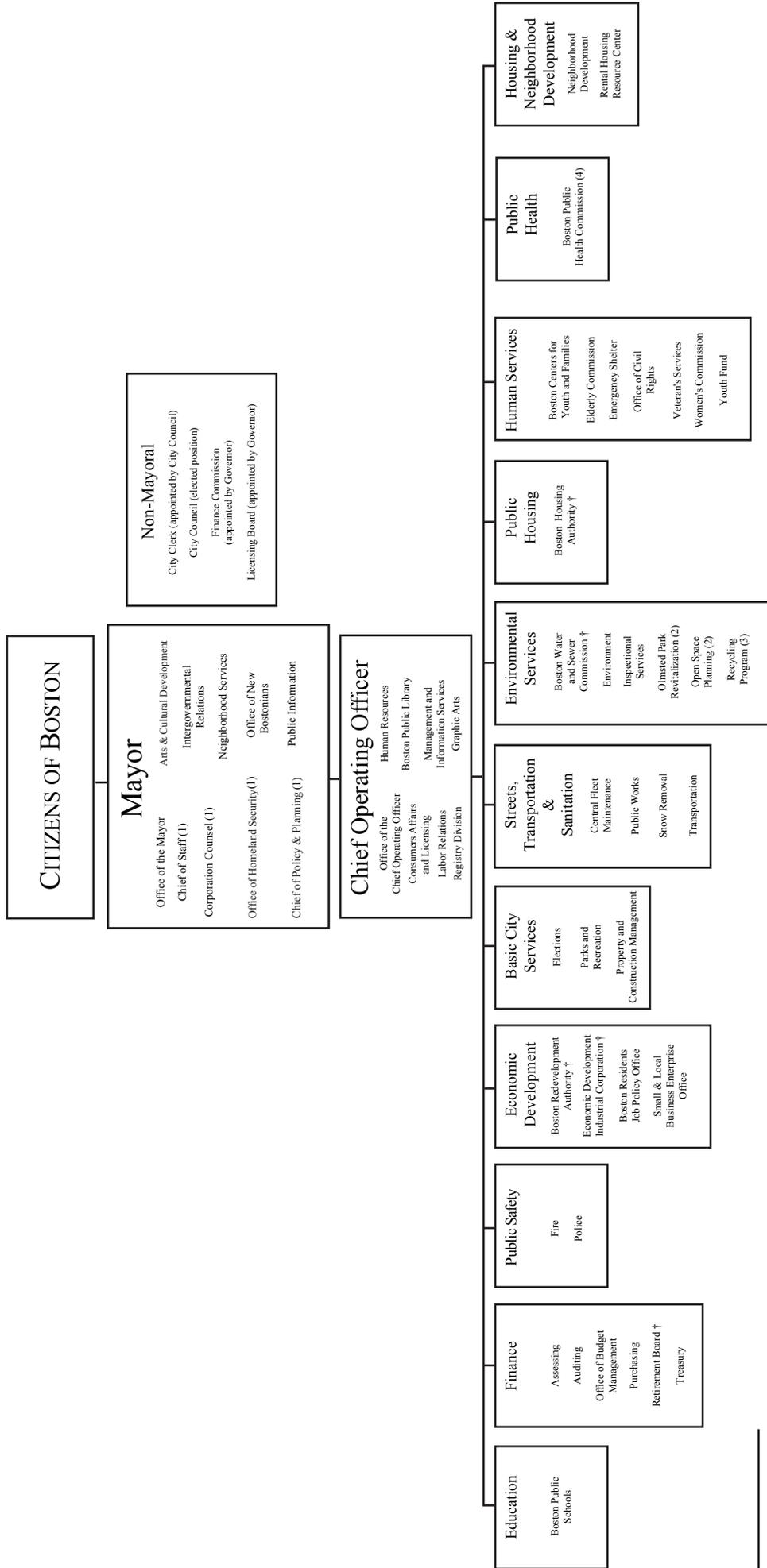
Michael F. Flaherty, Jr. (President).....	At Large
Maura A. Hennigan.....	At Large
Stephen J. Murphy.....	At Large
Felix D. Arroyo.....	At Large
Paul J. Scapicchio.....	District 1
James M. Kelly.....	District 2
Maureen E. Feeney.....	District 3
Charles C. Yancey.....	District 4
Robert J. Consalvo.....	District 5
John M. Tobin.....	District 6
Charles H. Turner.....	District 7
Michael P. Ross.....	District 8
Jerome P. McDermott.....	District 9

Organization of City Government

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

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

ORGANIZATION OF CITY GOVERNMENT



† Not in Budget. For a description of the activities of the Retirement Board see "Retirement Systems," herein. The Boston Redevelopment Authority, Economic Development Industrial Corporation, Boston Water and Sewer Commission, and Boston Housing Authority are independent 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."

- (1) Has cabinet rank.
- (2) Programmatically within this cabinet. Financially in Parks and Recreation.
- (3) Programmatically within this cabinet. Financially in Public Works.
- (4) The Boston Public Health Commission is a body politic and corporate and a political subdivision of the Commonwealth created in June, 1996 as successor to the City's former Department of Health and Hospitals. See City Government—Principal Government Services—Public Health" and "City Indebtedness—Debt of Agencies Related to the City—Boston Public Health Commission."

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

Chief of Staff

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

Chief of Policy and Planning

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

Chief Operating Officer

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

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

Chief Financial Officer and Collector-Treasurer

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

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

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

Budget Director

Karen A. Connor was appointed Acting Budget Director by Mayor Menino in October 2003. Prior to her appointment, Ms. Connor served as a Deputy Budget Director. The Budget Director is responsible for the supervision of the Office of Budget Management ("OBM"), which develops and oversees the operating budget for all departments and operations of the City except the School Department. OBM is also responsible for the City's Capital Plan. OBM prepares and monitors the City's capital budget and coordinates strategic and long-range capital planning for City departments.

City Auditor

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

Commissioner of Assessing

Ronald W. Rakow was appointed by Mayor Flynn in March 1993. Prior to his appointment, Mr. Rakow served as the Acting Commissioner of Assessing from September 1992 to March 1993. Prior to his appointment as the Acting Commissioner of Assessing, Mr. Rakow served as the Director of Research and Standards for the City Assessing Department. The Commissioner of Assessing is responsible for supervision of the City's Assessing Department and the valuation for purposes of the tax levy of real and personal property located in the City.

Chief Economic Development Officer

Mark Maloney was appointed Chief Economic Development Officer and Director of the Boston Redevelopment Authority (the "BRA") in January 2000. Prior to his appointment, Mr. Maloney served as President of Maloney Properties, Inc., a real estate management firm managing housing, especially affordable housing, throughout the greater Boston area. The Chief Economic Development Officer is responsible for planning, zoning, and economic development for the City. The Economic Development Cabinet is comprised of the BRA, the Economic Development and Industrial Corporation ("EDIC"), including the EDIC's office of Jobs and Community Services, and the Office of Small and Local Business Enterprises.

Chief of Education

Thomas W. Payzant was named Superintendent of the Boston Public Schools by the Boston School Committee in July 1995 and his term extends to December 2005. Prior to his appointment by the Boston School Committee, Dr. Payzant served as the Assistant Secretary of Education for Elementary and Secondary Education, United States Department of Education and he had served as Superintendent of the San Diego Public Schools for ten years. The Education Cabinet is responsible for managing the Boston Public Schools. Among the Education Cabinet's responsibilities is the development of a plan for schools and other City and non-City agencies to develop cooperative programs to guarantee that the best possible resources are available to Boston's children. For a description of the student population, staffing, curricula, and governance of the Boston Public Schools, see "The City—Principal Government Services—Schools" below.

Chiefs of Public Safety

Kathleen M. O'Toole, the City's Police Commissioner, and Paul A. Christian, the City's Fire Commissioner, are the Chiefs of the Public Safety Cabinet. Commissioner O'Toole, a veteran with more than 20 years of law enforcement experience, was appointed Police Commissioner by Mayor Menino in February 2004. Commissioner Christian, a 37-year veteran, was appointed Fire Commissioner by Mayor Menino in November 2001. The City's Police and Fire Departments provide and promote public safety and protection services, firefighting and fire prevention services. For a description of Police and Fire Department resources and personnel see "The City—Principal Governmental Services—Public Safety" below.

Director of the Office of Homeland Security

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

Chief of Human Services

J. Larry Mayes was appointed Chief of Human Services by Mayor Menino in September 2004. The Human Services Cabinet is responsible for providing human and other support services for all of Boston's residents through its seven departments: Boston Centers for Youth and Families, the Boston Youth Fund, the Elderly Commission, the Emergency Shelter Commission, the Women's Commission, the Veteran's

Services Department, and the Office of Civil Rights, which is comprised of the Fair Housing Commission, the Commission for People with Disabilities, and the Human Rights Commission.

Chief of Public Health

John M. Auerbach became Executive Director of the Boston Public Health Commission effective February 1, 1998. In that capacity Mr. Auerbach joined the Mayor's cabinet as the Chief of Public Health. Prior to his appointment Mr. Auerbach served as the Assistant Commissioner of the Commonwealth's Department of Public Health, and as Director of the Commonwealth's HIV/AIDS Bureau. The Commission, an independent agency, is a body politic and corporate and political subdivision of the Commonwealth. The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. The Commission is divided into six programmatic areas. These are: the Emergency Medical Service, which includes the City's ambulances, EMTs and paramedics responding to the "911" emergency system; Homeless Services; Communicable Disease Control; Substance Abuse Services; Community Health; and Child and Family Health. For additional information concerning the Boston Public Health Commission see "The City—Principal Government Services—Public Health" below.

Chief of Basic City Services

Michael Galvin was appointed Chief of Basic City Services by Mayor Menino in August 1994. Prior to his appointment, Mr. Galvin was employed by NYNEX and had previously served as the City's first "Executive on Loan." The Basic City Services Cabinet consists of the Parks and Recreation Department, the Office of Special Events and Tourism, the Election Department, the Property and Construction Management Department, of which Mr. Galvin is Commissioner and Director of Public Facilities, and which includes Capital Construction, the Animal Control Unit, Building Maintenance and Systems, and Municipal Police. The Cabinet's charge includes investigating opportunities to apply technological innovations to reduce costs or improve the delivery of basic services.

Chief of Environmental Services

In June 2004 Andrea d'Amato, the Mayor's Chief of Environmental Services, left the Mayor's cabinet. A search for Ms. d'Amato's successor is currently underway. The Environmental Services Cabinet is made up of the Environment Department, and the Inspectional Services Department, the Boston Water & Sewer Commission, the Recycling Program of the Public Works Department, Open Space Planning and Olmsted System Revitalization of the Parks and Recreation Department, and the Sustainable Boston Program. The Chief of Environmental Services works in conjunction with the Massachusetts Bay Transportation Authority (the "MBTA") and coordinates the City's relationship with the Federal Environmental Protection Agency, the state Executive Office of Environmental Affairs, and the Metropolitan Area Planning Commission.

Chief of Housing and Neighborhood Development

Charlotte Golar Richie was appointed Chief of Housing in January 1999. Prior to her appointment, Ms. Richie was State Representative of the Fifth Suffolk District, which includes the City's Dorchester and Roxbury neighborhoods. In her capacity as Chief of Housing, Ms. Richie is the Director of the Department of Neighborhood Development and is responsible for overseeing the Rental Housing Resource Center ("RHRC"). The Department of Neighborhood Development is responsible for business development, homeowner/homebuyer programs, housing development, surplus land and building management and disposition, and certain City capital construction projects. The RHRC provides a variety of services to tenants and owners of the City's residential housing stock.

Chief of Public Housing

Sandra B. Henriquez was appointed Chief of Public Housing in December 1996, when Mayor Menino elevated the position of Administrator of the Boston Housing Authority (the "BHA") to the level of a cabinet post. Prior to her appointment as Administrator of the BHA in April 1996, Ms. Henriquez was a principal of Maloney Properties, Inc., a private management firm specializing in the delivery of property management services to resident-controlled and non-profit sponsored housing. The Boston Housing Authority is a public body established under the laws of the Commonwealth of Massachusetts. It is responsible for the financing, construction, operation, and management of public housing for low-income families and individuals.

Chief of Streets, Transportation & Sanitation

The Streets, Transportation & Sanitation Cabinet includes the Public Works Department, the Transportation Department, Central Fleet Maintenance and Snow Removal. A Chief of Streets, Transportation & Sanitation has not yet been named. For additional information concerning the Public Works Department, see “The City—Principal Government Services—Public Works,” below.

Principal Government Services

The following tables show, respectively, the distribution of the City’s fiscal 2005 appropriations and full-time equivalent City employees by primary government functions and departments.

Purposes of City Appropriations—Fiscal 2005⁽¹⁾
(Budgetary Accounting Basis)⁽²⁾
(\$ in thousands)

	<u>Amount</u>	<u>Percent of Total Appropriations</u>
General Government	\$ 57,034	2.8%
Public Safety.....	409,147	21.2
Public Works	91,122	4.7
Property and Development.....	22,475	1.2
Parks and Recreation	14,486	0.8
Library.....	25,739	1.3
Human Services.....	24,516	1.3
Schools	680,118	35.3
Boston Public Health Commission.....	60,389	3.1
Judgments and Claims.....	3,500	0.2
Employee Benefits	146,289	7.6
Current Period Retirement Contributions.....	151,463	7.9
Debt Requirements	121,755	6.3
State and District Assessments.....	<u>121,079</u>	<u>6.3</u>
Total.....	<u>\$1,929,112</u>	<u>100.0%</u>

- (1) Represents the fiscal 2005 Tax Rate Budget as of December 17, 2004.
(2) See “Financial Operations – Operating Budgets” for a definition of budgetary accounting basis.

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

**Full-Time Equivalent
City Employees By Department⁽¹⁾**

	<u>2002</u>	<u>2003</u>	<u>2004</u>
<i>City Funded:</i>			
Public Safety ⁽²⁾	4,662	4,608	4,393
Public Works.....	451	426	409
Other City Departments	3,221	2,913	2,762
Boston Public Health Commission ⁽³⁾	<u>768</u>	<u>745</u>	<u>728</u>
Subtotal	<u>9,102</u>	<u>8,692</u>	<u>8,292</u>
Schools	<u>8,510</u>	<u>8,440</u>	<u>7,792</u>
Total City Funded	<u>17,612</u>	<u>17,132</u>	<u>16,084</u>
<i>Grant Funded:</i>			
Schools	925	934	866
All Others ⁽⁴⁾	<u>1,640</u>	<u>1,480</u>	<u>1,468</u>
Total	<u>20,177</u>	<u>19,546</u>	<u>18,418</u>

- (1) All data are as of January 1 in the year stated. The methodology used in compiling these data was established jointly by the City and the Boston Municipal Research Bureau.
(2) Public Safety includes both the Police Department and the Fire Department.
(3) Boston Public Health Commission employees are funded by the City, but are not employees of the City.
(4) Does not include grants managed by the Boston Public Health Commission.

Source: City of Boston Office of Budget Management.

A description of certain City principal governmental services follows:

Schools

The City's School Department provides both basic education and college preparatory curricula as well as specialized vocational educational programs. The school system enrolled 60,164 students for the 2003-2004 school year, a decrease of approximately 1,938 students from the preceding school year.

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

Public Safety

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

The Police Department maintains eleven neighborhood police stations and one headquarters building. It also maintains ten support programs, consisting of the Police Academy, Horse Stables, Firearms Training Range, Harbor Patrol Unit, Fleet Management Unit, Telecommunications Unit, Evidence and Property Management Facility, Special Operations Division, Stress Support Unit and Sexual Assault Unit. The City's newest police station in the South End was completed in Spring 2001.

The City's overall crime figures for Calendar Year 2004 (through November, 2004) show a 5.5% decrease compared to the same period in 2003.

The Fire Department maintains 40 facilities consisting of 34 neighborhood fire stations, one marine unit, a fire investigation unit/maintenance division, a high-pressure pumping station, a training academy, a fire alarm operation division and headquarters. In 2004, in order to facilitate mitigation of emergencies and fires, the Fire Department began to provide critical information to firefighters wirelessly via laptop computers.

In calendar year 2004 the Fire Department responded to 70,463 incidents, a reduction of 5.6% compared to calendar year 2003. Of the calendar year 2004 total, 27,339 responses were calls of an emergency medical nature. The number of structural fires increased 6.6%, from 1,711 in 2003 to 1,823 in 2004, but multiple alarm fires decreased 16.7% from 30 in 2003 to 25 in 2004.

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

Public Health

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

The Commission, as a separate entity from the City, is governed by a seven-member board, six of whom are appointed by the Mayor, subject to confirmation by the City Council, and one of whom, as the chief executive officer of BMCC, serves ex-officio. The Commission functions as the City's board of health and operates a wide range of public health programs throughout the City funded from public and

private grants and City appropriations. The Commission is a discretely presented component unit for GAAP reporting purposes in the City's annual audited financial statements.

Public Works

The Public Works Department constructs and maintains highways, sidewalks, street lighting and bridges, and oversees snow removal, street cleaning, refuse removal and recycling. The City advertised, awarded, and executed five contracts for the provision of sanitation, solid waste collection and disposal services, including recycling, for a three-year term beginning July 1, 2002 and ending June 30, 2005, with a two-year option to renew. The cost of these services equaled approximately \$41.7 million in fiscal 2004. The estimated cost of these contracts in fiscal 2005 equals approximately \$43.0 million. The Boston Water and Sewer Commission ("BWSC"), an independent agency, is responsible for the operation and maintenance of the City's water, and sewer, and storm water drainage systems, the construction of improvements to those systems, and the collection of user charges for its services. See "City Indebtedness—Debt of Agencies Related to the City—Boston Water and Sewer Commission" below.

Other Services

The Boston Public Library Department operates a central library, 26 neighborhood branch libraries, a downtown business library, and two service buildings. The Parks and Recreation Department manages approximately 2,200 acres of active, passive and historic parkland. The 2,200 acres of land include 272 parks, playgrounds, squares, malls, plazas, and other miscellaneous sites; sixteen historic and three active cemeteries; one greenhouse facility; and approximately 50,000 street trees.

Office of the Suffolk County Sheriff

While existing state law provides that the Mayor and City Council serve as the Commissioners of Suffolk County, which includes the Cities of Boston, Chelsea and Revere and the Town of Winthrop, all of the functions and costs of county government, including the county courts and registry of deeds, have been assumed by the Commonwealth, other than the operations of the Office of the Suffolk County Sheriff. The Suffolk County Sheriff is an elected position under state law who administers the county jail and houses of correction independent of the City. Legislation is currently pending in the state legislature to abolish the government of Suffolk County.

Under legislation enacted in 1985 and 1991, the Commonwealth assumed responsibility for all of the capital costs of the county jail and houses of correction. Currently, the operating budget for the Office of the Suffolk County Sheriff is prepared under the supervision of the Sheriff, without submission to or approval by the Mayor or the City Council, but subject to approval by the Commonwealth's County Government Finance Review Board, consisting of the Secretary of Administration and Finance, the Commissioner of Revenue and the Secretary of Public Safety. Since 1992, the Commonwealth has also assumed responsibility for varying percentages (approximately 96% in fiscal 2005) of the state-approved operating budget for the Sheriff's Office. The City's fiscal 2005 budget includes an appropriation for the remaining 4% of the state-approved budget.

Employee Relations

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

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

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

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

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

Collective Bargaining Units (City and Schools)

<u>Union</u>	<u>Department</u>	<u>Number of Employees Represented</u> ⁽¹⁾	<u>Contract Expiration Date</u> ⁽²⁾
Boston Patrolmen's Association	Police	1,438	6/30/06
Boston Police Superior Officers	Police	242	6/30/06
Boston Police Detectives Benevolent Society	Police	249	6/30/06
Superior Detective Benevolent Society	Police	107	6/30/06
Police Cadet Association	Police	16	9/30/06
School Traffic Supervisors Assoc.	Police	200	11/30/06
International Association of Firefighters, Local 718	Fire	1,572	6/30/06
Municipal Police Patrolmen's Association	Property & Construction Mgmt	109	6/30/06
Municipal Police Superior Officers Association	Property & Construction Mgmt	21	6/30/07
SEIU, Local 888	Citywide	1,122	9/30/06
SENA, Locals 9158 and 9158E	Citywide	660	6/30/06
AFSCME C93 (Citywide & various locals)	Citywide	1,208	6/30/06
AFSCME Local 1526	Library	285	9/30/06
Professional Staff Association (BPL)	Library	153	9/30/06
Graphic Arts Unions	Graphic Arts and Police	24	9/30/06
Other City Unions	Inspectional Services and Property & Construction Mgmt	40	6/30/06
Boston Teachers Union	School	7,558	8/31/06
BASAS (School Administrators & Supervisors)	School	293	8/31/06
SEIU Local 888	School	413	11/30/06
Boston School Police	School	62	8/31/06
School Police Superior Officers Assoc.	School	20	6/30/02 ⁽²⁾
School Custodians Local 1952, Painters & Allied	School	407	8/31/08
Trades District Council #35			
Plant Administrators Association	School	13	8/31/08
School Bus Monitors USWA Local 8751	School	403	6/30/07
Lunch Hour Monitors Association	School	318	8/31/04 ⁽²⁾
AFSCME C93, Local 230 Cafeteria Workers	School	318	8/31/03 ⁽²⁾
AFSCME C93, Storekeepers & Deliverymen	School	15	8/31/02 ⁽²⁾
		17,266	

(1) Number of members as of January 1, 2004. Refinement of methodology may result in adjustments to number of members reflected for School unions.

(2) The City is currently in negotiations with those school units whose contracts have expired.

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

FINANCIAL OPERATIONS

Budget Process

Program-Based Budgeting

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

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

The City Council may reduce or reject any item in the Mayor’s budget but may not, except upon the recommendation of the Mayor, increase or add an item. After approval of the budget and until the property tax rate is officially determined in mid-December, the Mayor may submit to the City Council such supplementary appropriation requests as are deemed necessary, including supplemental amounts for the School Department and the Boston Public Health Commission. The Mayor may also submit to the City Council supplementary appropriation requests subsequent to the setting of the property tax rate. Under certain circumstances, the Mayor may, by executive order, require expenditures to be limited to an amount less than the appropriated level.

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

The City, Boston Public Health Commission and School Department operating budgets for fiscal 2005 were approved by the City Council on June 30, 2004. See “Financial Operations—Fiscal 2005 Budget”. The Mayor also initiates loan orders for City Council consideration, based on an annual update of the Five-Year Capital Plan. There is no statutory time frame for requesting or approving such orders. New authorizations related to the fiscal 2005 Five-Year Capital Plan were submitted to the City Council on April 14, 2004, and were approved by the City Council in June 2004.

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

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

Capital Budgeting

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

CBP evaluates and refines the relationship between the City's capital needs and resources as the City moves through each fiscal year. This process is documented by an annually updated five-year capital plan. In April 2004, Mayor Menino released the FY05-09 capital plan, incorporated with the operating budget. In addition to its planning functions, CBP also plays an ongoing project oversight role during the implementation phase of its capital projects. CBP reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

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

In accordance with state law and regulations, the City's legally adopted General Fund budget as shown below is prepared on a "budgetary basis" instead of accounting principles generally accepted in the United States of America ("GAAP"). For purposes of comparison the table below includes budgetary actual results for fiscal 2001 through fiscal 2004, alongside fiscal 2005 budget numbers. Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover for a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures.

In fiscal 2004, the Commonwealth's Department of Revenue included Charter School Tuition for the first time as part of the City's state assessments, thus increasing the City's total expenditures. Prior to this change, the City accounted for Charter School Tuition as an offset to State Aid thus reducing total revenues. While this change in accounting method has no impact on the budget balance ("Excess of Revenues over Expenditures"), it does skew the annual comparisons of total expenditures and of total revenues between years prior to fiscal 2004 and after.

Thus, in order to state the comparisons fairly, both the table prior and the following text are adjusted to the fiscal 2004 and 2005 reporting method and assume the amount charged to the City for Charter School Tuition in fiscal 2001, 2002 and 2003 is accounted for as a charge and not as revenue offset. The following comparisons are impacted by this adjustment: total expenditures, total revenues, state assessments and state aid.

Fiscal 2005 Budget
Compared to Fiscal 2001, Fiscal 2002, Fiscal 2003 and Fiscal 2004 Actual Results
General Fund—Budgetary Basis
(\$ in millions)*

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
	Actual	Actual	Actual	Actual	Budget ⁽¹⁾
	Results	Results	Results	Results	
Revenues:					
Recurring Revenue					
Property Taxes	\$ 917.9	\$ 972.7	\$ 1,035.9	\$ 1,094.1	\$ 1,148.7
Overlay Reserve ⁽²⁾	(43.9)	(46.3)	(39.8)	(42.1)	(43.7)
Excises.....	72.7	80.6	83.1	59.6	66.0
Fines	59.8	60.7	59.0	66.7	62.0
Interest on Investments	26.1	14.8	8.6	7.8	7.3
Payments In Lieu of Taxes	25.9	19.6	22.1	22.3	22.8
Urban Redevelopment Chapter 121A.....	46.9	48.4	54.1	54.8	50.2
Misc. Department Revenue.....	45.1	54.1	45.6	40.8	30.2
Licenses and Permits.....	37.8	29.6	30.1	34.8	25.4
Penalties & Interest	8.0	8.1	9.2	9.8	8.0
Available Funds	8.4	4.6	11.8	2.9	12.0
State Aid.....	505.7	522.7	476.6	459.8	462.0
Teachers' Pension Reimbursement.....	41.4	45.3	53.7	61.4	61.4
Total Recurring Revenue.....	\$ 1,751.6	\$ 1,814.8	\$ 1,849.9	\$ 1,872.8	\$ 1,912.2
Non-Recurring Revenue ⁽³⁾	—	—	13.0	20.0	16.9
Total Revenues.....	\$ 1,751.6	\$ 1,814.8	\$ 1,862.9	\$ 1,892.8	\$ 1,929.1
Expenditures:					
Departmental Expenditures					
City Departments	\$ 727.8	\$ 754.6	\$ 776.5	\$ 779.5	\$ 798.6
Boston Public Health Commission.....	62.1	64.0	63.9	58.8	60.4
School Department.....	611.9	639.7	650.6	656.5	680.1
Collective Bargaining Reserve.....	12.5	6.2	8.4	21.3	—
Total Departmental Expenditures.	\$ 1,414.4	\$ 1,464.5	\$ 1,499.4	\$ 1,516.0	\$ 1,539.1
Fixed Costs					
Pensions ⁽⁴⁾	\$ 127.5	\$ 129.7	\$ 134.4	\$ 137.0	\$ 146.6
Debt Service ⁽⁵⁾	106.0	115.6	121.3	123.9	122.4
State Assessments	88.7	94.3	101.1	106.5	116.9
Suffolk County Sheriff.....	6.0	4.5	4.7	4.6	4.2
Reserve	0.5	1.0	0.2	0.4	0.0
Total Fixed Costs.....	328.7	345.2	361.8	372.4	390.0
Total Recurring Expenditures.....	\$ 1,743.0	\$ 1,809.7	\$ 1,861.1	\$ 1,888.4	\$ 1,929.1
Excess of Revenues Over Expenditures	\$ 8.6	\$ 5.2	\$ 1.8	\$ 4.4	\$ 0.0

* Columns may not add due to rounding.

- (1) Represents the budget at the time of the approval of the tax rate budget on December 17, 2004.
- (2) The City requirement to reserve an amount equivalent to between 5% and 6% of each year's net property tax levy in a reserve for property tax abatements was repealed in 2003. If the City's reserves for abatements prove at the end of the fiscal year to be insufficient to cover the City's abatement liability, the City is required to raise in the following year's tax rate an amount sufficient to generate additional reserves to cover the shortfall.
- (3) Non-recurring revenue represents a portion of the proceeds from the Surplus Property Fund in fiscal 2003 (\$13.0 million) and Budgetary Fund Balance (\$20.0 million) in fiscal 2004. Non-recurring revenue of \$16.9 million in fiscal 2005 consists of proceeds from the Surplus Property Fund (\$1.9 million) and Budgetary Fund Balance (\$15.0 million).
- (4) Excludes noncontributory pensions and annuities that are included in departmental expenditures. The amount of such non-contributory pensions and annuities equaled \$6.3 million, \$6.0 million, \$4.9 million and \$4.9 million, respectively in fiscal 2001, 2002, 2003 and 2004.
- (5) The debt service amount is derived from principal and interest, less certain offsetting revenues. The revenues utilized to offset debt for budgetary and tax rate setting purposes vary from those used in the table "Debt Service Requirements-Fiscal 2000-2004." See "City Indebtedness-Debt Service Requirements."

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

Fiscal 2001-2004 Actual Results

On a budgetary basis, fiscal 2001 and fiscal 2002 were stable years during which the City received adequate resources, controlled spending and added to reserve fund balance. During fiscal 2003 and fiscal 2004, the City absorbed substantial decreases in annual aid from the Commonwealth and in various economically sensitive excise tax revenue streams due to the national recession. (For a discussion of aid from the Commonwealth, see "City Revenues—State Aid.") These revenue reductions occurred in tandem with increasing fixed costs, specifically in the areas of employee health insurance and pension funding. In response, the City implemented several cost containment and reduction initiatives including, among others, a position control review board, a hiring freeze, retirement incentives, a three-year extension of the pension funding schedule, and the first use of reserve fund balance in over ten years. Through these efforts and continued growth in the property tax, the City maintained a balanced operating budget, protected core public services and produced operating surpluses throughout this period.

Fiscal 2005 Budget

The following is a summary of the City's fiscal 2005 budget on a budgetary accounting basis. The figures cited are from the fiscal 2005 tax rate budget at the time of certification of both the aggregate amount of and the rates of tax for the City's fiscal 2005 property tax levy by the Massachusetts Department of Revenue. This certification was completed on December 17, 2004.

Expenditures

In fiscal 2005, the City's budgeted expenditures total \$1.93 billion including direct expenditures for departmental services and fixed expenses, representing an increase of \$40.7 million or 2.2% from fiscal 2004 actual expenditures. Budgeted fiscal 2005 departmental expenditures compare with actual fiscal 2004 expenditures as follows: City departments increased \$19.2 million or 2.5%; the Boston Public Health Commission increased \$1.6 million or 2.8%; the School Department increased \$23.6 million or 3.6%; the Collective Bargaining Reserve decreased \$21.3 million or 100%. Budgeted fixed expenses for fiscal 2005 compare with the fiscal 2004 actual expenses as follows: Pensions increased \$9.6 million or 7.0%; debt service decreased \$1.5 million or 1.2%; State Assessments increased \$10.4 million or 9.7%; budgeted expenditures for the Office of the Suffolk County Sheriff decreased \$0.4 million; or 7.7%. The appropriation for the Suffolk County Sheriff is treated as a mandatory expenditure included in Fixed Costs because it is required by, and calculated in accordance with, state law. See "The City—Principal Government Services—Office of the Suffolk County Sheriff."

The increases in City Departments, as well as the School Department and the Public Health Commission, are the result of collective bargaining costs in fiscal year 2005, and inflationary increases in health insurance and non-personnel costs such as utilities and trash removal. The decrease in the Collective Bargaining Reserve is the result of the costs for collective bargaining now being reflected in the appropriate department budgets for fiscal year 2005. The Pension increase is mandated by the City's pension funding schedule as approved by the State-Boston Retirement System and the state actuary and is a legal obligation of the City. State Assessments are also mandatory; the amounts are determined by the Commonwealth and are communicated to the City.

Revenues

Budgeted revenues for fiscal 2005 equaled \$1.93 billion, an increase of \$36.3 million or 1.9% from fiscal 2004 actual revenues. Selected fiscal 2005 budgeted revenues compare with fiscal 2004 actual revenues as follows: the Gross Property Tax Levy (including new growth) increased \$54.6 million or 5.0%; Excises increased \$6.4 million or 10.7%; Fines decreased \$4.6 million or 7.0%; Interest on Investments decreased \$0.5 million or 6.3%; Payments in Lieu of Taxes ("PILOTs") increased \$0.5 million or 2.2%; Chapter 121A distributions decreased \$4.6 million or 8.3%; Miscellaneous Department Revenue decreased \$10.6 million or 25.9%; Licenses and Permits decreased \$9.5 million or 27.2%; Available Funds from parking meter and cemetery fees increased \$9.1 million; State Aid increased \$2.1 million or 0.5%; Non-Recurring Revenue decreased by \$3.1 million or 15.6%.

Property Taxes, the City's largest source of revenue, have become increasingly important to the City's revenue growth given the recent reductions in State Aid. Property tax revenues are expected to rise \$54.6 million in fiscal 2005 after having increased by over \$50 million in each of fiscal years 2002, 2003 and 2004. The near-term outlook for the City's property tax levy is one of stable and sustained growth.

The increase in Excises is due to an expected recovery in fiscal 2005 in room occupancy and jet fuel excises. Room occupancy and jet fuel excises are expected to increase over fiscal 2004 as business and leisure travel recover. The decrease in Fines is due to a lower staffing level of parking enforcement officers in fiscal 2005. The decrease in Miscellaneous Department Revenue is due to the expected absence of various unpredictable departmental reimbursements present in fiscal 2004. The decrease in Licenses & Permits is due to expected lower building permit activity with increasing interest rates. The increase in Available Funds is due to the low amount actually used in fiscal 2004. The minor increase in State Aid is due to increases in various reimbursements. The decrease in Non-Recurring Revenue is due to the use of \$5 million less in Budgetary Fund Balance than in fiscal 2004, only the second use of this reserve since 1992. Budgetary Fund Balance is available for appropriation after certification of its value by the Department of Revenue.

Financial Statements

The City engages independent certified public accountants to audit and report on its financial statements in accordance with auditing standards generally accepted in the United States of America. An

external Audit Committee, appointed by the Mayor, monitors the progress of the annual audit, reviews the recommendations of the firm and reports the Committee’s activities and recommendations to the Mayor and the City Council.

The City’s audited financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, (“GAAP”). The accounts of the City are organized on the basis of funds. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets/fund balance, revenues and expenditures/expenses. For a discussion of the significant accounting policies employed in preparing the City’s fiscal 2004 audited financial statements, see Note 2 of such audited financial statements, which are attached hereto as Supplement I. The City’s fiscal 2004 financial statements comply with GASB Statement No. 34, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements*.

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 2004 audited financial statements, attached hereto as Supplement I.

Summary and Comparison of Operating Results (GAAP Basis)—Fiscal 2000-2004

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 2000 through 2004 prepared by the City and audited by KPMG LLP, an independent certified public accounting firm, in accordance with the GAAP basis of accounting.

**Summary of Statements of Revenues, Expenditures, Other Financing Sources
and Changes in Fund Equity Fiscal Years 2000-2004 (GAAP Basis)
(\$ in millions)***

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total revenues	\$1,621.5	\$1,692.7	\$1,801.3	\$1,794.5	\$1,824.2
Total expenditures	<u>1,536.3</u>	<u>1,603.9</u>	<u>1,735.1</u>	<u>1,739.9</u>	<u>1,758.8</u>
Excess of revenues over expenditures	85.2	88.8	66.2	54.6	65.4
Total other financing (uses) sources	<u>(41.2)</u>	<u>(43.0)</u>	<u>1.8</u>	<u>34.6</u>	<u>16.5</u>
Excess of revenues and other financing sources over expenditures and other financing uses.....	<u>44.0</u>	<u>45.8</u>	<u>67.9</u>	<u>89.2</u>	<u>81.9</u>
Fund balance, beginning of year as previously reported	<u>176.7</u>	<u>220.7</u>	<u>266.5</u>	<u>402.1</u>	<u>491.4</u>
Cumulative change in accounting principles ⁽¹⁾	-	-	67.7	-	-
Fund Balance, beginning of year as restated ..	<u>-</u>	<u>-</u>	<u>334.2</u>	<u>-</u>	<u>-</u>
Fund balance, end of year ⁽²⁾	<u>\$ 220.7</u>	<u>\$ 266.5</u>	<u>\$ 402.1</u>	<u>\$ 491.4</u>	<u>\$ 573.2</u>

* Columns may not add due to rounding.

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

(2) The undesignated fund balances for the General Fund for fiscal 2000, 2001, 2002, 2003 and 2004 were \$163.3 million, \$182.0 million, \$345.8 million, \$331.5 million and \$377.1 million, respectively.

Source: City of Boston Auditing Department.

The following is a summary analysis of the City’s financial operations on a GAAP basis over the period fiscal 2002 through fiscal 2004. The figures appearing in this section for the period are derived from the annual financial statements. The analyses of revenues and expenditures in the text that follows are stated using data derived from the audited financial statements. For an explanation of the differences between the GAAP basis and Budgetary basis of accounting, see the audited financial statements at Supplement I, Note No. 4, “Budgetary Data.”

The City’s major recurring revenue sources during this period were real and personal property taxes, state aid, payments in lieu of taxes (“PILOTs”), local excises and departmental revenues, and other intergovernmental sources. The principal expenditures were for public safety, debt requirements, retirement

costs, and the School Department. Reference is made to Supplements I and II attached hereto for a detailed presentation of the City's financial operations.

Fiscal 2002

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

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

As a result of implementing GASB Statement No. 34 and other related Statements, certain fund liabilities that existed at June 30, 2001 were reduced to reflect only the portion of the liability that was "due." The impact of this change on the general fund equity was to reduce liabilities and increase fund equity at July 1, 2001 by \$67.7 million. For additional information, see "Financial Operations—Financial Statements," above.

Fiscal 2003

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

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

(6.3%). This resulted from increased costs of health insurance. Retirement Costs decreased by \$7.3 million (8.9%) as a result of receiving higher than projected revenue as reimbursements for Teachers' Retirements.

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

The General Fund's equity balance as of June 30, 2003 was \$491.4 million, as compared to \$402.1 million in fiscal 2002. The increase is primarily due to an increase in property tax revenue.

Fiscal 2004

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

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

The General Fund's equity balance as of June 30, 2004 was \$573.2 million, as compared to \$491.4 million in fiscal 2003. The increase of \$81.9 million or 16.7%, is primarily due to an increase in property tax revenues and adjustments to accruals not reported on a GAAP basis. Please refer to the statements of General Fund activity on pages 14 through 19 of the Basic Financial Statements (Supplement I attached hereto) and Note 2 in Notes to Basic Financial Statements for a more in-depth explanation of these entries and the manner in which they impact the Fund equity balance calculation.

Cash Flows

The following table represents the end-of-month unaudited cash balances for the City's General Fund commencing with fiscal 2002 and ending with the most recent month for which data is available. Prudent cash management policies have enabled the City to avoid the need for short-term borrowings for operating purposes since fiscal 1987.

The cash balances presented do not necessarily reconcile with revenue and expenditures for similar accounts calculated on a budgetary accounting basis or on a GAAP basis. In order to achieve revenue and expenditure data for a particular fiscal year, the cash flow receipts and disbursement results are subject to normal year-end closing adjustments.

General Fund End-of-Month Cash Balances for Fiscal 2002-2005
(\$ in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
July	\$614,109	\$682,030	\$581,902	\$683,229
August	648,352	713,968	652,157	723,471
September	659,778	705,532	657,697	786,818
October	578,666	694,431	682,418	771,963
November	578,712	680,607	653,917	761,412
December	527,393	658,939	596,227	636,217
January	543,724	412,265	567,665	
February	544,255	533,376	614,063	
March	588,263	498,945	581,150	
April	602,094	554,653	633,748	
May	604,182	563,193	648,230	
June	640,038	571,334	718,903	

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

Revenue Collections

The City has maximized the effectiveness of its revenue collection efforts by implementing a comprehensive accounts receivable management program that coordinates the collection of departmental revenues. The City has also implemented new payment options, including the payment of parking tickets and excise taxes online, and the payment of property taxes and departmental receivables, such as licenses, permits, fees, and fines, with credit and debit cards. The City secures its statutory lien for delinquent real estate taxes with instruments recorded at the Suffolk County Registry of Deeds (“tax takings”). For more information concerning tax takings and the collection of delinquent real estate taxes, see “City Revenues—Property Taxes—Delinquent Taxes and Tax Title.”

Debt Management

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

The Treasury Department manages all City borrowings. The Treasury Department focuses on the timing of borrowings to take advantage of favorable market conditions and manages the City’s cash flows to help obviate the need for short-term borrowings for operating purposes. The Treasury Department has established a series of debt management guidelines that direct the City’s approach toward its debt management activities including rapid debt repayment, the use of a debt capacity model for establishing debt affordability, limitations on the level of variable rate debt the City will employ, maintenance of the relationship between debt and repayment sources, target savings for refundings, and reporting and liaison with the financial community and the rating agencies.

Financial Management

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

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

Investment Policy

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

Program Evaluation

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

Risk Management

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

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

The City budgets and funds for the costs described above through the general fund, except for self-insured healthcare costs, which are managed by Blue Cross Blue Shield, and financed through an employee/employer trust fund established in compliance with Section 3A of Chapter 32B of the General Laws.

To protect the City's assets from adverse loss, commercial insurance is purchased strategically for certain exposures. A catastrophic property insurance policy provides \$50 million all risk protection after a \$10 million deductible; boiler and machinery losses are insured up to \$2.5 million, and 60% of the City's healthcare costs are insured through HMOs.

For unexpected large losses, the City has been continually building a catastrophic risk reserve, the available balance of which equaled \$7.1 million at the end of fiscal 2004, and is projected to be \$7.7 million at the end of fiscal 2005.

CITY REVENUES

The principal sources of City revenue available to meet operating expenditures are Property Taxes, State Aid, Excise Revenues, Departmental Revenues, and Federal and State Grants, all of which are described below. Except as specifically noted, all amounts are stated on a budgetary accounting basis. References to fiscal 2005 are unaudited.

Property Taxes

Real and personal property taxes are the largest single source of the City's revenue. The City's gross property tax levy for fiscal 2005 equals \$1.15 billion, or 59.5% of City General Fund revenues for such period. Approximately 53.0% of the land area in the City is tax-exempt. Certain properties are subject to arrangements that suspend the imposition of real property taxes at normal rates in order to encourage development. See "City Revenues—Property Taxes—Revenues from Chapter 121A Properties" below.

As discussed below, Proposition 2½ limits the level of property taxation in the City. In fiscal 2005, the City will again levy taxes below the 2.5% ceiling on the overall effective tax rate. The continued growth in the real estate market suggests that the City will not reach the levy ceiling in the foreseeable future.

Proposition 2½

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

The primary limitation of Proposition 2½ is that the property tax levy in any city or town in the Commonwealth cannot exceed 2.5% of the full and fair cash valuation of the taxable real estate and

personal property in that city or town (the “2½ ceiling”). The only exception is the temporary exclusion of debt service or capital costs from the levy ceiling restrictions, as described below.

Within the limits of the 2½ ceiling, a secondary limitation imposed by Proposition 2½ (the “growth limit”) prohibits any levy in a fiscal year from exceeding the preceding year’s maximum allowable tax levy by more than 2.5%, subject to exceptions for the following: property newly added to the tax rolls and valuation increases other than as a result of a general revaluation (“new growth”); temporary exclusions from the tax levy limitation to pay for capital costs or debt service on indebtedness; and “overrides,” which are permanent increases in the tax levy for general expenditures of the city or town. Exclusions and overrides must be approved by a referendum of the voters of the city or town. The levy is permanently increased by the addition of new growth and overrides, except that any override to fund a stabilization fund will not be taken into account in calculating the maximum levy limit in subsequent fiscal years unless the City Council votes to appropriate such increased amount in such subsequent year to the stabilization fund. The exclusion of debt service by referendum temporarily increases the levy amount and the duration of the specific debt excluded. The growth limit may be exceeded by an override in any year by a majority vote of the voters. An increase in the growth limit under this procedure, however, does not permit a tax levy in excess of the 2½ ceiling, since the two limitations apply independently. The applicable tax limits may also be reduced in any year by a majority vote of the voters. The City’s gross levy in fiscal 2005 equals \$1.15 billion. In fiscal 2005, the allowable 2.5% increase is \$27.4 million, and “new growth” is \$27.8 million.

In order to mitigate its adverse impact on local government revenues, Proposition 2½ limits the annual rate of increase of aggregate, statewide assessments made upon cities and towns by the Commonwealth and certain of its governmental entities, such as assessments made upon the City and certain other cities and towns for the Massachusetts Bay Transportation Authority (“MBTA”), to 2.5% of the prior year’s assessment. The MBTA assessments on the City equaled \$63.9 million, \$64.6 million, and \$65.1 million, respectively, in fiscal 2003, 2004 and 2005.

Proposition 2½ also limits the motor vehicle excise tax rate to 2.5%. The City’s net receipts from the motor vehicle excise tax equaled \$42.8 million, \$45.6 million and \$33.1 million, respectively, in fiscal 2002, 2003 and 2004. The City’s estimated motor vehicle excise revenue for fiscal year 2005 is \$32.0 million.

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 2001-2005⁽¹⁾
 (\$ in thousands)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total Assessed Valuation	\$50,494,513	\$54,189,508	\$57,533,345	\$66,141,730	\$69,253,528
Growth Levy Limit	917,750	972,449	1,035,297	1,094,069	1,149,230
Levy Ceiling	1,262,363	1,354,738	1,438,334	1,653,543	1,731,338
Tax Levy ⁽²⁾	917,750	972,234	1,035,271	1,093,937	1,148,742
Under Levy Ceiling	344,613	382,504	403,063	559,606	582,596

(1) Represents amounts assessed on January 1, and subsequently certified by the Commonwealth’s Department of Revenue in December of each fiscal year and does not include Omitted Assessments.

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

Source: City of Boston Assessing Department

Revaluation

State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between the revaluations, the Commonwealth permits municipalities to establish new values on the basis of market changes, using the most recent revaluation as a basis. The City has adjusted certified property values in accordance with this procedure in years when market conditions indicated such adjustment was necessary.

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

Certified Triennial Revaluations

<u>Assessment Date</u>	<u>Real and Personal Property Value</u>	<u>Applicable Years</u>
January 1, 2003	\$66.14 billion	fiscal 2004 through 2006
January 1, 2000	50.49 billion	fiscal 2001 through 2003
January 1, 1997	33.76 billion	fiscal 1998 through 2000
January 1, 1994	28.12 billion	fiscal 1995 through 1997

Source: City of Boston Assessing Department

Taxation by Use; Tax Rates

The property tax base in the City consists of personal property and classes of real estate. The following table shows the classes of taxable real property assessed as of January 1, 2004. The fiscal 2005 tax rates were applied to the January 1, 2004 valuation to determine levy and tax liability for fiscal 2005.

Assessed Valuation of Taxable Real Property by Real Estate Classes, Assessment Dated January 1, 2004

<u>Real Estate Classes</u>	<u>Land Area (Square feet)</u>	<u>Land Valuation</u>	<u>Building Valuation</u>	<u>Total Valuation</u>
Apartments	30,434,714	\$1,029,519,186	\$2,674,868,782	\$3,704,387,968
Agricultural	546,757	55,100	136,900	192,000
Commercial	76,186,481	3,894,680,769	11,798,045,381	15,692,726,150
Commercial Condominium	6,708,234	160,800	885,691,200	885,852,000
Residential Condominium	43,219,706	22,500	15,114,542,147	15,114,564,647
Commercial Land	31,474,356	473,531,122	283,925,909	757,457,031
Condominium Main ⁽¹⁾	38,406,878	-	-	-
Condominium Parking	243,225	1,003,300	32,518,700	33,522,000
Industrial	48,345,057	513,288,158	615,212,980	1,128,501,138
Residential & Commercial	14,606,516	762,774,638	2,037,192,100	2,799,966,738
Residential Land	35,612,771	172,508,320	30,711,623	203,219,943
1-Family	155,365,411	2,532,853,051	7,941,734,879	10,474,587,930
2-Family	88,955,717	1,452,840,364	5,639,452,392	7,092,292,756
3-Family	57,677,044	1,068,842,613	5,466,158,492	6,535,001,105
4-Family (4-6 units)	<u>10,525,426</u>	<u>483,601,053</u>	<u>1,214,388,601</u>	<u>1,697,989,654</u>
Total		<u>\$12,385,680,974</u>	<u>\$53,734,580,086</u>	<u>\$66,120,261,060</u>

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

Source: City of Boston Assessing Department.

**Tax Rates, Fiscal 2001-2005
(per \$1,000 of assessed value)**

<u>Fiscal Year</u>	Commercial, Industrial and Personal Property	Residential Property
2005.....	\$32.68	\$10.73
2004.....	33.08	10.15
2003.....	31.49	11.29
2002.....	30.33	11.01
2001.....	30.17	10.58

Source: City of Boston Assessing Department.

The City has three classes of property for taxation purposes: (i) residential real property, (ii) open space land, and (iii) commercial, industrial and personal property. The City has utilized this classification in adopting its fiscal 1983 through fiscal 2005 tax rates. Within limits under state law, the City may determine the share of the annual levy to be borne by each of the three categories. As a result of the new legislation described above, the increase in the amount of the tax levy that may be shifted to business properties allows the City to limit the increase in residential property taxes resulting from the relative increase in residential property values as compared with business property values. The legislation contains a schedule that brings the taxable valuation limit for commercial, industrial and personal property back to 170% of its share of the total taxable value over the remaining four years.

The City may also exempt a portion of the assessed valuation of residential real property when used as the taxpayer's principal residence. The amount of the residential exemption can equal up to 30% of the average assessed value of all residential property in the City. In fiscal 2005, qualifying residents who receive the residential exemption have their taxable assessed values reduced by \$113,972. 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 2001 through 2005.

**Assessed Valuations—Fiscal Years 2001-2005 ⁽¹⁾
(\$ in thousands)***

<u>Fiscal Years</u>	<u>Value of Taxable Land</u>	<u>Value of Taxable Buildings</u>	<u>Total Value Taxable Land and Buildings</u>	<u>Value of Taxable Personal Property</u>	<u>Total Assessed Taxable Value</u>
2005.....	\$12,385,681	\$53,734,580	\$66,120,261	\$3,133,267	\$69,253,528
2004.....	12,336,679	50,381,046	62,717,725	3,424,025	66,141,750
2003.....	11,201,851	43,188,916	54,390,766	3,142,579	57,533,345
2002.....	11,080,453	40,219,239	51,299,693	2,889,815	54,189,508
2001.....	10,912,499	36,885,787	47,798,286	2,696,228	50,494,513

* Rows may not add due to rounding.

(1) Represents assessed values determined as of January 1 in the prior fiscal year. For example, fiscal 2005 assessed values are as of January 1, 2004.

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 2005. Assessed valuations and fiscal 2005 taxes reflect the valuation of property as of January 1, 2004 and the tax liability using applicable tax rates.

Largest Taxpayers: City of Boston, Fiscal 2005⁽¹⁾

Name	Personal Property ⁽²⁾	Real Property	Total Assessed Value	Fiscal 2005 Tax Liability
Equity Office Properties	\$ 705,080	\$1,935,664,500	\$1,936,369,580	\$63,275,088
NStar / Boston Edison Company	1,265,386,210	69,628,500	1,335,014,710	43,628,281
Boston Properties	3,513,710	933,757,208	937,270,918	30,630,014
Beacon Properties	242,890	842,112,800	842,355,690	27,528,184
Brookfield Properties Corporation	232,780	551,409,500	551,642,280	18,027,670
Fort Hill Associates	-	538,875,000	538,875,000	17,610,435
TST One Twenty Five High Street	124,790	442,286,500	442,411,290	14,458,001
UIDC of Massachusetts, Inc.	-	401,682,500	401,682,500	13,421,104
One Hundred Federal Street, LPS	-	333,251,500	333,251,500	10,890,659
American Financial Realty Trust	-	327,318,501	327,318,501	10,696,769
Dewey Square Tower Associates	497,750	319,405,500	319,903,250	10,454,438

- (1) The methodology used in creating the table involves the search of the titleholder, or holders, of all major parcels of property in the City. This methodology does not necessarily locate all parcels owned by affiliates, nor does it show the percentage share of ownership in a particular parcel.
- (2) Pursuant to Chapter 59 of the General Laws, Section 4, personal property consists of movable physical items not permanently attached to real estate. Many items of personal property are exempt from taxation in Massachusetts. There are three general types of personal property that are taxable: business and professional furnishings; household furnishings in property other than the principal residence (for example, a summer house), and personal property of public utilities.

Source: City of Boston Assessing and Treasury Departments.

Real Estate Tax Levies and Collections

The following table shows the level of property tax levies, tax levies net of budgeted reserves for abatements ("Net % Gross"), the gross amount and proportion of each levy collected during the year of levy, the cumulative amount (net of refunds) and proportion of each levy collected as of June 30, 2004 and the total amount (net of refunds) of taxes (current and all prior levies) collected during fiscal 2000 through 2004. 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 2000-2004
(Statutory Accounting Basis)
(\$ in millions)

<u>Fiscal Year</u>	<u>Tax Levy</u>		<u>Net %</u>	<u>Tax Levy Collected Within Year of Levy</u>			<u>Tax Levy Net of Refunds Collected as of June 30, 2004</u>			<u>All Taxes Collected In Fiscal Year⁽¹⁾</u>
	<u>Gross⁽²⁾</u>	<u>Net</u>		<u>Gross Amount</u>	<u>Gross %</u>	<u>Net %</u>	<u>Net Amount</u>	<u>Gross %</u>	<u>Net %</u>	
2004.....	\$1,094.2	\$1,052.0	96.2%	\$1,083.9	99.1%	103.0%	\$1,079.0	98.6%	102.6%	\$1,081.6
2003.....	1,035.9	993.0	95.9	1,019.7	98.4	102.7	1,016.2	98.1	102.3	1,020.7
2002.....	972.7	932.4	95.9	963.7	99.1	103.4	958.9	98.6	102.8	961.7
2001.....	915.8	874.0	95.4	909.0	99.3	104.0	902.9	98.6	103.3	904.2
2000.....	866.2	823.9	95.1	854.8	98.7	103.8	847.4	97.8	102.9	849.4

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

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

Source: City of Boston Treasury Department.

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

Delinquent Taxes and Tax Titles

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

Tax title receipts were approximately \$13.5 million, \$13.7 million and \$16.1 million, respectively, in fiscal 2002, 2003, and 2004.

Revenues from Chapter 121A Corporations

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

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

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

<u>Fiscal Year Ended June 30</u>	<u>Excise Payments In Lieu Of Taxes (Section 10)</u>	<u>Contracts Payments (Section 6A)</u>	<u>Total</u>
2004 ⁽¹⁾	\$34,702.7	\$20,104.7	\$54,807.4
2003 ⁽¹⁾	35,280.4	18,826.8	54,107.2
2002	31,658.7	16,714.9	48,373.6

(1) Fiscal 2003 and 2004 Contract Payments (Section 6A) include Chapter 121B, Section 16 payments reclassified from Payments In Lieu of Taxes.

Source: Office of Budget Management

State Aid

State aid is the second largest revenue source to the City’s General Fund, and had increased every year between fiscal 1993 and fiscal 2002. In fiscal 2003 and 2004, however, state aid decreased a total of \$62.9 million, or 12.0%, from the amount received in fiscal 2002. It is expected that state aid received by the City for fiscal 2005 will increase slightly by \$2.2 million to \$462.0 million, a 0.5% increase from the amount received in fiscal 2004.

The level of state aid distribution to the City in any given year is dependent on a number of factors, including the current outlook on the balancing of revenues and expenditures in the state budget, the output of various formulas which determine the level of some but not all state aid, and the policy priorities of the state legislature and the Governor.

Over the past several years, mostly due to the national recession, the state developed a sizeable structural deficit between revenues and expenditures. Several billion dollars in cost reduction measures were undertaken as well as halting some tax cuts and increasing other taxes in order to reduce this deficit. Local aid to cities and towns was not excluded from these cuts.

Among the City’s major aid categories of Additional Assistance, Lottery and Chapter 70 education aid, Additional Assistance was reduced the most. This source of aid, a mechanism to increase equity in aid between poorer and richer communities, had been level-funded statewide since fiscal 1992 until it was reduced in fiscal 2003. Boston lost \$31.5 million or 15.3% in this first reduction and another \$10.9 million or 6.2% with a further reduction in fiscal 2004. Additional Assistance is level-funded in fiscal 2005.

State Lottery aid to municipalities had been capped between fiscal 1995 and fiscal 2000. With the cap removed, Boston received nearly \$71 million in fiscal 2001. Lottery aid was reduced in fiscal 2003 and fiscal 2004, and is now capped again through 2011. Boston received reductions in Lottery aid of \$5.9 million or 9.4% and \$3.6 million or 6.2% in the reductions mentioned above and is level-funded in fiscal 2005.

The City received education aid increases as part of the Education Reform Act of 1993 that equaled \$7.9 million, \$11.4 million, and \$8.1 million, respectively, in fiscal years 2000, 2001, and 2002. Boston received no increase in education aid in fiscal 2003, a decrease of \$5.2 million in fiscal 2004 and level-funded aid in fiscal 2005. A key component of the Commonwealth’s education reform effort was the Charter School program - public schools administered independently from local school committee and teacher union rules and regulations, and Horace Mann Charter schools, which have their charters and budgets approved by local school committees. By law, cities and towns are to be reimbursed 100%, 60%, 40% and 0% of the increases in costs of charter school tuition over a four-year period, however, the line-item funding of this reimbursement in the fiscal 2003 state budget was vetoed by the governor and no funds were available that fiscal year. In fiscal 2004 only \$3.1 million was paid to the City for this item versus \$36.7 million the City paid in tuition. In fiscal 2005, \$11.2 million in tuition reimbursement and a new \$3.6 million in capital facility reimbursement are budgeted to be received by the City versus nearly \$47 million to be paid out by the City in tuition.

In 1993, the Massachusetts Supreme Judicial Court found that the Commonwealth has an enforceable constitutional obligation to provide an adequate public education and that, at that time, the Commonwealth was not fulfilling its obligation. Promptly thereafter the state legislature adopted the Education Reform Act of 1993 which, among other things, increased funding levels and changed allocation formulas for state school aid. In 1999, the litigation was reinstated by a number of municipalities

challenging the adequacy of the public education being provided by the Commonwealth and seeking, among other things, additional state aid for their schools. Pursuant to a fact finding trial, the Superior Court recently issued a report to the Supreme Judicial Court which, among other things, concludes that the Commonwealth is not satisfying its constitutional obligation with respect to certain municipal school systems and recommends that the Court order the Commonwealth to provide funding necessary to pay for an adequate education in such municipalities. The case is currently pending before the Supreme Judicial Court.

In addition to direct state aid, the City also receives a reimbursement for the cost of teachers' pensions. Teachers' pensions are paid directly by the State Teachers Retirement System for all teacher retirees in the state other than those who retire from the Boston school system. In their case, pensions are paid by the State-Boston Retirement System, funded by the City, and the City is reimbursed by the Commonwealth on an actual pension payout basis. The City received \$45.3 million, \$53.7 million, and \$61.4 million, respectively, in fiscal 2002, 2003, and 2004. The City also receives, subject to annual appropriation by the state legislature, cost of living adjustments approved prior to fiscal 1998 by the legislature for municipal employees. The City expects to receive approximately \$61.4 million in fiscal 2005. See "The City—Retirement Systems."

The State Treasurer is empowered to deduct from state aid amounts appropriated to the City the amount of the City's MBTA assessment (\$63.9 million, \$64.6 million, and \$65.1 million, in fiscal 2003, 2004 and 2005 respectively), any debt service paid by the Commonwealth on "qualified bonds" of the City, and any sums allocable to the Boston Water and Sewer Commission or the City that are due and unpaid on debt issued to the Massachusetts Water Pollution Abatement Trust. Moreover, under the Massachusetts Constitution and state finance law, the state Treasurer has the authority to delay the allotment of state aid appropriations under certain circumstances. In addition, the statute governing the Commonwealth distribution of school aid (which constitutes a portion of the state aid distribution) provides that such payments are due only to the extent that sufficient funds are available. Since June 1990, state distributions have been made quarterly and on a timely basis.

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. In recent years, demand for school building assistance grants far exceeded available funds. As of July 1, 2004, a total of 425 projects for which completed grant applications had been submitted were still on the Department of Education's project priority list awaiting approval of a grant.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The City currently has approximately \$62.4 million of bonds outstanding for school projects approved for grants under the prior law at a reimbursement rate of 90% of approved project costs. It is expected that the Authority will continue to pay the remaining amounts of the grants for such projects in annual installments to reimburse debt service on the related bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. The Authority expects to pay grants for all of the projects on the priority waiting list by the end of fiscal year 2008. Grants for such projects are expected to be paid in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and

interest on temporary debt until receipt of the grant, shall be included in the approved costs of such projects.

The City currently has four projects on the priority waiting list aggregating approximately \$148.0 million in project costs. Each of the projects is a grandfathered, desegregation project for which the City is entitled to be reimbursed for 90% of the eligible project costs. Prior to July 1, 2004, the City issued \$25 million of bonds and \$96 million of bond anticipation notes to finance three of these projects. See “City Indebtedness—General Obligation Debt—Short-Term Borrowings.” The \$96 million notes mature in February 2006. Prior to that date, it is expected that the City will receive a lump-sum payment from the Authority of all or a significant portion of the grants for these projects. The City expects to issue renewal notes or bonds to finance any portion of the notes maturing in February 2006 that are not paid from such grant amounts.

Grant applications for new projects may not be submitted to the Authority until July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. Prior to that date, the Authority is required to engage in a comprehensive review of the school building assistance program, to recommend legislative changes, to adopt new maximum eligible cost and size standards, and to promulgate new regulations. The Authority expects to pay grants for such projects in lump sum payments as project costs are incurred. None of the interest expense incurred on debt issued by municipalities to finance new projects will be included in the approved project costs eligible for reimbursement.

Excise Revenues

In addition to the major sources of revenue described above, the City receives various other types of revenues. See “Financial Operations—Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2001-2005” above. The following is a description of significant excise revenue sources of the City.

Room Occupancy Excise

The City currently has in effect a 4% local room occupancy excise upon the transfer of occupancy of any room in a hotel, lodging house or motel. The Commonwealth collects this tax and distributes it to the City quarterly. The City’s room occupancy excise receipts totaled, \$25.0 million, \$23.3 million, and \$23.8 million, respectively, in fiscal 2002, 2003, and 2004.

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

Of the \$23.8 million in room occupancy excise taxes collected in fiscal 2004, \$6.8 million was retained in the Excise Fund, and \$17.0 million was transferred into the General Fund as authorized by the Convention Center Act. In fiscal 2003 \$5.3 million of the \$23.3 million in room occupancy excise taxes collected was retained in the Excise Fund and \$18.0 million was transferred into the General Fund. In fiscal 2002, \$4.0 million of the \$25.0 million in room occupancy excise taxes collected was retained in the Excise Fund and \$21.0 million was transferred into the General Fund.

Aircraft Fuel Excise

The City also assesses an aircraft fuel excise upon the sale or use of jet fuel. The Commonwealth collects this tax and distributes it to the City quarterly; a change from semi-annually made to begin in fiscal 2004. The City’s aircraft fuel excise receipts totaled \$16.2 million, \$18.8 million and \$8.5 million, respectively, in fiscal 2002, 2003, and 2004. It should be noted that in fiscal 2003 the City received three semi-annual payments of aircraft fuel excise, and in fiscal 2004 the City received three of four quarterly excise payments. See “Summary and Comparison of Operating Budgets—Fiscal 2005—Revenues.”

Motor Vehicle Excise

The Commonwealth assesses an excise on the registration of motor vehicles, the proceeds of which are received by the municipality of residence of the registered owner. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. The City’s annual motor vehicle excise receipts totaled \$42.8 million, \$45.6 million, and \$33.1 million, respectively, in fiscal 2002, 2003 and 2004. See “Summary and Comparison of Operating Budgets—Fiscal 2005—Revenues.”

Vehicular Rental Surcharge

The Commonwealth imposes a \$10 surcharge on each vehicular rental transaction contract in the City. One dollar of each surcharge is paid to the City for deposit in the City's Excise Fund for application to the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the BCEC Project. The City's cumulative share of the surcharge as of June 30, 2004 was approximately \$7.0 million. See "City Indebtedness – Special Obligation Debt."

Departmental Revenues

Several City departments generate significant revenues from fees and charges.

Parking Fines

The City's annual parking fine receipts totaled \$56.5 million, \$55.3 million and \$63.1 million, respectively, in fiscal 2002, 2003, and 2004. The increase in fiscal 2004 is due to increased fine rates and meter hours along with increased weekend enforcement operations.

Building Permit Fees

The Inspectional Services Department performs a variety of functions, such as the granting of building permits, for which fees are imposed. The City's annual building permit fees totaled \$19.1 million, \$20.1 million, and \$22.7 million, respectively, in fiscal 2002, 2003 and 2004.

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 \$16.6 million, \$17.6 million, and \$11.6 million, respectively, in fiscal 2002, 2003, and 2004.

Other

Leased Parking Facility Revenues; Sale of Surplus Properties Revenues

Pursuant to lease agreements between the City and various private parking operators, the City receives rentals from leased parking facilities. Twenty percent of these receipts are designated by statute for maintenance and renovation of the parking facilities. The remaining amount goes into the City's General Fund. During fiscal 2002, 2003 and 2004, \$2.0 million, \$1.8 million, and \$1.5 million, respectively, were deposited into the City's General Fund from this source.

Under state law, proceeds of the sale of City facilities must be applied to the Surplus Property Disposition Fund to be used to finance capital projects, unless the City Council, with the approval of the Mayor, votes to credit to the General Fund the difference between the sale proceeds and the amount of debt (both principal and interest) incurred in acquiring or improving the sold facility. As of June 30, 2004 there was \$50.4 million remaining in the Surplus Property Disposition Fund.

Grants

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

Federal Grants

Some major sources of federal grant funds in fiscal 2004 included: the Community Development Block Grant (CDBG) entitlement program, which awarded \$24.7 million to the City; the Home Investment Partnership Program (HOME), which awarded \$8.8 million to the City; and the Housing Opportunities for Persons with Aids (HOPWA) Program, which furnished \$2.5 million in federal funds. In addition to receiving formula funds like CDBG and HOME, the City received over \$3.0 million from federal grant sources for law enforcement programs during fiscal 2004. The Boston Public Schools also received approximately \$51.4 million from federal grant sources during the 2004 fiscal year. Of these, the major programs were: Title I Elementary & Secondary Education Act of 1965 grants, which totaled \$45.0 million, Special Education Entitlement grants which totaled \$17.4 million, and the School Lunch Program, which provided \$22.0 million. The City received \$24.9 million in federal funding to cover security costs related to the Democratic National Convention. The City also received substantial amounts of federal funding to address homeland security and bioterrorism threats with the Urban Area Security Initiative, which awarded

\$16.7 million, and the Homeland Security Interoperable Communications grant, which awarded \$3.2 million to the City.

State Grants

In addition to State Aid, the City receives state grants. The Commonwealth assumes 100% of the capital costs and funds approximately 95% of the operating costs associated with the Office of the Sheriff of Suffolk County, which totaled \$76.5 million in fiscal 2004. The City also received approximately \$24.6 million in education grants for the Boston Public Schools. Additionally two of the major programs supported by the state education grants are Community Partnership Grants totaling \$9.2 million and the Quality Full-Day Kindergarten grant totaling \$ 2.7 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, 2004, the City had outstanding approximately \$904.7 million of general obligation long-term bonds, all of which bear fixed rates of interest. Approximately \$43.8 million of such bonds were redeemed on July 15, 2004 with the proceeds of refunding bonds issued in April 2004. On February 1, 2005, the City had approximately \$780.2 million of bonds outstanding, and had \$96.0 million of general obligation bond anticipation notes outstanding to support school construction projects.

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

Debt Limits

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

The statutory debt limit for the City consists of a debt limit and a double debt limit. The debt limit is 5%, and the double debt limit is 10%, of the valuation of taxable property in the City as last equalized by the state Department of Revenue. The equalized valuation of taxable property in the City established by the Commissioner of Revenue in January 2005 for use until January 2007 equals \$76.28 billion. Based on the current equalized valuation, the City's debt limit equals approximately \$3.81 billion, and its double debt limit equals \$7.63 billion.

The City may authorize debt up to its debt limit without state approval. The City may authorize debt over the debt limit up to the double debt limit with the approval of the Municipal Finance Oversight Board, composed of the State Treasurer and Receiver General, the State Auditor, the Attorney General and the Director of Accounts. As of June 30, 2004, the City had outstanding debt of \$611.7 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$401.8 million. In addition, as of February 1, 2005, the City had outstanding debt of \$522.2 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$490.8 million. Based on the City's current debt limit of \$3.81 billion, the City had the capacity to authorize an additional \$2.80 billion of debt as of February 1, 2005.

**Debt Incurring Capacity
As of February 1, 2005
(\$ in thousands)**

	<u>Debt Limit</u>
Normal Debt Limit as of June 30, 2004 ⁽¹⁾	\$3,287,567
Debt Outstanding as of June 30, 2004	(611,680)
Debt Authorized but Unissued as of June 30, 2004	<u>(401,838)</u>
Available Capacity under Debt Limit as of June 30, 2004	<u>2,274,049</u>
New Debt Authorizations approved in fiscal year 2005.....	(88,924)
Refunded Principal Prepaid on July 15, 2004	31,320
Other Principal Paid through February 1, 2005	58,155
Increase in Normal Debt Limit based on new Equalized Valuation effective January 31, 2005 ⁽¹⁾	<u>526,487</u>
Available Capacity under Debt Limit as of February 1, 2005	<u>\$2,801,087</u>

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

Source: City of Boston Auditing Department.

There are many categories of general obligation debt, which are not subject to the debt limit and are therefore not included in the Debt Incurring Capacity table above. Some such debt is, however, subject to other debt limits, dollar limitations or state approval. As of February 1, 2005, the City had outstanding long-term debt exempt from the debt limit of \$258.0 million (excluding the Bonds), and authorized but unissued long-term debt exempt from the debt limit of \$169.2 million. Final unaudited numbers as of February 1, 2005 include, as part of the debt figures above which are exempt from the debt limit, the following: the Gardner St. Landfill – \$11.2 million, the EDIC – \$4.5 million, the Boston Redevelopment Authority (“BRA”) – \$25.0 million, the Capital Improvements Act of 1966 – \$0.2 million, the Capital Improvements Act of 1973 - \$9.3 million, the Capital Improvements Act of 1991 – \$82.0 million, the Capital Improvements Act of 1996 – \$63.5 million, and the School Project Loan Act M.G.L. Ch. 70B – \$62.4 million.

Authorized But Unissued Debt

The size of the City’s future bond issues will be consistent with the City’s financial management policies regarding its level of debt and debt service. The following table sets forth the amounts and purposes of authorized but unissued general obligation debt of the City as of February 1, 2005.

**Authorized But Unissued Debt
As of June 30, 2004 and February 1, 2005**

	<u>Statute</u>	<u>Authorized/ Unissued 6/30/04</u>	<u>New Authorizations & Adjustments 7/1/04 to 2/1/05</u>	<u>Authorized/ Unissued 2/1/05 ⁽¹⁾</u>
GENERAL PURPOSE:				
Acquisition of Land; Outdoor Facilities	C44 s7 (25)	\$ 37,999,429	\$9,775,000	\$ 47,774,429
Acquisition of Land; Cemetery Improvements	C44 s7 (20)	912,655	280,000	1,192,655
Acquisition of Land; Landfill Area	C44 s8 (24)	3,815,893	—	3,815,893
Departmental Equipment	C44 s7 (9)	15,526,360	1,820,000	17,346,360
Rem, Recon, Rehab - Firefighting App	C44 s7 (9A)	10,529	—	10,529
Equipment - Fire Boat Acquisition	C44 s7 (13)	4,141,893	—	4,141,893
Computer Hardware	C44 s7 (28)	833,493	505,000	1,338,493
Computer Software	C44 s7 (29)	704,854	—	704,854
Water Mains Laying &/Or Re-laying, Lining	C44 s8 (5)	-	8,870,000	8,870,000
Remodeling & Extraordinary Repairs	C44 s7 (3A)	184,138,762	42,124,429	226,263,191
Engineering & Architectural Services	C44 s7 (22)	889,833	—	889,833
Urban Redevelopment & Renewal	C121B s20	13,773,445	—	13,773,445
Economic Development & Industrial Corporation	C1097 s11 Acts'71	6,746,334	—	6,746,334
				-
SCHOOLHOUSES and SITES:				
Construction of Buildings; Acquisition of Land	C44 s7 (3)	53,178,714	1,665,000	54,843,714
Capital Improvements; Act of 1973	C642 s7 Act'66 as am.	75,771	—	75,771
Capital Improvements; Act of 1991	C642 s7 Act'66 as am.	2,177,339	—	2,177,339
Capital Improvements; Act of 1996	C642 s7 Act'66 as am.	7,950,167	—	7,950,167
School Project Loan; Act of 1948	C70B	85,072,903	—	85,072,903
				-
PUBLIC BUILDINGS; Excluding Schools:				
Capital Improvements; Act of 1973	C642 s7 Act'66 as am.	2,662,463	—	2,662,463
Capital Improvements; Act of 1991	C642 s7 Act'66 as am.	17,905,652	—	17,905,652
Capital Improvements; Act of 1996	C642 s7 Act'66 as am.	22,335,152	(2,839,429)	19,495,723
Construction of Buildings; Acquisition of Land	C44 s7 (3)	16,597,896	12,875,000	29,472,896
Boston City Hospital	C659 Acts of 1986	660,000	—	660,000
				-
PUBLIC WORKS:				
Sidewalk Construction	C44 s7 (6)	11,709,902	—	11,709,902
Traffic Sig., Pub. Ltg. Fire Alarm Comm. Install.	C44 s7 (14)	11,435,861	945,000	12,380,861
Bridge Construction	C44 s7 (4)	18,497,886	8,635,000	27,132,886
Public Ways Construction	C44 s7 (5)	45,259,629	10,300,000	55,559,629
TOTAL:		<u>\$ 565,012,817</u>	<u>\$94,955,000</u>	<u>\$ 659,967,817</u>
"Within" Debt Limit =		401,837,698	88,924,429	490,762,127
"Outside" Debt Limit =		163,175,120	6,030,571	169,205,691
TOTAL:		<u>\$ 565,012,817</u>	<u>\$94,955,000</u>	<u>\$ 659,967,817</u>

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

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

Debt Statement as of February 1, 2005
General Obligation Debt ⁽¹⁾

<u>Purpose for Which Issued</u>	<u>Principal Outstanding June 30, 2004</u>	<u>Refunded Principal Paid July 15, 2004</u>	<u>Other Principal Paid Fiscal 2005 as of February 1, 2005</u>	<u>Principal Outstanding February 1, 2005</u>	<u>Deemed Payable from Related Revenues ⁽²⁾</u>	<u>Net Principal Amount</u>
General Purpose.....	\$393,371,850	\$ (24,380,799)	\$(40,548,689)	\$328,442,363	\$(13,428,443)	\$315,013,920
MWPAT.....	10,635,546	—	(570,488)	10,065,058	(3,217,825)	6,847,233
Economic Development.....	5,195,959	(168,215)	(579,956)	4,447,788	—	4,447,788
State Urban Development Relocation	29,228,799	(1,053,842)	(3,158,737)	25,016,220	—	25,016,220
Schools.....	132,396,870	(5,523,864)	(9,380,003)	117,493,003	(70,495,802)	46,997,201
Public Buildings.....	243,969,624	(5,769,116)	(16,223,870)	221,976,638	—	221,976,638
Public Works.....	89,034,494	(6,799,023)	(10,030,468)	72,205,004	—	72,205,004
Cemeteries.....	857,890	(140,142)	(153,277)	564,472	—	564,472
Totals.....	<u>\$904,691,034</u>	<u>\$(43,835,000)</u>	<u>\$(80,645,488)</u>	<u>\$780,210,545</u>	<u>\$(87,142,070)</u>	<u>\$693,068,476</u>

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

(2) Includes revenues related to or derived from facilities for which the debt was incurred. Such revenues include: (i) the Boston Public Health Commission on account of general obligation debt attributable to projects undertaken on behalf of the former department of Health and Hospitals and certain Parks and Recreation receipts applied to pay related debt service (General Purpose), (ii) debt service subsidies on City debt issued to the Massachusetts Water Pollution Abatement Trust (MWPAT), and (iii) state grants for school construction received from the Massachusetts School Building Authority (Schools).

Source: City of Boston Auditing Department

Debt Service Requirements

The following table sets forth the City's debt service requirements for general obligation debt for each year from June 30, 2000 through 2004. The debt service table shows the gross principal amount of general obligation debt of the City and the revenues related to or derived from facilities on account of which the debt was incurred. Such revenues include (i) from the Boston Public Health Commission on account of certain outstanding general obligation bonds issued for hospital purposes (see "City Indebtedness—Debt of Agencies Related to the City" below), (ii) state grants for school construction as described above, and (iii) rentals received by the City from leased parking facilities as described below.

Debt Service Requirements—Fiscal 2000-2004⁽¹⁾

	Fiscal Year Ended June 30, <u>2000</u>	Fiscal Year Ended June 30, <u>2001</u>	Fiscal Year Ended June 30, <u>2002</u>	Fiscal Year Ended June 30, <u>2003</u>	Fiscal Year Ended June 30, <u>2004</u>
Gross Debt Service Requirements					
Bonded Debt:					
Principal.....	\$ 67,140,000	\$ 75,594,255	\$ 82,012,626	\$ 86,611,045	\$ 86,490,297
Interest.....	<u>34,476,566</u>	<u>37,990,468</u>	<u>38,732,580</u>	<u>38,960,072</u>	<u>40,530,338</u>
Total.....	<u>\$ 101,616,566</u>	<u>\$ 113,584,723</u>	<u>\$ 120,745,206</u>	<u>\$ 125,571,117</u>	<u>\$ 127,020,635</u>
Less Revenue Deemed Available From Related Sources:					
Parking Rentals.....	1,677,998	2,222,017	1,988,112	1,848,419	1,520,418
School Construction Assistance	17,088,236	20,199,100	17,128,745	17,232,498	17,555,199
Boston Public Health Commission Payments ⁽²⁾	5,411,913	5,113,290	4,813,385	4,598,341	4,010,292
MWPAT Loan Subsidy Amounts	126,032	625,412	611,139	596,577	581,779
Fund for Parks & Recreation...	—	—	—	106,997	269,511
Cemetery Funds.....	<u>35,189</u>	<u>35,147</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total Net Debt Service Requirements.....	<u>\$ 77,277,197</u>	<u>\$ 85,389,757</u>	<u>\$ 96,203,825</u>	<u>\$ 101,188,285</u>	<u>\$ 103,083,436</u>

Source: City of Boston Auditing Department.

- (1) Columns may not add due to rounding.
- (2) Includes rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation under its lease of the former Boston City Hospital campus.

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

Certain Debt Ratios

The following table sets forth information as of February 1, 2005 with respect to the approximate ratio of the City's long-term general obligation debt to certain economic factors:

**Debt Ratios
As of February 1, 2005**

	<u>Amount</u>	<u>Per Capita⁽¹⁾</u>	<u>Ratio to Assessed Property Value⁽²⁾</u>	Debt Per Capita as a % of Personal Income <u>Per Capita⁽³⁾</u>
Gross General Obligation Debt	\$780,210,545	\$1,341.45	1.13%	3.25%
Net General Obligation Debt	693,068,476	1,191.63	1.00	2.89

- (1) U.S. Census Bureau as of July 2003—Boston's Estimated Population equaled 581,616.
- (2) Assessed Property Values equaled \$69.25 billion as of January 1, 2004. 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, September 2002, Revised Series-Suffolk County's 2002 Per Capita Personal Income = \$41,227.

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 2002 - 2004 (Budgetary Basis)
(\$ in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Outstanding General Obligation Debt ⁽¹⁾	\$ 841,782	\$885,641	\$904,691
Authorized But Unissued Debt.....	<u>591,518</u>	<u>557,443</u>	<u>565,013</u>
Debt Service.....	\$ 120,745	\$125,571	\$127,021
Debt Service as a % of Total General Fund Revenues, Transfers and Other Available Funds.....	6.8%	6.9%	6.7%
Debt Service as a % of Total Expenditures and Encumbrances.....	6.8%	6.9%	6.7%
Debt Service as a % of Total Net Tax Levy.....	12.9%	12.6%	12.1%
Bonds Issued			
General Obligation - New Money.....	\$100,000	\$162,015	\$ 65,000
General Obligation - Refunding Bonds.....	<u> -</u>	<u>120,225</u>	<u>78,200</u>
Total Bonds Issued.....	<u>\$100,000</u>	<u>\$282,240</u>	<u>\$143,200</u>

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

Source: City of Boston Auditing Department.

Short-Term Borrowings

Although the City is authorized to borrow for operating purposes through the issuance of short-term notes in anticipation of revenue receipts, it has not done so in several years. In addition, the City is authorized to issue short-term debt obligations in anticipation of the issuance of long-term bonds.

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

Special Obligation Debt

In addition to general obligation indebtedness, the Bond Procedure Act of 1983 and various other special acts authorize the City to incur indebtedness, which is secured by and payable solely from certain revenues of the City which are pledged for the payment of such indebtedness or which are subject to annual appropriation by the City for such purpose. The only special obligation indebtedness of the City outstanding as of June 30, 2003 was \$112.5 million aggregate principal amount of the City's Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the "Convention Center Bonds"), and \$120.4 million Special Obligation Refunding Bonds, Boston City Hospital Issue (the "2002 BCH Refunding Bonds") which were issued to refund bonds that first refinanced the project in 1993 (the "1993 BCH Bonds").

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

At the date of issue of the 1993 BCH Bonds, BCH was owned by the City and under the control of the City's Department of Health and Hospitals. However, on July 1, 1996, the operations of BCH and Boston University Medical Center Hospital ("BUMCH") were consolidated into Boston Medical Center, which is owned and operated by the Boston Medical Center Corporation ("BMCC"), a Massachusetts non-profit corporation. Simultaneously with the consolidation of BCH and BUMCH, all other public health operations of the City's Department of Health and Hospitals were transferred to the Boston Public Health Commission. In addition, title to the BCH campus was transferred to the Commission and the Commission became the mortgagor on the FHA insured mortgage and assumed the City's mortgage note securing the 1993 BCH Bonds. At the same time, the BCH campus was leased to BMCC for an initial term of 50 years and BMCC agreed to pay rent to the Commission for so long as the FHA insured mortgage note was outstanding in an amount, among other sums, equal to the amounts payable by the Commission on the FHA insured mortgage note securing the 1993 BCH Bonds.

Upon issuance of the 2002 BCH Refunding Bonds, the 1993 BCH Bonds were defeased and the FHA insured mortgage on the BCH campus discharged and the Commission's mortgage note cancelled. In consideration of the discharge of the mortgage and cancellation of the note, upon delivery of the 2002 BCH Refunding Bonds the Commission issued a new promissory note to the City (the "2002 Note") which is payable as to principal and interest in amounts and on dates sufficient, with other moneys held or to be received under the trust agreement securing the 2002 BCH Refunding Bonds (the "2002 Trust Indenture"), to pay the principal of, and interest on, the 2002 BCH Refunding Bonds as the same becomes due. The 2002 Note is not secured by a mortgage on or other interest in the BCH campus. The 2002 Note is a special obligation of the Commission secured by an assignment and pledge of rents payable by BMCC to the Commission under the lease of the BCH campus and all other amounts held under a Note Payment Trust Agreement among the City, the Commission, BMCC and the Trustee for the owners of the 2002 BCH Refunding Bonds, including, upon any failure of BMCC to pay all or any part of such rent, the proceeds of certain assistance grants payable by the City to BMCC for so long as the 2002 Note is outstanding. The payment of assistance grants to BMCC is subject to annual appropriation by the City and the payment of rent by BMCC is contingent upon the appropriation and payment of such assistance grants. The rent payments and the assistance grants are each at least equal, in amount and terms of payments, to the principal and interest payable on the 2002 BCH Refunding Bonds.

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

The Convention Center Bonds were issued by the City in April, 2002 pursuant to Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), to permanently finance certain costs incurred by the City in connection with the development of the Boston Convention and Exhibition Center (the "BCEC Project"), a 1.6 million square foot convention and exhibition facility on a 60-acre site in South Boston. The BCEC Project was a joint development of the City, acting through the Boston Redevelopment Authority (the "BRA"), and the Commonwealth, acting through the Massachusetts Convention Center Authority (the "MCCA"). Under the Convention Center Act, the BRA was responsible for the acquisition of the site for the BCEC Project, which has been conveyed to the MCCA, for the demolition of the existing structures on the site and remediation of environmental hazards thereon and for the preparation of the site for construction of the BCEC Project, which was completed in the spring of 2004. The MCCA is responsible for the operation of the facility.

As provided in the Convention Center Act, the City was obligated to reimburse the BRA for the first \$157.8 million of costs incurred by the BRA to acquire and prepare the BCEC Project site for construction. Site acquisition and preparation costs incurred by the BRA in excess of \$157.8 million are to be either assumed by the Commonwealth or, under certain circumstances, shared equally by the City and the Commonwealth. The Commonwealth or the MCCA is solely responsible for all costs of design, construction and operation of the BCEC Project. To date the City has reimbursed the BRA for \$173.5 million of site costs which were temporarily funded through the issuance by the City of its \$130,000,000 Convention Center Loan, Act of 1997, Bond Anticipation Notes, Series A, and \$27,800,000 Convention Center Loan, Act of 1997, Bond Anticipation Notes, Series B (collectively, the "Convention Center

Notes”), which matured on May 1, 2002. Proceeds of the Convention Center Bonds were applied to retire approximately \$117 million of the Convention Center Notes at maturity. The remaining principal of the Convention Center Notes, all interest due thereon, and site costs in excess of \$157.8 million, has been funded from special revenues accumulated by the City since enactment of the Convention Center Act, including the proceeds from the sale of hackney (taxi) medallions authorized by the Convention Center Act.

The Convention Center Bonds were issued under and are secured by a Trust Agreement dated as of April 15, 2002 between the City and a corporate trustee (the “Convention Center Trust Agreement”). The Convention Center Bonds and any additional bonds and refunding bonds which may be hereafter issued and outstanding under the Convention Center Trust Agreement are special obligations of the City payable from, and secured solely by a pledge of, certain “Pledged Receipts” identified in the Convention Center Trust Agreement and all moneys, securities and credit facilities in all funds and accounts established thereunder. The Pledged Receipts pledged by the Convention Center Trust Agreement as security for the Convention Center Bonds include all amounts received by the City from the 4% local option room occupancy excise imposed in Boston and from a portion of the surcharge imposed by the Commonwealth on vehicular rental transaction contracts in Boston. See “City Revenues—Excise Revenues.” The Convention Center Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the Convention Center Bonds.

The City does not expect that its revenue base that was historically available to fund annual operating expenditures will be adversely affected over the long-term by the development of the BCEC Project and the issuance of the Convention Center Bonds. The Convention Center Act and the Convention Center Trust Agreement authorize the City to annually transfer to the City’s General Fund all room occupancy excise receipts and other Pledged Receipts that are not required for the payment of maturing interest on and principal of the Convention Center Bonds. The City anticipates that the future room occupancy excise receipts that are attributable to rooms in hotels, motels, and other lodging establishments that were first opened for business after July 1, 1997 (a measuring date provided in the Convention Center Act), together with the other Pledged Receipts held under the Convention Center Trust Agreement, will be sufficient to pay the future debt service on the Convention Center Bonds and to fund remaining estimated costs of the BCEC Project that are required by the Convention Center Act to be paid by the City. Accordingly, the City anticipates that excise tax receipts attributable to rooms in hotels, motels, and other lodging establishments that were opened for business before July 1, 1997 will be available for transfer to the General Fund.

Debt of Agencies Related to the City

In addition to general obligation and special obligation indebtedness of the City, the City and certain agencies related to the City are authorized to issue debt which is solely an obligation of the agency or which, although issued by the City, are payable solely from revenues derived from projects financed by such debt. Except as described below, such obligations do not constitute a debt of the City.

Boston Water and Sewer Commission

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

Economic Development and Industrial Corporation of Boston

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

EDIC development projects within certain urban renewal debt limitations. The City has issued approximately \$19.7 million in general obligation debt for EDIC purposes, of which approximately \$4.5 million was outstanding as of February 1, 2005.

Boston Redevelopment Authority

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

Boston Public Health Commission

The Boston Public Health Commission is a body politic and corporate and a political subdivision of the Commonwealth created in June 1996 as the successor to the City's Department of Health and Hospitals. See "The City—Principal Government Services—Public Health". The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. In addition to its other powers, the Commission is authorized by its enabling act, with the approval of the City Council and the Mayor, to borrow money for any of its corporate purposes from the City or from the Massachusetts Health and Educational Facilities Authority. Debt of the Commission is not a debt or other obligation of the City. Other than the 2002 Note described below, no debt of the Commission is currently outstanding.

Pursuant to agreements between the City, the Commission, BMCC and a trustee for the benefit of the registered owners of the 2002 BCH Refunding Bonds, the Commission has agreed to apply rents received from BMCC to the payment of a promissory note (the "2002 Note") issued by the Commission to the City and assigned by the City as security for the 2002 BCH Refunding Bonds. Payments made by the Commission on the 2002 Note are applied by the City to pay the principal of and interest on the City's 2002 BCH Refunding Bonds. See "City Indebtedness-Special Obligation Debt."

The Commission is also obligated to reimburse the City for debt service paid on all outstanding general obligation bonds of the City issued for public health and hospital purposes. Such bonds were outstanding on June 30, 2004 in the aggregate principal amount of \$12.1 million. The Commission has required, and can be expected to continue to require, substantial financial support from the City to maintain its public health mission and programs, including satisfaction of its obligations described above.

Other Agencies and Corporations

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

Major Contractual Obligations

In addition to its debt obligations, the City has substantial contractual obligations. Included in this category are the City's obligation for pension benefit payments to its contributory retirement system for City employees which is included in the annual tax levy (see "Retirement Systems"); agreements for the provision of sanitation, solid waste collection and disposal services (see "The City—Principal Government Services—Public Works"); and agreements with BMCC for the provision of operating assistance and capital grants. (see "City Indebtedness—Special Obligation Debt" and "Debt of Agencies Related to the

City—Boston Public Health Commission” above). The City has also executed several equipment lease agreements in order to finance the acquisition of departmental equipment. As of February 1, 2005 the amount outstanding under the lease agreements equaled \$15.6 million. Lease payments are subject to annual appropriation, and are not included in the City’s debt limit.

Capital Planning and Borrowing Program

Capital Planning Process

The capital planning process is organized to coincide with the annual budget cycle. It begins when City departments submit capital requests, and concludes when the City publishes an updated version of its five-year capital plan. Capital appropriations are requested of the City Council each year for the cost of projects included in the updated capital plan. This process allows for a continuing reassessment of capital needs and projections. On April 14, 2004 the Mayor submitted his fiscal 2005 budget to the City Council, which included approximately \$95.0 million in new authorizations to support the fiscal 2005 capital plan. All authorizations were approved by the City Council in June 2004.

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

Capital Funding Plan

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

Current Capital Investment Plans

The City’s fiscal 2005 capital plan released in April 2004 proposes new long-term investments over the next 5-7 years as well as several studies to lay the groundwork for future growth. In all, \$1.1 billion from City and non-City sources are proposed to be spent on capital projects. These expenditures will be used for improvements to schools, libraries, parks and recreation, roads and bridges. In view of the proven economic and social benefits of consistent, long-range capital planning, the City remains committed to moving forward with its capital program.

The fiscal 2005 capital plan includes projects to improve the physical condition of the City’s schools. In addition to ongoing roof replacements and heating system upgrades, the City completed construction and opened three new schools in calendar 2003. Finally, the 2005 capital plan continues technology upgrades throughout the entire school system.

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

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

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

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

RETIREMENT SYSTEMS

The City’s employees are not participants in the federal social security system. The City participates in a contributory defined benefit retirement system that is administered by the State-Boston Retirement System (“SBRs”). The SBRs provides pension benefits to retired City employees under a state contributory retirement statute, and is administered by a Retirement Board comprised of five members: the

City Auditor, who serves *ex-officio*; two individuals elected by members of the system; an individual chosen by the Mayor; and an individual chosen by the other four members or appointed by the Mayor if the other four members do not agree on a selection within thirty days of a vacancy. All retirement allowances are paid from a fund supported by employee, City and state contributions. Employee contributions in the form of a mandatory deduction from regular compensation constitute an annuity fund from which the annuity portion of the retirement allowance is paid.

The City is committed to funding based upon a schedule approved by the SBRS and the state actuary, which includes paying the current year's estimated present value of benefits earned during the year ("normal cost") and an annual contribution toward reducing the unfunded liability to zero by the year 2023. This schedule is calculated in accordance with the entry age actuarial cost method. The schedule is subject to update and approval at least every three years by the state Public Employee Retirement Administration Commission ("PERAC"), a state agency established to oversee all 106 Massachusetts public retirement systems. The SBRS most recently received approval for a funding schedule for fiscal 2006, 2007, and 2008. The latest approved schedule targets full funding of the system five years prior to the legally required 2028. The annual appropriation, based on the funding schedule, is a legal obligation of the City that must be included as part of the tax rate certification by the Commonwealth.

Beginning January 1, 2000, the Board adopted an asset valuation method that gradually incorporates over time annual investment gains over and losses under the actuarial investment return assumption of 8%. The actuarial value of assets is used in determining the funding schedule, thereby avoiding the direct and immediate impact of dramatic upswings and downswings inherent in the equity markets. On January 1, 1999, and on previous actuarial reporting dates, assets were reported at market value. During those years, the actuarial value and the market value were considered to be the same.

A cost of living adjustment is set each year at the CPI or an amount up to, but not greater than, 3% on the first \$12,000 of a retiree's annual payment. Cost of living adjustments are considered by the Board on an annual basis. As part of the annual review process, the Board considers the fiscal conditions of the City and whether the granting of a COLA would substantially impair the City's funding schedule. COLA's were approved from fiscal 1999 through fiscal 2005. The Commonwealth, meanwhile, has incorporated in its pension funding schedule sufficient funds to fulfill its obligation for local cost of living adjustments it had awarded prior to fiscal 1998. The funding schedule incorporated a 3% cost of living adjustment into its annual appropriation calculation.

Schedule of Funding Progress
(\$ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
January 1, 2004	\$3,384,814	\$5,420,842	\$2,036,028	62.4%	\$1,067,492	190.7%
January 1, 2003	3,204,893	5,121,319	1,916,426	62.6	1,099,779	174.3
January 1, 2002	3,376,000	4,861,000	1,485,000	69.5	1,057,000	140.5
January 1, 2001	3,212,000	4,257,000	1,045,000	75.5	990,000	105.6

Source: City of Boston Retirement Board

For long-term investment performance, the SBRS recorded a five-year (ending in 2003) average annualized return of 4.12% and an average annualized return from January 1, 1985 through December 31, 2003 of 10.80%. In 2003 the rate of return for the SBRS was 23.09% and the composite rate of return for all 106 Massachusetts public pension funds was 24.92%.

In addition to SBRS, the Boston Retirement System, the predecessor system, is funded by the City. This predecessor system has as its members only those active and retired employees whose employment commenced prior to 1946 and who have not elected coverage under the SBRS program. This system is funded on a "pay-as-you-go" basis. In addition to SBRS and its predecessor system, the City also provides noncontributory retirement benefits to certain employees whose employment predates SBRS and its predecessor system or who are veterans who meet certain state law requirements. The City is currently providing such benefits to approximately 280 pensioners.

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

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

<u>Fiscal Year Ending June 30</u>	<u>SBRS Contributory System</u>	<u>Predecessor/ Noncontributory System</u>	<u>Teachers Pension Reimbursement</u>	<u>Net Pension Cost</u>
2005 Budgeted.....	\$146.6	\$4.9	\$(61.4)	\$90.1
2004.....	137.0	4.9	(61.4)	80.5
2003.....	134.4	4.9	(53.7)	85.6
2002.....	129.7	6.0	(45.3)	90.4
<u>2001.....</u>	<u>127.5</u>	<u>6.3</u>	<u>(41.4)</u>	<u>92.4</u>

Source: City of Boston Office of Budget Management

SUPPLEMENT I

**Report of Certified Public Accountants:
Audited Financial Statements for the Year Ended June 30, 2004**



CITY OF BOSTON, MASSACHUSETTS

Basic Financial Statements and Required Supplementary Information

June 30, 2004

(With Independent Auditors' Report Thereon)

CITY OF BOSTON, MASSACHUSETTS

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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Boston's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 3% and 3% of the assets and revenues, respectively, of the aggregate remaining fund information and 23% and 24% of the assets and revenues, respectively, of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the aggregate remaining fund information and the discretely presented component units and their effects on the governmental and fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.



In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 13 and the schedules of funding progress and employers' contributions on page 57 are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Boston, Massachusetts
November 19, 2004

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2004

The City of Boston 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 of Boston is for the fiscal year ended June 30, 2004. 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 are intended to serve as an introduction to the City of Boston's financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information regarding historical pension information. These components are described below:

Basic Financial Statements

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

Government-Wide Financial Statements

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

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

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

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

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2004

category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, judgment and claims, retirement costs, state and district assessments, debt service, and other employee benefits.

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

Discretely Presented Component Units – These are operations for which the City has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above.

The City's four discretely presented major component units are:

Boston Public Health Commission

Boston Redevelopment Authority

Economic Development Industrial Corporation

Trustees of the Boston Public Library

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

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

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

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

- 1. Governmental Fund Financial Statements** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This 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

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

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

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

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

Of the City's four governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Budgetary Statement or Statement of Revenues and Expenditures – Budgetary Basis* is presented on page 20. This Statement provides a comparison of the original and final budget and the actual expenditures for the current and prior year.

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

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

CITY OF BOSTON, MASSACHUSETTS

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June 30, 2004

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

- 3. Fiduciary Funds Financial Statements** – These funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The City's fiduciary funds are the Employee Retirement Fund (the State-Boston Retirement System and the), which accounts for the transactions, assets, liabilities, and net assets of the City employees' pension plan, and the Private Purpose Trust Funds, which includes money held and administered by the City on behalf of third parties.

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds' financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a schedule of funding progress and a schedule of employer contributions for the State-Boston Retirement System.

Government-Wide Financial Analysis

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

Government-Wide Highlights

Net Assets – The total net assets of the City exceeded its liabilities at fiscal year ending June 30, 2004 by \$417.9 million (presented as “net assets”). Of this amount, \$66.2 million was reported as “unrestricted net assets”. Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

Changes in Net Assets – The City's total net assets increased by \$177.2 million in fiscal year 2004. Net assets of governmental activities increased by \$184.3 million, while net assets of the business-type activities showed a decrease of \$7.1 million.

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June 30, 2004

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (government and business-type activities) totaled \$417.9 million at the end of 2004, compared to \$240.7 million at the end of the previous year.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – this amount is \$92.8 million indicating that the net book value of the City's capital assets exceeds the amount of capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A large portion of the City's governmental net assets (62.0%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of the current fiscal year, the City is reporting a positive balance for the government as a whole. The negative balance reported for Business-Type Activities is offset by the positive balance reported for Governmental Activities. The negative balance in Business-Type Activities is a result of special obligation bonds outstanding at year-end. The negative balance is intended to be covered by user charges, grants and lease receipts from third parties.

City of Boston Net Assets – Primary Government

(In thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Current assets	\$ 1,105,228	923,629	46,510	58,267	1,151,738	981,896
Capital assets	979,662	889,665	—	—	979,662	889,665
Other assets	4,912	2,352	3,174	3,360	8,086	5,712
Due from others	29,326	33,679	99,739	104,869	129,065	138,548
Total assets	\$ 2,119,128	1,849,325	149,423	166,496	2,268,551	2,015,821
Noncurrent liabilities	\$ 933,633	842,966	227,126	236,256	1,160,759	1,079,222
Other liabilities	677,937	683,057	11,951	12,822	689,888	695,879
Total liabilities	\$ 1,611,570	1,526,023	239,077	249,078	1,850,647	1,775,101
Invested in capital assets net of related debt	\$ 92,802	(6,784)	—	—	92,802	(6,784)
Restricted	258,940	210,077	—	—	258,940	210,077
Unrestricted	155,816	120,009	(89,654)	(82,582)	66,162	37,427
Total net assets	\$ 507,558	323,302	(89,654)	(82,582)	417,904	240,720

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

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City of Boston Changes in Net Assets – Primary Government

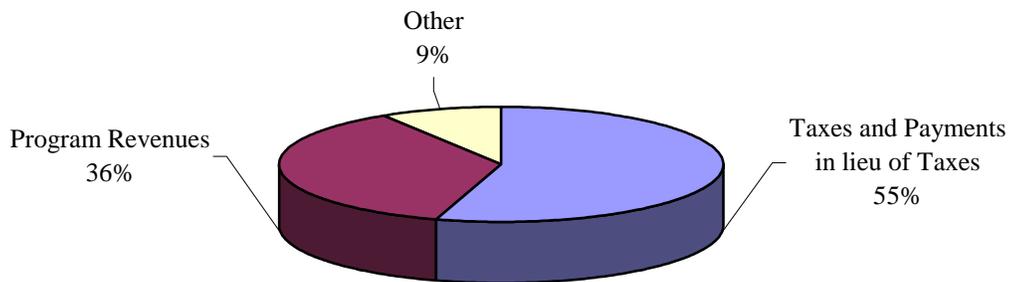
(In thousands)

	Governmental activities		Business-type activities		Totals	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 140,418	127,367	—	12,877	\$ 140,418	140,244
Operating grants and contributions	644,429	503,696	24,256	—	668,685	503,696
Capital grants and contributions	38,595	30,327	—	—	38,595	30,327
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,103,003	1,005,684	—	—	1,103,003	1,005,684
Excises	91,551	95,157	23,845	23,348	115,396	118,505
Payment in lieu of taxes	42,373	40,910	—	—	42,373	40,910
Grants and contributions not restricted	171,976	234,719	—	—	171,976	234,719
Investment income	18,304	18,655	5,653	8,377	23,957	27,032
Miscellaneous	11,849	33,245	—	—	11,849	33,245
Total revenues	<u>2,262,498</u>	<u>2,089,760</u>	<u>53,754</u>	<u>44,602</u>	<u>2,316,252</u>	<u>2,134,362</u>
Program expenses:						
General government	77,022	60,112	—	—	77,022	60,112
Human services	32,180	32,357	—	—	32,180	32,357
Public safety	415,482	420,108	—	—	415,482	420,108
Public works	95,104	94,316	—	—	95,104	94,316
Property and development	118,764	93,265	—	—	118,764	93,265
Parks and recreation	13,667	19,766	—	—	13,667	19,766
Library	30,479	33,938	—	—	30,479	33,938
Schools	786,907	791,540	—	—	786,907	791,540
Public health programs	58,848	63,897	—	—	58,848	63,897
County	102,212	100,745	—	—	102,212	100,745
Judgments and claims	(1,782)	2,880	—	—	(1,782)	2,880
Retirement costs	87,934	74,720	—	—	87,934	74,720
Other employee benefits	115,944	114,209	—	—	115,944	114,209
State and district assessments	111,061	69,009	—	—	111,061	69,009
Repairs and maintenance	12,378	21,929	—	—	12,378	21,929
Interest on long-term debt	39,042	48,397	—	—	39,042	48,397
Convention center	—	—	38,541	40,786	38,541	40,786
Hospital	—	—	5,285	8,881	5,285	8,881
Total program expenses	<u>2,095,242</u>	<u>2,041,188</u>	<u>43,826</u>	<u>49,667</u>	<u>2,139,068</u>	<u>2,090,855</u>
Excess (deficiency) before special items and transfers	167,256	48,572	9,928	(5,065)	177,184	43,507
Transfers	<u>17,000</u>	<u>18,000</u>	<u>(17,000)</u>	<u>(18,000)</u>	<u>—</u>	<u>—</u>
Change in net assets	184,256	66,572	(7,072)	(23,065)	177,184	43,507
Net assets – beginning	<u>323,302</u>	<u>256,730</u>	<u>(82,582)</u>	<u>(59,517)</u>	<u>240,720</u>	<u>197,213</u>
Net assets – ending	<u>\$ 507,558</u>	<u>323,302</u>	<u>(89,654)</u>	<u>(82,582)</u>	<u>417,904</u>	<u>240,720</u>

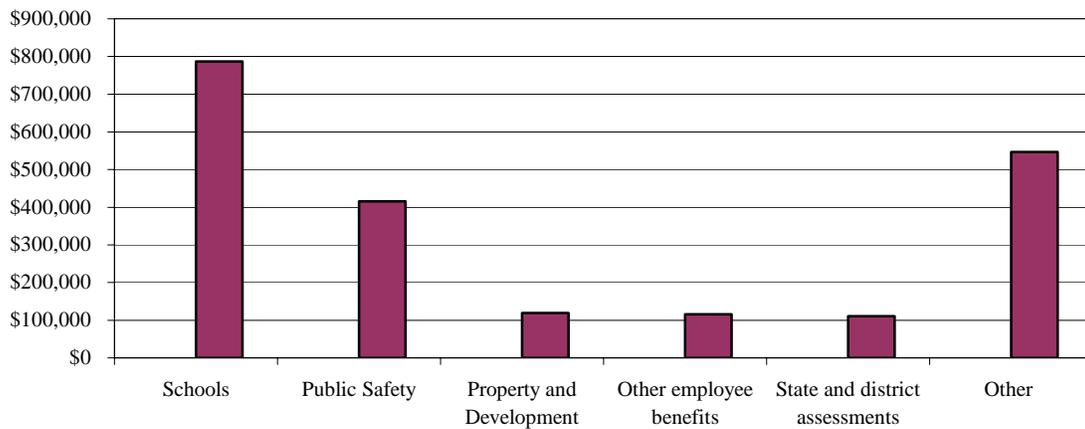
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**Revenues – Governmental Activities
Fiscal Year 2004**



**Expenses – Governmental Activities
Fiscal Year 2004
(In thousands)**



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Governmental Activities

The City's governmental activities net assets increased by \$184.3 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal 2004: In Assets, cash and investments increased by \$157.0 million, receivables increased by \$24.6 million, capital assets increased by \$90.0 million. In the liability accounts, there were increases in warrants payable of \$36.9 million, accrued liabilities of \$27.0 million and current long term debt of \$41.7 million, with a \$33.0 million decrease in deferred revenue.

The City's largest sources of revenues were property and excise taxes and payments in lieu of taxes of \$1.24 billion and \$823.4 million of program revenues. Approximately 54.7% of the City's total revenue came from taxes and payments in lieu of taxes, while 36.4% resulted from program revenues. Interest, unrestricted grants and contributions, and other miscellaneous revenues totaled \$202.1 million. The City's expenses cover a range of services. The largest expenses were for schools (\$786.9 million), public safety (\$415.5 million), property and development (\$118.8 million), other employee benefits (\$115.9 million), State and district assessments (\$111.1 million), county (\$102.2 million) public works (\$95.1 million), and general government (\$77.0 million). In 2004, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.27 billion. This shortfall was covered primarily through taxes (\$1.24 billion) and grants and contributions not restricted of (\$172.0 million).

Significant changes in revenues and expenses from the prior year include increases in property tax revenue of \$97.3 million and Federal and State grant revenue of \$77.0 million, offset by increases in property and development of \$26.0 million, general government of \$17.0 million and retirement costs of \$13.0 million.

Business-Type Activities

Net assets from business-type activities fell by \$7.1 million during fiscal 2004. This change in net assets resulted primarily from ongoing debt service for the Convention Center and additional land taking expenses incurred in Land Court on properties acquired by eminent domain.

Financial Analysis of the City's Individual Funds

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

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

Fund Highlights

Governmental Funds – Fund Balances – As of the close of fiscal year 2004, the City's governmental funds reported a combined ending fund balance of \$832.2 million, an increase of \$130.7 million from the prior year. Of this total amount, \$455.3 million represents the "unreserved and undesignated fund balances" with \$377.1 million of this amount in the general fund.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In

CITY OF BOSTON, MASSACHUSETTS

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particular, unreserved fund balance may serve as a useful measure of a government's financial position at the end of the fiscal year.

General Fund – Fund Balance – The general fund is the chief operating fund of the City. The City's General Fund – Fund Balance Policy states in part to maintain a GAAP undesignated fund balance in the general fund that is 10%, or higher, of GAAP general fund operating expenditures for the fiscal year. The GAAP undesignated fund balance at the end of fiscal year 2004 was \$377.1 million, which represents approximately 21.4% of GAAP general fund operating expenditures.

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

The City of Boston has established the General Fund-Fund Balance Policy to ensure that the City maintains adequate levels of fund balance to mitigate current and future risks (i.e. revenue shortfalls and unanticipated expenditures). The policy in full states that the City shall maintain a GAAP undesignated fund balance in the general fund that is 10% or higher than the current fiscal year's GAAP general fund operating expenditures; and that the City shall only consider the certification of free cash (as defined by the Commonwealth of Massachusetts' Department of Revenue) in years where the appropriation of free cash shall not cause the fiscal year's GAAP undesignated fund balance to go below 10% of the fiscal year's GAAP general fund expenditures while maintaining a Budgetary Undesignated Fund Balance between 5% and 10% of Budgetary Operating Expenses.

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

The general fund budgetary highlights include ending fiscal year 2004 with a \$4.4 million dollar surplus. This represents the City's 19th consecutive year with a balanced budget. Changes to the original budget resulted in an increase of \$180 thousand to the overall budget. However, there were three supplemental appropriations in the amount of \$11.2 million from the reserve for collective bargaining to the School Department and other City departments. These appropriations were used for salary and wage increases. These supplemental appropriations were funded from available revenue sources. During the year, revenues exceeded budgetary estimates, thus eliminating the need to draw from existing fund balance.

Special Revenue – Fund Balance – The special revenue fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for predefined purposes. The fiscal year 2004 special revenue fund balance is reported at \$158.9 million, a \$47.4 million increase from fiscal year 2003.

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

CITY OF BOSTON, MASSACHUSETTS

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funds. The fiscal year 2004 capital projects fund balance is \$55.3 million. The \$1.5 million decrease from fiscal year 2003 is attributable to the timing of borrowing of General Obligation Bond Sales.

Other Governmental Funds – Fund Balance – Other governmental funds account for assets held by the City in permanent trust funds. The fiscal year 2004 other governmental funds fund balance is \$44.8 million, a \$3.0 million increase from fiscal year 2003.

Proprietary Funds

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

The City's proprietary funds net assets for fiscal year 2004 are a negative \$89.7 million. As stated in the discussion on the government-wide financial statements, the negative balance in the proprietary funds is a result of the Convention Center special obligation bonds and Hospital special obligation bonds outstanding at year-end.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities as of June 30, 2004, included \$2.00 billion of cost and accumulated depreciation of \$1.02 billion, leaving a net book value of \$979.7 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was about 10.1% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$122.5 million for the year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements. Depreciation charges for the year totaled \$32.5 million. Additional information on the City's capital assets can be found in note 8 of the notes to the basic financial statements.

Long-Term 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 \$893.5 million in General Obligations Bonds principal outstanding – an increase of 2.2 % over last year.

The key factors in this increase were the issuance of the February 1, 2004 Series A \$100.9 million General Obligation Bonds, \$35.9 million of which were Refunding Bonds. Additionally, the City issued \$42.3 million of General Obligation Refunding Bonds, 2004 Series B dated April 1, 2004.

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

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Notes Payable and Other Long-Term Obligations – The City's general long-term notes and other obligations increased by \$9.6 million, or 2.7% during the current fiscal year. The key factors were reductions in judgments and claims of \$5.2 million and leases of \$4.9 million, offset by net increases in compensated absences of \$6.6 million and Notes payable – Section 108 of \$13.5 million.

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

Requests for Information

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

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets

June 30, 2004

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Assets:				
Cash and investments	\$ 828,317	525	828,842	207,676
Cash and investments held by trustees	48,253	45,985	94,238	3,880
Receivables, net:				
Property taxes	12,599	—	12,599	—
Intergovernmental	193,630	—	193,630	—
Other	22,429	—	22,429	112,135
Other assets	4,912	3,174	8,086	163,092
Capital assets:				
Nondepreciable	522,012	—	522,012	19,609
Depreciable, net	457,650	—	457,650	37,732
Internal balances	17,000	(17,000)	—	—
Due from BMC	—	—	—	1,401
Due from component units	12,326	116,739	129,065	—
Due from primary government	—	—	—	180
Total assets	2,119,128	149,423	2,268,551	545,705
Liabilities:				
Warrants and accounts payable	90,043	—	90,043	75,404
Accrued liabilities – current:				
Tax abatement liability	22,800	—	22,800	—
Compensated absences	35,808	—	35,808	—
Judgments and claims	6,960	—	6,960	—
Payroll and related costs	116,089	—	116,089	—
Deposits and other	82,522	3,046	85,568	2,561
Current portion of long-term debt and leases	137,220	8,905	146,125	1,349
Due to component units	180	—	180	—
Due to BMC	—	—	—	74,562
Due to primary government	—	—	—	129,065
Deferred revenue	14,801	—	14,801	49,121
Noncurrent liabilities:				
Bonds due in more than one year	778,887	227,126	1,006,013	78,496
Notes and leases payable due in more than one year	154,746	—	154,746	—
Other noncurrent liabilities	171,514	—	171,514	5,451
Total liabilities	1,611,570	239,077	1,850,647	416,009
Net assets:				
Investment in capital assets, net of related debt	92,802	—	92,802	34,915
Restricted for:				
Capital projects	55,277	—	55,277	—
Expendable trust	44,798	—	44,798	—
Other purposes	158,865	—	158,865	63,661
Unrestricted	155,816	(89,654)	66,162	31,120
Total net assets	\$ 507,558	(89,654)	417,904	129,696

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Activities
Year ended June 30, 2004
(In thousands)

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets			Component units
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 77,022	9,309	11,041	9,536	(47,136)	—	(47,136)	—
Human services	32,180	13	14,164	—	(18,003)	—	(18,003)	—
Public safety	415,482	105,405	39,350	2,276	(268,451)	—	(268,451)	—
Public works	95,104	3,806	51	7,524	(83,723)	—	(83,723)	—
Property and development	118,764	3,547	64,622	—	(50,595)	—	(50,595)	—
Parks and recreation	13,667	1,989	1,249	1,090	(9,339)	—	(9,339)	—
Library	30,479	322	5,896	368	(23,893)	—	(23,893)	—
Schools	786,907	12,868	403,854	17,801	(352,384)	—	(352,384)	—
Public health programs	58,848	—	—	—	(58,848)	—	(58,848)	—
County	102,212	156	104,202	—	2,146	—	2,146	—
Judgments and claims	(1,782)	—	—	—	1,782	—	1,782	—
Retirement costs	87,934	3,003	—	—	(84,931)	—	(84,931)	—
Other employee benefits	115,944	—	—	—	(115,944)	—	(115,944)	—
State and district assessments	111,061	—	—	—	(111,061)	—	(111,061)	—
Repairs and maintenance	12,378	—	—	—	(12,378)	—	(12,378)	—
Interest on long-term debt	39,042	—	—	—	(39,042)	—	(39,042)	—
Total governmental activities	2,095,242	140,418	644,429	38,595	(1,271,800)	—	(1,271,800)	—
Business-type activities:								
Convention Center	38,541	—	24,256	—	—	(14,285)	(14,285)	—
Hospital bonds	5,285	—	—	—	—	(5,285)	(5,285)	—
Total business-type activities	43,826	—	24,256	—	—	(19,570)	(19,570)	—
Total primary government	\$ 2,139,068	140,418	668,685	38,595	(1,271,800)	(19,570)	(1,291,370)	—
Component units:								
Boston Public Health Commission	\$ 116,123	—	106,033	842	—	—	—	(9,248)
Boston Redevelopment Authority	47,702	11,439	31,958	—	—	—	—	(4,305)
Trustees of the Public Library of the City of Boston	14,580	604	12,194	—	—	—	—	(1,782)
Economic Development and Industrial Corporation of Boston	31,987	12,074	18,002	—	—	—	—	(1,911)
Total component units	\$ 210,392	24,117	168,187	842	—	—	—	(17,246)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					1,103,003	—	1,103,003	—
Excises					91,551	23,845	115,396	—
Payments in lieu of taxes					42,373	—	42,373	—
Grants and contributions not restricted					171,976	—	171,976	—
Investment income					18,304	5,653	23,957	8,038
Miscellaneous					11,849	—	11,849	16,023
Transfers					17,000	(17,000)	—	—
Total general revenues and transfers					1,456,056	12,498	1,468,554	24,061
Change in net assets					184,256	(7,072)	177,184	6,815
Net assets – beginning of year					323,302	(82,582)	240,720	121,492
Prior period adjustment					—	—	—	1,389
Net assets – end of year					\$ 507,558	(89,654)	417,904	129,696

CITY OF BOSTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2004

(In thousands)

Assets	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Cash and investments	\$ 609,638	116,283	82,694	—	808,615
Cash and investments held by trustees	—	—	3,094	45,159	48,253
Receivables, net:					
Property taxes	12,599	—	—	—	12,599
Intergovernmental	77,414	116,216	—	—	193,630
Departmental and other	21,749	—	—	385	22,134
Total receivables	111,762	116,216	—	385	228,363
Due from other funds	25,201	1,499	—	—	26,700
Due from component units	12,285	—	—	—	12,285
Other assets	333	1	—	—	334
Total assets	<u>\$ 759,219</u>	<u>233,999</u>	<u>85,788</u>	<u>45,544</u>	<u>1,124,550</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 52,187	32,532	4,560	746	90,025
Accrued liabilities:					
Payroll and related costs	94,784	—	—	—	94,784
Deposits and other	4,596	34,401	25,951	—	64,948
Deferred revenue	32,108	—	—	—	32,108
Due to other funds	2,144	8,201	—	—	10,345
Due to component units	180	—	—	—	180
Total liabilities	<u>185,999</u>	<u>75,134</u>	<u>30,511</u>	<u>746</u>	<u>292,390</u>
Fund balances (deficit):					
Reserved for:					
Encumbrances	56,132	34,738	50,821	84	141,775
Future appropriations	—	—	50,374	—	50,374
Unreserved:					
Designated for subsequent years expenditures	139,986	—	—	—	139,986
Undesignated	377,102	124,127	(45,918)	—	455,311
Reported in permanent funds	—	—	—	44,714	44,714
Total fund balance	<u>573,220</u>	<u>158,865</u>	<u>55,277</u>	<u>44,798</u>	<u>832,160</u>
Total liabilities and fund balances	<u>\$ 759,219</u>	<u>233,999</u>	<u>85,788</u>	<u>45,544</u>	<u>1,124,550</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

June 30, 2004

(In thousands)

Total fund balance – Governmental Funds	\$	832,160
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land		14,466
Land improvements		25,021
Buildings and improvements		1,024,418
Furniture and equipment		160,075
Infrastructure		266,950
Construction in progress		507,546
Less accumulated depreciation		<u>(1,018,814)</u>
		<u>979,662</u>
Adjust deferred revenues and receivables to record revenues on an accrual basis		<u>17,307</u>
Internal service funds are included in the government-wide statements		<u>16,532</u>
Bond issuance costs are capitalized in the government-wide statements		<u>2,598</u>
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
General obligation bonds and notes		(1,044,161)
Capital leases		(12,600)
Bond issue premiums		(23,643)
Deferred bond gains/losses		9,551
Accrued interest on bonds		(17,574)
Payroll and compensated absences		(189,459)
Landfill		(14,547)
Judgments and claims		(25,468)
Tax abatements		<u>(22,800)</u>
		<u>(1,340,701)</u>
Net assets of governmental activities	\$	<u><u>507,558</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

Year ended June 30, 2004

(In thousands)

	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Revenues:					
Real and personal property taxes	\$ 1,082,574	—	—	—	1,082,574
Excises	85,354	—	—	—	85,354
Payments in lieu of taxes	42,373	—	—	—	42,373
Fines	66,342	19	—	—	66,361
Investment income	8,253	175	—	52	8,480
Licenses and permits	33,900	70	—	—	33,970
Departmental and other	45,556	26,374	7,985	9,536	89,451
Intergovernmental	459,836	356,555	10,917	—	827,308
Total revenues	1,824,188	383,193	18,902	9,588	2,235,871
Expenditures:					
Current:					
General government	30,061	3,175	—	6,552	39,788
Human services	22,642	9,337	—	—	31,979
Public safety	390,854	21,052	—	—	411,906
Public works	87,045	286	—	—	87,331
Property and development	31,088	86,599	—	—	117,687
Parks and recreation	11,260	1,230	—	—	12,490
Library	24,089	5,409	—	—	29,498
Schools	656,291	124,356	—	—	780,647
Public health programs	58,762	86	—	—	58,848
County	—	102,044	—	—	102,044
Judgments and claims	(3,544)	—	—	—	(3,544)
Retirement costs	87,934	—	—	—	87,934
Other employee benefits	129,937	—	—	—	129,937
State and district assessments	111,061	—	—	—	111,061
Capital outlays	393	1,891	132,562	33	134,879
Debt service	120,938	3,054	—	—	123,992
Total expenditures	1,758,811	358,519	132,562	6,585	2,256,477
Excess (deficiency) of revenues over expenditures	65,377	24,674	(113,660)	3,003	(20,606)
Other financing sources (uses):					
Long-term debt and capital leases issued	—	15,000	147,986	—	162,986
Payments to escrow agent to refund debt	(511)	(4,096)	(35,819)	—	(40,426)
Premiums on long-term debt issued	—	11,775	—	—	11,775
Transfers in	17,000	—	—	—	17,000
Total other financing sources (uses)	16,489	22,679	112,167	—	151,335
Net change in fund balances	81,866	47,353	(1,493)	3,003	130,729
Fund balance – beginning	491,354	111,512	56,770	41,795	701,431
Fund balance – ending	\$ 573,220	158,865	55,277	44,798	832,160

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

Year ended June 30, 2004

Net change in fund balances – total governmental funds	\$	130,729
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 (\$122,501) exceeded depreciation expense (\$32,504).		89,997
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.		26,625
Proceeds of long-term debt (\$162,985) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond principal (\$135,181) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.		(27,804)
Bond premiums net (\$10,659) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$2,552) are expenditures in the governmental funds, before deferred assets in the statement of assets. This is the amount by which premiums exceeded issuance costs.		(8,107)
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 (\$16,868), payroll settlements (\$21,305) and interest payable (\$1,274) offset by a decrease in landfill liabilities (\$31) and judgments and claims (\$3,630).		(35,786)
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds.		8,602
Change in net assets of governmental activities	\$	184,256

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

Year ended June 30, 2004
(with comparative actual amounts for 2003)

(In thousands)

	<u>Original budget</u>	<u>2004 Final budget</u>	<u>Actual</u>	<u>Variance over (under)</u>	<u>2003 Actual</u>
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,051,862	1,051,862	1,052,067	205	996,030
Excises	93,604	93,604	94,269	665	118,405
Commonwealth of Massachusetts	504,619	504,619	521,232	16,613	498,217
Departmental and other revenue	37,194	37,194	50,959	13,765	54,720
Fines	59,950	59,950	66,342	6,392	58,985
Payments in lieu of taxes	37,610	37,610	42,373	4,763	40,910
Investment income	4,200	4,380	7,792	3,412	8,552
Licenses and permits	21,030	21,030	34,820	13,790	30,146
Other available funds	41,808	41,808	22,933	(18,875)	24,849
Total revenues and other available funds	1,851,877	1,852,057	1,892,787	40,730	1,830,814
Expenditures:					
General government	72,421	62,607	75,926	(13,319)	65,401
Human services	24,654	23,118	22,945	173	24,936
Public safety	387,895	388,801	393,827	(5,026)	408,849
Public works	83,133	85,310	87,639	(2,329)	86,599
Property and development	24,018	26,514	26,400	114	34,744
Parks and recreation	13,072	13,706	13,436	270	14,680
Library	23,981	24,086	24,086	—	27,726
Schools	646,100	656,547	656,539	8	650,600
Boston Public Health Commission	58,582	58,762	58,762	—	63,897
County	—	—	—	—	4,737
Judgments and claims	3,500	3,500	18,842	(15,342)	2,166
Other employee benefits	132,373	132,377	133,206	(829)	115,164
Retirement costs	141,867	141,867	141,867	—	139,325
State and district assessments	114,207	110,996	111,061	(65)	69,009
Debt requirements	126,074	123,866	123,866	—	121,184
Total expenditures	1,851,877	1,852,057	1,888,402	(36,345)	1,829,017
Excess of revenues and other available funds over expenditures	\$ —	—	4,385	4,385	1,797

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets – Proprietary Funds

June 30, 2004

(In thousands)

	Enterprise funds			Internal service
	Convention center	Hospital revenue bonds	Total	
Assets:				
Current assets:				
Cash and investments	\$ 525	—	525	19,702
Cash and investments held by trustees	26,277	19,708	45,985	—
Receivables, net	—	—	—	295
Total current assets	26,802	19,708	46,510	19,997
Noncurrent assets:				
Due from other funds	—	—	—	645
Due from component units	—	116,739	116,739	41
Other assets	1,431	1,743	3,174	1,980
Total assets	28,233	138,190	166,423	22,663
Liabilities:				
Current liabilities:				
Warrants and accounts payable	—	—	—	17
Accrued liabilities	—	—	—	6,114
Due to other funds	17,000	—	17,000	—
Accrued interest payable	915	2,131	3,046	—
Current portion of long-term debt	2,780	6,125	8,905	—
Total current liabilities	20,695	8,256	28,951	6,131
Noncurrent liabilities:				
Special obligation bonds	109,700	—	109,700	—
Revenue bonds	—	117,426	117,426	—
Total noncurrent liabilities	109,700	117,426	227,126	—
Total liabilities	130,395	125,682	256,077	6,131
Net assets:				
Unrestricted	(102,162)	12,508	(89,654)	16,532
Total net assets	\$ (102,162)	12,508	(89,654)	16,532

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

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

Year ended June 30, 2004

(In thousands)

	Enterprise funds			Internal service
	Convention center	Hospital revenue bonds	Total	
Operating revenues:				
Contributions	\$ —	—	—	84,292
Excise taxes – pledged for debt service	23,845	—	23,845	—
Departmental and other	3,326	—	3,326	36
Total operating revenues	<u>27,171</u>	<u>—</u>	<u>27,171</u>	<u>84,328</u>
Operating expenses:				
Payments made on behalf of State	32,890	—	32,890	—
Health benefits	—	—	—	75,726
Total operating expenses	<u>32,890</u>	<u>—</u>	<u>32,890</u>	<u>75,726</u>
Operating (loss) income	<u>(5,719)</u>	<u>—</u>	<u>(5,719)</u>	<u>8,602</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	20,930	—	20,930	—
Investment earnings – pledged for debt service	—	5,595	5,595	—
Investment earnings – other	58	—	58	—
Interest expense	(5,651)	(5,285)	(10,936)	—
Total nonoperating revenue (expense)	<u>15,337</u>	<u>310</u>	<u>15,647</u>	<u>—</u>
Income before transfers	9,618	310	9,928	8,602
Transfer to general fund	(17,000)	—	(17,000)	—
Change in net assets	(7,382)	310	(7,072)	8,602
Total net assets – beginning	<u>(94,780)</u>	<u>12,198</u>	<u>(82,582)</u>	<u>7,930</u>
Total net assets – ending	\$ <u>(102,162)</u>	<u>12,508</u>	<u>(89,654)</u>	<u>16,532</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2004
(In thousands)

	Enterprise funds			Internal service
	Convention center	Hospital revenue bonds	Total	
Cash flows from operating activities:				
Cash received from taxes	\$ 24,985	—	24,985	84,276
Other cash received	3,326	—	3,326	36
Cash paid to vendors	—	—	—	(78,743)
Cash payments on behalf of State	(32,890)	—	(32,890)	—
Net cash (used) provided in operations	(4,579)	—	(4,579)	5,569
Cash flows from noncapital financing activities:				
Grants received from State	20,930	—	20,930	—
Interest paid on debt	(5,609)	(5,446)	(11,055)	—
Lease receipts	—	11,724	11,724	—
Transfers to other funds	(18,000)	—	(18,000)	—
Repayment of long-term debt	(2,310)	(7,385)	(9,695)	—
Net cash provided (used) by noncapital financing activities	(4,989)	(1,107)	(6,096)	—
Cash flows from investing activities:				
Investment income	58	—	58	—
Net cash provided by investing activities	58	—	58	—
(Decrease) increase in cash and cash equivalents	(9,510)	(1,107)	(10,617)	5,569
Cash and cash equivalents, beginning of year	36,312	20,815	57,127	14,133
Cash and cash equivalents, end of year	\$ 26,802	19,708	46,510	19,702

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2004
(In thousands)

	Enterprise funds			Internal service
	Convention center	Hospital revenue bonds	Total	
Reconciliation of operating income to cash provided by operating activities:				
Operating income (loss)	\$ (5,719)	—	(5,719)	8,602
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	1,140	—	1,140	(16)
Other assets	—	—	—	(1,740)
Due (to) from other funds	—	—	—	620
Due (to) from component units	—	—	—	(686)
Accounts payable and accrued liabilities	—	—	—	(1,211)
Net cash (used) provided by operating activities	\$ <u>(4,579)</u>	<u>—</u>	<u>(4,579)</u>	<u>5,569</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2004

(In thousands)

	Employee retirement plans	Private purpose trusts	Agency funds
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and cash equivalents	\$ 628	71,297	2,010
Receivables:			
Interest and dividends	8,860	—	—
Securities sold	16,631	—	—
Other	<u>86,319</u>	<u>1,769</u>	<u>—</u>
Total receivables	<u>111,810</u>	<u>1,769</u>	<u>—</u>
Investments, at fair value:			
Money market	872,695	—	—
MMDT	19,427	—	—
Short-term investments	83,836	—	—
Domestic equity securities	986,941	—	—
Domestic debt securities	377,019	—	—
International equity	463,505	—	—
International debt	141,039	—	—
Real estate	191,997	—	—
Venture capital funds	<u>82,727</u>	<u>—</u>	<u>—</u>
Total investments	<u>3,219,186</u>	<u>—</u>	<u>—</u>
Securities lending short-term collateral investment pool	205,489	—	—
Other assets	<u>—</u>	<u>30</u>	<u>—</u>
Total assets	<u>3,537,113</u>	<u>73,096</u>	<u>2,010</u>
Liabilities:			
Accounts payable	11,753	1,277	—
Securities purchased	83,055	—	—
Collateral held on securities lending	205,489	—	—
Refunds payable and other	<u>—</u>	<u>—</u>	<u>2,010</u>
Total liabilities	<u>300,297</u>	<u>1,277</u>	<u>2,010</u>
Net assets:			
Held in trust for pension benefits and other purposes	\$ <u>3,236,816</u>	<u>71,819</u>	

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Changes in Fiduciary Net Assets –
Fiduciary Funds

Year ended June 30, 2004

(In thousands)

	<u>Employee retirement plans</u>	<u>Private purpose trusts</u>
Additions:		
Contributions:		
Employers	\$ 158,194	—
Employees	103,287	—
Donations and other	—	22,172
Total contributions	<u>261,481</u>	<u>22,172</u>
Investment earnings:		
Net appreciation (depreciation) in the fair value of investments	536,166	—
Interest and dividends	68,278	325
Less investment expenses	<u>(8,740)</u>	<u>—</u>
Net investment (losses) earnings	<u>595,704</u>	<u>325</u>
From securities lending activities:		
Securities lending income	2,835	—
Less borrower rebates and fees	<u>(2,150)</u>	<u>—</u>
Net income from securities lending activities	<u>685</u>	<u>—</u>
Total net investment income (loss)	596,389	325
Intergovernmental	<u>28,993</u>	<u>—</u>
Total (loss) additions	<u>886,863</u>	<u>22,497</u>
Deductions:		
Benefits	299,042	—
Reimbursement to other systems	9,726	—
Refunds of contributions	11,681	—
Administrative expenses	<u>2,475</u>	<u>24,884</u>
Total deductions	<u>322,924</u>	<u>24,884</u>
Change in net assets	563,939	(2,387)
Net assets, beginning of year	<u>2,672,877</u>	<u>74,206</u>
Net assets, end of year	\$ <u><u>3,236,816</u></u>	<u><u>71,819</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

(1) The Financial Reporting Entity

The accounting policies followed in preparing the accompanying basic financial statements are as follows:

(a) *Primary Government*

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

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

(b) *Blended Component Unit Disclosure*

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

State-Boston Retirement System (SBRS) – The SBRS is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor and a fifth member chosen by the other members. The SBRS provides pension benefits to retired City employees.

A complete set of financial statements for SBRS for the fiscal year ended December 31, 2003 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201.

(c) *Discretely Presented Component Units Disclosure*

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

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

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

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

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

The financial statements of the discretely presented component units are included for their respective fiscal year-ends, which is on June 30, 2004.

Complete financial statements of these discretely presented component units can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. In addition, condensed financial statements for the discretely presented component units are included in note 17.

(d) Related Organizations

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

(2) Summary of Significant Accounting Policies

The accounting policies of the City of Boston, Massachusetts, conform to accounting principles generally accepted in the United States of America as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies followed by the City:

(a) Government-Wide and Fund Financial Statements

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

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

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

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

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

Government-Wide Financial Statements

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

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

Governmental Fund Financial Statements

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

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

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

Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from the collection of revenue pledged to repay debt. The principal operating revenues of the City's enterprise funds are lease receipts and excise taxes. The principal operating revenues of the City's internal service funds are charges to other funds for health insurance. Operating expenses for enterprise funds and internal service funds include the interest, administrative expenses, and vendor payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund accounts* principally for the activities funded by federal and state grant revenue sources and certain other revenues that are legally restricted to expenditures for specified purposes.

The *capital activities fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City capital facilities.

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

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

The *hospital revenue bond fund* accounts for the activities related to the Boston City Hospital Revenue Bonds. These Bonds are payable solely from the mortgage note payments received from the Public Health Commission. These Bonds are repaid from a pledged revenue source from PHC.

Fiduciary funds – Additionally, the City reports the following fiduciary fund types:

The *private-purpose trust fund* is used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

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

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

The City also uses an internal service fund to account for its self-insured health costs. Although the fund is presented in a separate column in the accompanying financial statements, it is not considered a major fund.

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) ***Cash Equivalents***

For purposes of the combined statement of cash flows, investments with original maturities of three months or less when purchased are considered to be cash equivalents.

(d) ***Basis of Investment Valuation***

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of the State-Boston Retirement System which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

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

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

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

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

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

(g) ***Capital Assets***

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

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

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

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

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

(h) *Compensated Absences*

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2004 is related to the voluntary retirement incentive and is recorded in the governmental fund financial statements. The unamortized portion is presented in the government-wide statement of net assets. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

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

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Arbitrage Rebate – Rebatable arbitrage earnings are calculated for the City by third parties and accounted for as a liability in the general fund to the extent it is “due and payable.” At June 30, 2004, an accumulated arbitrage rebate liability of \$1.9 million was recorded in the general fund.

(j) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(k) Tax Abatement Refunds

Matured tax abatement refunds that are due and payable at June 30 have been recorded as a liability in the general fund. Other refunds have been recorded in the government-wide statement of net assets.

(l) Landfill Closure and Postclosure Care Costs

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2004, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. The City has completed the covering of this site in accordance with applicable laws and regulations.

The total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the general fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the government-wide statement of net assets. Expenditures related to the Gardner Street landfill site closure and postclosure care in fiscal 2004 were approximately \$31 thousand.

(m) Use of Estimates

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

(3) Short-Term Debt

During fiscal year 2004, the City had no short-term debt issued or outstanding.

(4) Budgetary Data

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

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3 million which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. There were no supplemental appropriations, other than the aforementioned transfers, for the fiscal year ended June 30, 2004.

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

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

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

- (a) Revenues are recorded when cash is received except for real estate and personal property taxes are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations which are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

- (c) Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).
- (d) Amounts raised for the prior years' deficits and available funds from prior years' surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

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

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2004 (in thousands):

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>	<u>Excess of revenue and other financing sources</u>
As reported on a budgetary basis	\$ 1,892,787	1,888,402	—	4,385
Adjustments:				
Revenues to modified accrual basis	25,017	—	—	25,017
Expenditures, encumbrances, and accruals, net	—	(72,464)	—	72,464
Free cash used	(20,000)	—	—	(20,000)
Reclassifications:				
State-funded teachers' retirement costs	(53,684)	(53,684)	—	—
Convention Center fund revenue	(17,000)	—	17,000	—
Transfers	(2,932)	(3,443)	(511)	—
As reported on a GAAP basis	<u>\$ 1,824,188</u>	<u>1,758,811</u>	<u>16,489</u>	<u>81,866</u>

(5) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers' acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns and other state and local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

The City's pension and certain other trust funds have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

(a) Deposits

The City categorized deposits according to the level of risk assumed. Category 1 includes deposits which are fully insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes those deposits that are not collateralized. The City's deposits at June 30, 2004 are as follows (in thousands):

	Category			Total bank balance	Carrying amount
	1	2	3		
Total cash deposits	\$ 2,317	—	94,825	97,142	78,688

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

(b) Investments

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

Primary government June 30, 2004	Category			Fair value
	1	2	3	
Categorized:				
U.S. Government obligations	\$ —	965	—	965
Debt securities	—	15,774	—	15,774
Equity securities	—	14,550	39,106	53,656
	\$ —	31,289	39,106	70,395
Not categorized:				
Repurchase agreements				728,346
MMDT				47,102
Mutual funds				72,484
				\$ 918,327

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

SBRS – December 31, 2003	Category			Fair value
	1	2	3	
Categorized:				
Investments:				
Short-term investments	\$ 83,836	—	—	83,836
Domestic equity securities	923,944	—	—	923,944
Domestic debt securities	286,218	—	—	286,218
International equity	405,332	—	—	405,332
International debt	135,776	—	—	135,776
Securities on loan with noncash collateral:				
Domestic debt securities	10,883	—	—	10,883
International equity	6,884	—	—	6,884
	<u>\$ 1,852,873</u>	<u>—</u>	<u>—</u>	1,852,873
Not categorized:				
Securities on loan with short-term collateral investment pool (cash):				
Domestic debt securities				79,918
International debt securities				5,263
Domestic equity securities				62,997
International equity				51,289
Securities lending short-term collateral investment pool				
				205,489
Investments:				
MMDT				19,427
Pooled funds				872,695
Real estate				191,997
Venture capital funds				82,727
				<u>\$ 3,424,675</u>

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

(6) Property Taxes

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

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

Based on the City’s experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On November 14, all properties with unpaid fiscal 2001 property taxes were liened. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

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

(7) Receivables

Receivables as of year-end for the government’s individual major funds, nonmajor funds and internal service fund, including the applicable allowances for uncollectible accounts are as follows (in thousands):

	<u>General</u>	<u>Special revenue</u>	<u>Other nonmajor funds</u>	<u>Internal service</u>	<u>Total</u>
Receivables:					
Property taxes	\$ 40,600	—	—	—	40,600
Other taxes	145,011	—	—	—	145,011
Intergovernmental	77,414	116,216	—	—	193,630
Other	34,361	—	385	295	35,041
	<u>297,386</u>	<u>116,216</u>	<u>385</u>	<u>295</u>	<u>414,282</u>
Gross receivables					
Less allowance for uncollectibles	<u>(185,624)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(185,624)</u>
Net total receivables	<u>\$ 111,762</u>	<u>116,216</u>	<u>385</u>	<u>295</u>	<u>228,658</u>

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

		<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$	17,307	—
Due from component units		—	12,150
Other		—	2,651
		<u>17,307</u>	<u>14,801</u>
Total deferred/unearned revenue for governmental funds	\$	<u>17,307</u>	<u>14,801</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

(8) Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows (in thousands):

Primary Government

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 14,466	—	—	14,466
Construction in progress	473,752	111,320	(77,526)	507,546
Total capital assets not being depreciated	<u>488,218</u>	<u>111,320</u>	<u>(77,526)</u>	<u>522,012</u>
Capital assets being depreciated:				
Land improvements	16,697	8,324	—	25,021
Buildings and improvements	984,820	39,598	—	1,024,418
Furniture and equipment	142,349	17,726	—	160,075
Infrastructure	243,891	23,059	—	266,950
Total capital assets being depreciated	<u>1,387,757</u>	<u>88,707</u>	<u>—</u>	<u>1,476,464</u>
Less accumulated depreciation for:				
Land improvements	6,998	636	—	7,634
Buildings and improvements	783,742	8,285	—	792,027
Furniture and equipment	109,134	15,945	—	125,079
Infrastructure	86,436	7,638	—	94,074
Total accumulated depreciation	<u>986,310</u>	<u>32,504</u>	<u>—</u>	<u>1,018,814</u>
Total capital assets being depreciated, net	<u>401,447</u>	<u>56,203</u>	<u>—</u>	<u>457,650</u>
Governmental activities capital assets, net	\$ <u><u>889,665</u></u>	<u><u>167,523</u></u>	<u><u>(77,526)</u></u>	<u><u>979,662</u></u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

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

Governmental activities:		
General government	\$	8,348
Human services		201
Public safety		6,794
Public works, including depreciation of general infrastructure assets		8,549
Property and development		1,172
Parks and recreation		1,227
Library		981
Schools		4,906
County		326
		<u>32,504</u>
Total depreciation expense – governmental activities	\$	<u><u>32,504</u></u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2004, are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 25,201	2,144
Special revenue	1,499	8,201
Convention Center	—	17,000
Internal service	645	—
	<u>27,345</u>	<u>27,345</u>
Balances at June 30, 2004	\$ <u><u>27,345</u></u>	<u><u>27,345</u></u>

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

<u>Discrete component unit balances</u>	<u>Receivable</u>	<u>Payable</u>
Primary government:		
General	\$ 12,285	180
Hospital revenue bond	116,739	—
Internal service	41	—
	<u>129,065</u>	<u>180</u>
Discretely presented component units:		
TPL	—	9
PHC	180	129,056
	<u>180</u>	<u>129,065</u>
Balances at June 30, 2004	\$ <u><u>129,245</u></u>	<u><u>129,245</u></u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

(10) Long-Term Obligations

(a) Governmental Activity Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2004 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Bonds and notes payable:						
General obligation refunding bonds dated 4/1/04	2.0-5.0%	\$ —	42,330	—	42,330	5,325
General obligation refunding bonds dated 2/1/04	3.0-5.0%	—	100,870	—	100,870	3,800
General obligation refunding bonds dated 2/1/03	2.25-5.0%	162,015	—	6,865	155,150	8,540
General obligation refunding bonds dated 11/15/02	4.0-5.0%	43,070	—	14,270	28,800	7,895
General obligation refunding bonds dated 8/15/02	2.875-5.0%	48,060	—	265	47,795	270
General obligation bonds dated 2/1/02	3.0-5.0%	93,910	—	6,090	87,820	6,090
General obligation refunding bonds dated 4/11/01	3.50-5.0%	51,525	—	4,215	47,310	4,210
General obligation bonds dated 2/1/01	4.25-5.0%	103,280	—	8,360	94,920	8,360
General obligation bonds dated 2/1/00	5.0-5.75%	53,995	—	9,840	44,155	9,840
General obligation bonds dated 10/15/98	3.25-5.0%	89,160	—	7,710	81,450	6,685
General obligation refunding bonds dated 4/15/98	4.5-5.25%	55,425	—	4,610	50,815	4,780
General obligation bonds dated 1/15/98	4.5%	52,020	—	17,325	34,695	4,620
General obligation bonds dated 11/15/96	5.0%	40,300	—	19,100	21,200	5,400
General obligation bonds dated 10/15/95	5.0-5.25%	16,800	—	9,500	7,300	4,000
General obligation bonds dated 9/1/94	5.0-6.0%	14,680	—	9,640	5,040	5,040
General obligation refunding bonds dated 2/1/94	4.0-5.0%	49,635	—	5,800	43,835	43,835
Total governmental obligation bonds payable		\$ <u>873,875</u>	<u>143,200</u>	<u>123,590</u>	<u>893,485</u>	<u>128,690</u>
Add (deduct):						
Unamortized bond premiums					23,643	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(9,551)	
Current portion of long-term debt					<u>(128,690)</u>	
					<u>\$ 778,887</u>	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

(b) Notes Payable and Other Long-Term Obligations

Following is a summary of the notes payable and other long-term obligations of the City as of June 30, 2004 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Notes and leases payable:						
MWPAT note payable	4.25-5.75%	\$ 8,867	—	449	8,418	455
Notes payable – Section 108	5.44-7.18%	32,722	15,000	1,464	46,258	1,570
Bond Anticipation Notes dated 2/02, due 2/06	3.5%	62,000	—	—	62,000	—
Bond Anticipation Notes dated 2/03, due 2/06	2.125%	34,000	—	—	34,000	—
Leases		<u>17,492</u>	<u>4,786</u>	<u>9,678</u>	<u>12,600</u>	<u>6,505</u>
Total notes and leases payable		<u>155,081</u>	<u>19,786</u>	<u>11,591</u>	<u>163,276</u>	<u>8,530</u>
Other long-term obligations:						
Judgments and claims		30,616	3,011	8,159	25,468	847
Compensated absences		161,545	16,868	10,259	168,154	35,808
Landfill postclosure care costs		<u>14,578</u>	<u>—</u>	<u>31</u>	<u>14,547</u>	<u>—</u>
Total other long-term obligations		<u>206,739</u>	<u>19,879</u>	<u>18,449</u>	<u>208,169</u>	<u>36,655</u>
Total notes, leases and other long-term obligations		<u>\$ 361,820</u>	<u>39,665</u>	<u>30,040</u>	<u>371,445</u>	<u>45,185</u>

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

(c) Business Type Activity Obligations

Following is a summary of the business type long-term obligations of the City as of June 30, 2004 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Convention Center fund:						
Special Obligation Bonds dated 4/1/02	4.0-5.25%	\$ 114,790	—	2,310	112,480	2,780
Hospital Bond fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0-5.0%	<u>127,800</u>	<u>—</u>	<u>7,385</u>	<u>120,415</u>	<u>6,125</u>
Total business type obligations		<u>\$ 242,590</u>	<u>—</u>	<u>9,695</u>	<u>232,895</u>	<u>8,905</u>
Add (deduct):						
Unamortized bond premiums					3,613	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(477)	
Current portion of long-term debt					<u>(8,905)</u>	
					<u>\$ 227,126</u>	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

A. General Obligation Bonds

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2004, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 128,690	39,214	167,904
2006	71,440	34,793	106,233
2007	70,920	31,897	102,817
2008	66,080	28,827	94,907
2009	63,955	25,613	89,568
2010-2014	266,350	87,344	353,694
2015-2019	163,090	35,215	198,305
2020-2023	62,960	6,896	69,856
	<u>\$ 893,485</u>	<u>289,799</u>	<u>1,183,284</u>

General obligation bonds are backed by the full faith and credit of the City. The Commonwealth has approved school construction assistance, subject to annual appropriation by the state legislature and reports filed with the Commonwealth by the City, to partially provide resources for future principal and interest requirements on general obligation school bonds of the City. As of June 30, 2004, such resources expected to be provided to the City total approximately \$183.5 million from the Commonwealth.

On February 1, 2004, the City issued \$100.9 million of general obligation and refunding bonds, \$65.0 million for various municipal purposes and \$35.9 million for the purpose of refunding certain outstanding general obligation bonds of the City. The proceeds of \$35.9 million were used to refund \$37.7 million of the City's general obligation bonds outstanding. Interest on the bond is payable semiannually each January 1, and July 1, until maturity in fiscal 2024 and 2015, respectively. The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding were \$1.8 million and \$1.5 million, respectively.

On April 1, 2004, the City issued \$42.3 million of general obligation bonds for the purpose of refunding, on a delayed delivery basis, certain outstanding general obligation bonds of the City. The proceeds were used to refund \$43.8 million of the City's general obligation bonds outstanding. Interest on the bond is payable semiannually each February 1 and August 1, until maturity in fiscal 2012. The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from this refunding were \$2.5 million and \$2.4 million, respectively.

No Obligation Debt

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

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2004, the City may issue \$761.6 million of additional general obligation debt under the debt limit. General obligation debt of \$401.9 million, subject to the debt limit, and \$163.2 million, exempt from the debt limit, is authorized but unissued as of June 30, 2004.

B. Notes Payable and Other Long-Term Obligations

At June 30, 2004 the City had bond anticipation notes (BANs) and various other notes outstanding totaling \$150.7 million. The City has the intent and ability to refinance the BANs with bond proceeds upon maturity and therefore these amounts are classified as long term in the accompanying statement of net assets.

The annual debt of the City's notes payable as of June 30, 2004, is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 2,025	5,156	7,181
2006	98,206	5,395	103,601
2007	2,300	2,414	4,714
2008	3,809	2,292	6,101
2009	2,836	2,162	4,998
2010-2014	14,701	8,621	23,322
2015-2019	24,222	2,245	26,467
2020-2023	2,577	376	2,953
	<u>\$ 150,676</u>	<u>28,661</u>	<u>179,337</u>

In prior years, the City issued two BANs totaling \$96 million to fund various school projects that are due in fiscal 2006. The City is expected to issue general obligation bonds to refund the BANs; accordingly, they have been classified as long-term obligations.

In fiscal 2002, the City entered into a permanent loan agreement with the Massachusetts Water Pollution Abatement Trust (MWPAT) for \$13.4 million. The loan provides funding for the closure and postclosure care costs relating to the City's Gardner Street Landfill. Proceeds are received on a reimbursement basis from MWPAT as expenditures are incurred by the City.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

C. Proprietary Fund Obligations

The annual debt service requirements of the City's special obligation bonds and Boston City Hospital, Series B, revenue bonds, outstanding as of June 30, 2004 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2005	\$ 8,905	10,514	19,419
2006	9,220	10,188	19,408
2007	9,565	9,843	19,408
2008	9,920	9,451	19,371
2009	10,360	9,009	19,369
2010-2014	58,600	38,148	96,748
2015-2019	72,875	23,432	96,307
2020-2024	30,930	10,420	41,350
2025-2029	22,520	2,289	24,809
	<u>\$ 232,895</u>	<u>123,294</u>	<u>356,189</u>

The revenue refunding bonds of the Boston City Hospital (BCH) do not constitute general obligations of the City and the annual debt service of these bonds has been assumed by the Boston Public Health Commission. The Boston Public Health Commission expects to meet its obligation on the bonds through application of a portion of the rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation (BMC) for its lease of the former Boston City Hospital. Under certain circumstances, including a default by BMC under the lease, City revenues may be required to satisfy the debt service requirements on the Series B bonds.

The Boston Public Health Commission has assumed responsibility for paying to the City an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes which amounted to \$12.2 million at June 30, 2004.

Defeased Debt – Prior Year

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

- On April 11, 2001, the City issued \$52.0 million in general obligation refunding bonds to advance refund \$49.9 million of 1991, 1994, and 1995 Series Bonds.
- On May 12, 1998, the City issued \$77.9 million in general obligation bonds, dated April 15, 1998, of which \$62.9 million was used to advance refund \$58.0 million of 1989, 1990, 1992 and 1994 Series Bonds.
- In August 2002, \$127.8 million of bonds were issued to refund the Boston City Hospital, Series B Bonds dated June 1, 1993.
- On February 1, 2003, the City issued \$162.0 million of general obligation bonds and refunding bonds, a portion of which was used to refund \$33.4 million of the City's to finance the acquisition price of

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

the building located at 1010 Massachusetts Avenue and to permanently finance the City's \$25.0 million bond anticipation notes, 2003 Series A.

- On November 15, 2002, the City issued \$43.1 million of general obligation refunding bonds for the purpose of refunding \$45.1 million of outstanding general obligation bonds of the City, 2002 Series C.
- On August 15, 2002, the City issued \$48.6 million of general obligation refunding bonds to advance refund certain outstanding general obligation bonds, 2002 Series B.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2004 was approximately \$264.0 million.

D. Lease Obligations

The City has entered into various capital lease agreements for equipment acquisition. Payments under these agreements are subject to annual appropriation and, by statute, are not included in the City's debt limit calculations. Activity in capital lease agreements during fiscal year 2004 was as follows (in thousands):

<u>Date of issuance</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>
May 21, 2001	181	—	181	—
October 31, 2001	4,034	—	4,034	—
June 5, 2002	1,168	—	473	695
December 20, 2002	12,109	—	4,990	7,119
April 21, 2004	—	4,786	—	4,786
	<u>\$ 17,492</u>	<u>4,786</u>	<u>9,678</u>	<u>12,600</u>

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

Future minimum payments under capital leases and installment sales as of June 30, 2004 are as follows (in thousands):

2005	\$ 6,757
2006	3,066
2007	2,404
2008	624
2009	229
	<hr/>
Total minimum lease payments	13,080
Less amount representing interest	480
	<hr/>
Total minimum principal lease payments	12,600
Less current portion	6,505
	<hr/>
Long-term portion	\$ 6,095
	<hr/> <hr/>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

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

(11) Retirement Plans

(a) Plan Description

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

- (1) City of Boston
- (2) Boston Redevelopment Authority
- (3) Boston Housing Authority
- (4) Boston Water & Sewer Commission
- (5) Public Health Commission
- (6) Sheriff of Suffolk County

Chapter 32 of the Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions of the plan to the state legislature.

The System is administered by a five-person Board of Retirement consisting of the City Auditor who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor and a fifth member chosen by the other members.

The City also participates in the Boston Retirement System (BRS) and made benefit payments of approximately \$6.5 million for the year ended June 30, 2004. The number of BRS plan participants was frozen in 1946. The financial statements of BRS are combined with the System's; however, disclosures for BRS are not material and, thus, are not presented separately.

(b) Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated as follows:

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

(f) Cash is stated at carrying amount which is reconciled book balance.

(c) **Membership**

Membership in the System consisted of the following at December 31, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	14,006
Terminated plan members entitled to but not receiving benefits	9,271
Active plan members	20,442
	<hr/>
Total membership	43,719
	<hr/> <hr/>
Total number of participating employers	6
	<hr/> <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%-9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The Commonwealth of Massachusetts (the Commonwealth) reimburses the City for benefits paid to school teachers. The Commonwealth also reimbursed the System for a portion of benefit payments for cost of living increases granted before July 1, 1998. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's required and actual contributions to the System for the years ended June 30, 2004, 2003 and 2002 were \$137 million, \$134 million, and \$130 million, or \$78 million, \$86 million, and \$85 million, net of teachers' retirement, respectively.

During the fall of 1997 the System's Retirement Board, the City Council and the Mayor approved the option for local funding of cost of living adjustments. As a result, a locally funded cost of living adjustment of 3.0% on the first \$12,000 of a retiree's annual payment was awarded in fiscal 2002 and fiscal 2001. These cost of living adjustments will be awarded by the Retirement Board each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

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

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2003 are as follows (in thousands):

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 1,051,204	Active members' contribution balance
Annuity reserve fund	353,114	Retired members' contribution account
Military service credit	47	Members' contribution account while on military leave
Pension reserve fund	1,078,833	Amounts appropriated to fund future retirement benefits
Pension fund	<u>753,618</u>	Remaining net assets
	<u>\$ 3,236,816</u>	

All reserve accounts are funded at levels required by State statute.

(f) ***Securities Lending***

The Public Employment Retirement Administration Commission of Massachusetts (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. These transactions are conducted by the System's custodian, which lends certain securities owned by the System to other broker-dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

At the System's direction, the custodian lends the System's securities and receives cash (including both United States and foreign currency), United States government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the years ended December 31, 2003 and 2002. 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, 2003 and 2002, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian during the years ended December 31, 2003 and 2002 were \$2.2 million and \$3.0 million, respectively.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

At December 31, 2003 and 2002, the fair value of securities loaned by the System amounted to \$217.2 million and \$197.0 million, respectively, against which was held collateral of \$233.9 million and \$204.2 million, respectively, as follows (in thousands):

	December 31	
	2003	2002
Short-term collateral investment pool	\$ 205,489	190,801
Noncash collateral	18,387	13,431
Total	<u>\$ 223,876</u>	<u>204,232</u>

(g) Commitments

At December 31, 2003, the System had contractual commitments to provide \$106 million of additional funding to venture capital funds.

(12) Other Postemployment Benefit Disclosures

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

Expenditures of approximately \$63.9 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal 2004.

(13) Transfers

Transfers and their purposes during the year ended June 30, 2004 were as follows (in thousands):

	Governmental funds	Proprietary fund
	General	Convention center
Primary government:		
Excess hotel/motel excise taxes	\$ 17,000	(17,000)
	<u>\$ 17,000</u>	<u>(17,000)</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2004 in the following categories (in thousands):

General government:		
Collective bargaining	\$	15,493
Public safety:		
Fire Department		5,858
Public works:		
Snow removal		2,366
Judgments and claims:		
Execution of courts		15,342
Other employee benefits:		
Worker's compensation fund		1,489
State and district assessments		66
	\$	<u>40,614</u>

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

(15) Public Health System

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

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

The PHC receives the majority of its funding from federal and state grants, lease agreements with BMC and a City appropriation. During fiscal 2004, the City appropriated \$58.8 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 \$58.9 million for the PHC for fiscal 2005.

Due from PHC/BMC

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

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

allocable to BCH. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$12.3 million at June 30, 2004. These bonds pertain to the property and operations of the BCH Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations and the Long Island Campus.

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

Payments to BMC

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

(16) Risk Management

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

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

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

The City has implemented a comprehensive risk financing strategy that includes establishing a catastrophic risk reserve, currently with a \$7.1 million balance available for future losses. The City has also improved systems for maximizing the receipt of federal disaster funds. On August 28, 2003, the City's property insurance policy went into effect – a one-year, all-risk catastrophic policy covering all City property assets up to \$50 million, after a \$20 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$2.5 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved. Changes in the self-insurance liability for the fiscal years ended June 30, 2004 and 2003 are as follows (in thousands):

	Internal service fund	
	2004	2003
Health and life claims, beginning of year	\$ 7,325	7,051
Incurred claims	74,515	72,597
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(75,726)	(72,323)
Health and life claims, end of year	\$ 6,114	7,325
	<hr/> <hr/>	<hr/> <hr/>
	Government-wide statements	
	2004	2003
Judgments and claims, beginning of year	\$ 30,616	32,450
Incurred claims	21,273	19,585
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(16,646)	(14,898)
Unemployment compensation	(6,605)	(4,355)
Court judgments	(3,170)	(2,166)
Judgments and claims, end of year	\$ 25,468	30,616
	<hr/> <hr/>	<hr/> <hr/>

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

There are numerous pending matters and lawsuits in which the City is involved. The City attorneys estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

(17) Discretely Presented Component Units

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

Condensed Statement of Net Assets					
June 30, 2004					
(In thousands)					
	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Assets:					
Cash and investments	\$ 94,662	41,709	57,011	14,294	207,676
Cash and investments held by trustee	—	—	—	3,880	3,880
Receivables, net:					
Other	10,223	81,445	3,456	17,011	112,135
Other assets	125,540	34,317	2,012	1,223	163,092
Capital assets:					
Nondepreciable	14,713	3,476	—	1,420	19,609
Depreciable	8,752	1,455	1,802	25,723	37,732
Due from BMC	1,401	—	—	—	1,401
Due from primary government	180	—	—	—	180
Total assets	\$ 255,471	162,402	64,281	63,551	545,705
Liabilities:					
Warrants and accounts payable	\$ 9,759	58,545	3,037	4,063	75,404
Accrued liabilities:					
Other	—	—	165	2,396	2,561
Due to BMC	74,562	—	—	—	74,562
Due to primary government	129,056	—	9	—	129,065
Deferred revenue	4,513	36,133	332	8,143	49,121
Noncurrent liabilities:					
Due within one year	414	—	—	935	1,349
Due in more than one year	218	58,919	627	18,732	78,496
Other	4,406	—	—	1,045	5,451
Total liabilities	222,928	153,597	4,170	35,314	416,009
Net assets:					
Invested in capital assets, net of related debt	19,525	3,456	1,175	10,759	34,915
Restricted	—	—	57,037	6,624	63,661
Unrestricted	13,018	5,349	1,899	10,854	31,120
Total net assets	\$ 32,543	8,805	60,111	28,237	129,696

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2004

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2004

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Operating revenues	\$ 58,909	46,705	19,289	32,188	157,091
City appropriation	58,762	—	—	—	58,762
Total revenues	<u>117,671</u>	<u>46,705</u>	<u>19,289</u>	<u>32,188</u>	<u>215,853</u>
Operating expenses	<u>99,739</u>	<u>46,620</u>	<u>14,580</u>	<u>31,987</u>	<u>192,926</u>
Excess of revenues over (under) expenses	17,932	85	4,709	201	22,927
Nonoperating revenue	842	—	—	—	842
Nonoperating expenses	(10,854)	(1,082)	—	—	(11,936)
Interest expense	(5,530)	—	—	—	(5,530)
Interest income	<u>512</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>512</u>
Net change in net assets	2,902	(997)	4,709	201	6,815
Net assets, beginning of year	29,641	9,802	54,013	28,036	121,492
Prior period adjustment	<u>—</u>	<u>—</u>	<u>1,389</u>	<u>—</u>	<u>1,389</u>
Net assets, end of year	<u>\$ 32,543</u>	<u>8,805</u>	<u>60,111</u>	<u>28,237</u>	<u>129,696</u>

CITY OF BOSTON, MASSACHUSETTS

State-Boston Retirement System

Required Supplementary Information
(Unaudited)

(Dollar amounts in thousands)

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/04	\$ 3,384,814	5,420,842	2,036,028	62.4%	\$ 1,067,492	190.7%
01/01/03	3,204,893	5,121,319	1,916,426	62.6%	1,099,779	174.3%
01/01/02	3,371,716	4,796,130	1,424,414	70.3%	1,052,420	135.3%

Schedule of Employers' Contributions

	Annual required contribution	Percentage contributed
Year ended December 31:		
2003	\$ 157,064	100%
2002	152,882	100
2001	146,882	100

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2004
Actuarial cost method	Individual entry age normal
Amortization method	Payment increase at 4.5% per year
Remaining amortization period	Through July 1, 2023
Asset valuation method	Five-year smoothing of investment returns greater (less) than expected
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Inflation rate	5.0%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income

SUPPLEMENT II

Schedules of Comparative Financial Statements for Fiscal Years 2000 - 2004

The following schedules of Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Fund Equity for the fiscal years ended June 30, 2004, 2003, 2002, 2001 and 2000 have been prepared by the City of Boston Auditing Department based on information taken from the City's audited financial statements.

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City of Boston

General Fund

BALANCE SHEETS
June 30, 2004, 2003, 2002, 2001 and 2000
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002⁽¹⁾</u>	<u>2001</u>	<u>2000</u>
ASSETS					
Cash and investments.....	\$ 609,638	\$ 529,315	\$ 482,419	\$ 415,294	\$ 318,677
Cash and investments held by trustee.....	-	-	16,008	16,280	16,280
Receivables :					
Property taxes.....	40,600	41,175	37,555	78,421	80,366
Motor vehicle excise.....	65,370	58,263	56,456	9,498	8,674
Intergovernmental.....	77,414	79,528	78,215	70,253	50,119
Departmental and other.....	34,361	43,726	34,849	2,621	2,033
Tax title and possession.....	79,641	82,925	86,241	-	-
Total receivables.....	<u>297,386</u>	<u>305,617</u>	<u>293,316</u>	<u>160,793</u>	<u>141,192</u>
Allowance:					
Abatement res/property tax allow.....	(28,001)	-	-	-	-
Tax title and possession.....	(79,641)	(82,925)	(86,241)	-	-
Motor vehicle excise.....	(54,611)	(58,263)	(56,456)	-	-
Other.....	(23,371)	(23,340)	(23,233)	-	-
Total allowances.....	<u>(185,624)</u>	<u>(164,528)</u>	<u>(165,930)</u>	<u>-</u>	<u>-</u>
Net receivable.....	111,762	141,089	127,386		
Due from other funds.....	25,201	18,000	-	60,628	86,536
Due from component units.....	12,285	15,679	19,250	157,200	163,859
Other assets.....	333	-	-	-	-
Total assets.....	<u>\$ 759,219</u>	<u>\$ 704,083</u>	<u>\$ 645,063</u>	<u>\$ 810,195</u>	<u>\$ 726,544</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 52,187	\$ 33,603	\$ 41,940	\$ 107,471	\$ 94,984
Accrued liabilities:					
Tax abatement refunds.....	-	-	25,022	90,600	89,555
Judgements and claims.....	-	-	10,000	-	-
Compensated absences.....	-	10,259	20,000	17,000	-
Payroll and related costs ⁽²⁾	94,784	104,670	81,454	-	-
Other.....	4,596	4,174	5,045	69,660	62,845
Due to other funds.....	2,144	1,765	727	4,420	11,508
Due to component units.....	180	-	108	-	-
Matured interest and bonds payable.....	-	306	421	438	457
Deferred revenue.....	32,108	57,952	58,237	254,146	246,495
Total liabilities.....	<u>\$ 185,999</u>	<u>\$ 212,729</u>	<u>\$ 242,954</u>	<u>\$ 543,735</u>	<u>\$ 505,844</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances.....	56,132	20,787	20,262	38,169	41,157
Debt Service.....	-	-	-	16,280	16,280
Unreserved:					
Designated for subsequent year expenditures....	139,986	139,028	36,000	30,000	-
Undesignated.....	377,102	331,539	345,847	182,011	163,263
Total fund balance.....	<u>573,220</u>	<u>491,354</u>	<u>402,109</u>	<u>266,460</u>	<u>220,700</u>
Total liabilities and fund balance....	<u>\$ 759,219</u>	<u>\$ 704,083</u>	<u>\$ 645,063</u>	<u>\$ 810,195</u>	<u>\$ 726,544</u>

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

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

City of Boston

General Fund

Statement of Revenues, Expenditures, Other Financing
Sources (Uses) and Changes in Fund Balance
Fiscal Years Ending June 30, 2004, 2003, 2002, 2001 and 2000
Partially Restated for Comparative Purposes
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
REVENUES:					
Local:					
Real and personal property taxes, net.....	\$ 1,082,574	\$ 1,053,945	\$ 990,848	\$ 874,868	\$ 869,295
Excises.....	85,354	94,133	111,114	72,645	68,656
Payments in lieu of taxes.....	42,373	40,910	36,332	72,720	56,423
Fines.....	66,342	59,187	60,601	57,840	57,709
Investment income.....	8,253	8,951	14,596	26,289	19,255
Licenses and permits.....	33,900	30,217	33,325	36,795	28,892
Departmental and other revenue.....	45,556	62,373	62,200	58,306	45,490
Total local revenues.....	<u>1,364,352</u>	<u>1,349,716</u>	<u>1,309,016</u>	<u>1,199,463</u>	<u>1,145,720</u>
Intergovernmental:					
Intergovernmental.....	459,836	444,751	492,299	493,278	475,813
Total intergovernmental revenues.....	<u>459,836</u>	<u>444,751</u>	<u>492,299</u>	<u>493,278</u>	<u>475,813</u>
Total revenues.....	<u>1,824,188</u>	<u>1,794,467</u>	<u>1,801,315</u>	<u>1,692,741</u>	<u>1,621,533</u>
EXPENDITURES:					
Current:					
General government.....	30,061	53,343	77,019	67,913	65,132
Human services.....	22,642	24,738	6,434	5,464	4,916
Public safety.....	390,854	394,692	405,844	373,362	358,855
Public works.....	87,045	86,819	74,651	77,241	69,689
Property and development.....	31,088	29,260	48,774	41,300	35,230
Parks and recreation.....	11,260	14,622	16,230	15,547	13,700
Library.....	24,089	27,715	28,695	30,360	27,792
Schools.....	656,291	654,958	627,653	611,368	578,583
Public Health Programs ⁽¹⁾	58,762	63,897	64,537	-	-
County.....	-	4,539	4,537	6,030	5,861
Judgments and claims.....	(3,544)	2,880	2,724	5,011	6,911
Retirement costs.....	87,934	74,720	82,034	84,970	96,019
Other employee benefits.....	129,937	114,512	107,701	90,501	86,221
State and district assessments.....	111,061	69,009	67,769	66,788	66,995
Capital outlays.....	393	2,971	5,177	4,057	5,868
Debt Service.....	120,938	121,184	115,366	123,977	114,486
Total expenditures.....	<u>1,758,811</u>	<u>1,739,859</u>	<u>1,735,145</u>	<u>1,603,889</u>	<u>1,536,258</u>
Excess of revenues over expenditures.....	<u>65,377</u>	<u>54,608</u>	<u>66,170</u>	<u>88,852</u>	<u>85,275</u>
OTHER FINANCING SOURCES (USES):					
Payments to escrow agent to refund debt	(511)	-	-	-	-
Transfers in.....	17,000	34,637	1,778	19,384	19,662
Transfers out.....	-	-	-	(62,476)	(60,896)
Total other financing uses, net.....	<u>16,489</u>	<u>34,637</u>	<u>1,778</u>	<u>(43,092)</u>	<u>(41,234)</u>
Net change in fund balances.....	<u>81,866</u>	<u>89,245</u>	<u>67,948</u>	<u>45,760</u>	<u>44,041</u>
Fund balance, beginning of year, as previously reported	491,354	402,109	266,460	220,700	176,659
Cumulative change in accounting principle.....	-	-	67,701	-	-
Fund balance, beginning of year.....	<u>491,354</u>	<u>402,109</u>	<u>334,161</u>	<u>220,700</u>	<u>176,659</u>
Fund balance, end of year.....	<u>\$ 573,220</u>	<u>\$ 491,354</u>	<u>\$ 402,109</u>	<u>\$ 266,460</u>	<u>\$ 220,700</u>

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

City of Boston

General Fund - Budgetary Basis

Statement of Revenues, Transfers, Available Funds, Expenditures,
Encumbrances and Prior Years' Deficit Raised - Budget to Actual
Fiscal Years Ending June 30, 2004, 2003, 2002, 2001 and 2000
Partially Restated for Comparative Purposes
(in thousands)

	<u>2004</u>		<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>	
	Actual	Variance Fav. (Unfav.)								
Revenues, Transfers and Other Available Funds:										
Real and personal property taxes, net.....	\$ 1,052,067	\$ 205	\$ 996,030	\$ 577	\$ 926,336	\$ 399	\$ 874,013	\$ 169	\$ 824,980	\$ 454
Motor vehicle excise.....	33,207	(647)	45,611	7,605	42,776	551	41,822	4,802	36,962	5,942
Other excises.....	61,062	1,312	72,794	7,794	69,528	4,133	63,651	(9,421)	59,222	(5,887)
Commonwealth of Massachusetts.....	521,231	16,612	498,217	(23,520)	541,456	(8,996)	525,169	952	513,681	1,078
Departmental and other revenue.....	50,960	13,766	54,720	7,999	62,193	13,862	53,100	7,210	46,096	5,843
Fines.....	66,342	6,392	58,985	(2,512)	60,659	1,649	59,769	1,337	55,942	(1,935)
Payments in lieu of taxes.....	42,373	4,763	40,910	6,786	36,332	7,245	39,994	8,848	29,269	(729)
Investment income.....	7,792	3,412	8,552	(2,198)	14,801	(749)	26,084	6,084	21,886	5,386
Licenses and permits.....	34,821	13,791	30,146	4,928	29,651	5,836	37,824	13,459	28,652	7,924
Transfers from other available funds.....	22,932	(18,876)	24,849	(1,876)	4,568	(9,086)	8,355	(17,323)	6,667	(5,969)
Sale of property.....	-	-	-	-	-	-	-	-	500	-
Total revenues, transfers and other available funds.....	<u>1,892,787</u>	<u>40,730</u>	<u>1,830,814</u>	<u>5,583</u>	<u>1,788,300</u>	<u>14,844</u>	<u>1,729,781</u>	<u>16,117</u>	<u>1,623,857</u>	<u>12,107</u>
Expenditures and Encumbrances:										
General government.....	75,925	(13,317)	65,401	3,833	70,702	(4,649)	73,696	(3,864)	65,495	1,481
Human services.....	22,945	173	24,936	893	6,398	18	5,598	109	5,103	245
Public safety.....	393,826	(5,025)	408,849	(4,933)	405,150	(2,388)	381,275	1,123	363,691	(1,922)
Public works.....	87,639	(2,330)	86,599	(4,058)	74,833	151	78,044	(6,086)	70,715	(1,546)
Property and development.....	26,400	114	34,744	318	41,630	(994)	53,523	246	34,968	17
Parks and recreation.....	13,437	270	14,680	105	16,071	103	15,262	122	13,944	174
Library.....	24,086	-	27,726	282	28,813	-	29,981	-	28,160	17
Schools.....	656,539	8	650,600	17	639,710	19	611,925	18	579,181	22
Boston Public Health Commission.....	58,762	-	63,897	-	64,005	-	62,141	-	58,213	-
County.....	4,553	-	4,737	-	4,537	-	6,030	-	5,854	-
Judgments and claims.....	18,842	(15,342)	2,166	-	5,000	(900)	2,008	-	6,203	(2,103)
Other employee benefits.....	133,206	(830)	115,164	259	107,473	(787)	95,132	508	86,600	(548)
Retirement costs.....	141,867	-	139,325	-	135,710	-	133,775	-	134,529	-
State and district assessments.....	106,509	(66)	69,009	(510)	67,769	(258)	66,788	332	66,995	257
Debt requirements.....	123,866	-	121,184	8	115,332	8	105,978	-	96,005	-
Total expenditures.....	<u>1,888,402</u>	<u>(36,345)</u>	<u>1,829,017</u>	<u>(3,786)</u>	<u>1,783,133</u>	<u>(9,677)</u>	<u>1,721,156</u>	<u>(7,492)</u>	<u>1,615,656</u>	<u>(3,906)</u>
Excess of revenues available for appropriation over expenditures.....	<u>\$ 4,385</u>	<u>\$ 4,385</u>	<u>\$ 1,797</u>	<u>\$ 1,797</u>	<u>\$ 5,167</u>	<u>\$ 5,167</u>	<u>\$ 8,625</u>	<u>\$ 8,625</u>	<u>\$ 8,201</u>	<u>\$ 8,201</u>

City of Boston

Special Revenue Fund

BALANCE SHEETS
June 30, 2004, 2003, 2002, 2001 and 2000
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
ASSETS					
Cash and investments.....	\$ 116,283	\$ 67,535	\$ 106,093	\$ 103,877	\$ 71,624
Restricted cash and investments.....		-	-	-	-
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	116,216	83,769	56,301	27,147	65,671
Departmental and other.....	-	165	195	13,146	1,316
Total receivables.....	<u>116,216</u>	<u>83,934</u>	<u>56,496</u>	<u>40,293</u>	<u>66,987</u>
Due from other funds.....	1,499	1,044	-	4,291	29,527
Other assets.....	1	-	-	-	-
Total assets.....	<u>\$ 233,999</u>	<u>\$ 152,513</u>	<u>\$ 162,589</u>	<u>\$ 148,461</u>	<u>\$ 168,138</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 32,532	\$ 9,230	\$ 14,597	\$ 10,199	\$ 32,301
Accrued liabilities:					
Other.....	34,401	31,557	27,281	21,296	33,926
Due to component units.....	-	214	-	-	-
Due to other funds.....	8,201	-	-	3,724	31,714
Total liabilities.....	<u>75,134</u>	<u>41,001</u>	<u>41,878</u>	<u>35,219</u>	<u>97,941</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances and other.....	34,738	49,019	44,111	60,231	62,980
Unreserved:					
Designated.....	-	-	-	-	-
Undesignated.....	124,127	62,493	76,600	53,011	7,217
Total fund balance.....	<u>158,865</u>	<u>111,512</u>	<u>120,711</u>	<u>113,242</u>	<u>70,197</u>
Total liabilities and fund balance.....	<u>\$ 233,999</u>	<u>\$ 152,513</u>	<u>\$ 162,589</u>	<u>\$ 148,461</u>	<u>\$ 168,138</u>

City of Boston

Special Revenue Fund

Statement of Revenues, Expenditures, Other Financing
Sources (Uses) and Changes in Fund Balance
Fiscal Years Ending June 30, 2004, 2003, 2002, 2001 and 2000
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
REVENUES:					
Local:					
Fines.....	\$ 19	\$ 19	\$ 44	\$ -	\$ -
Investment income.....	175	479	159	-	-
Licenses and permits.....	70	57	252	-	-
Departmental and other revenue.....	26,374	13,170	10,478	80,467	34,135
Total local revenues.....	<u>26,638</u>	<u>13,725</u>	<u>10,933</u>	<u>80,467</u>	<u>34,135</u>
Intergovernmental:					
Intergovernmental.....	356,555	311,347	334,961	280,282	255,430
Total intergovernmental revenues.....	<u>356,555</u>	<u>311,347</u>	<u>334,961</u>	<u>280,282</u>	<u>255,430</u>
Total revenues.....	<u>383,193</u>	<u>325,072</u>	<u>345,894</u>	<u>360,749</u>	<u>289,565</u>
EXPENDITURES:					
Current operations:					
General government.....	3,175	8,385	7,131	9,312	7,185
Human services.....	9,337	7,231	5,290	4,956	3,757
Public safety.....	21,052	23,119	21,888	20,556	23,060
Public works.....	286	186	407	589	614
Parks and recreation.....	1,230	831	396	665	2,147
Libraries.....	5,409	5,186	5,261	1,238	1,089
Schools.....	124,356	131,383	130,162	115,580	91,058
County.....	102,044	96,452	104,754	87,462	83,974
Public health.....	86	-	-	-	-
Community development.....	86,599	63,851	63,081	69,026	60,875
Capital outlays.....	1,891	-	-	3,999	3,537
Debt service.....	3,054	13,841	3,894	4,321	22,549
Total expenditures.....	<u>358,519</u>	<u>350,465</u>	<u>342,264</u>	<u>317,704</u>	<u>299,845</u>
Excess (deficiency) of revenues over expenditures.....	<u>24,674</u>	<u>(25,393)</u>	<u>3,630</u>	<u>43,045</u>	<u>(10,280)</u>
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	15,000	4,094	-	-	-
Premiums on long-term debt issued.....	11,775	12,100	3,839	-	1,790
Payments to escrow agents.....	(4,096)	-	-	-	-
Transfers out, net.....	-	-	-	-	(14,826)
Total other financing sources (uses), net.....	<u>22,679</u>	<u>16,194</u>	<u>3,839</u>	<u>-</u>	<u>(13,036)</u>
Net change in fund balances.....	47,353	(9,199)	7,469	43,045	(23,316)
Fund balance, beginning of year	111,512	120,711	113,242	70,197	93,513
Fund balance, end of year.....	<u>\$ 158,865</u>	<u>\$ 111,512</u>	<u>\$ 120,711</u>	<u>\$ 113,242</u>	<u>\$ 70,197</u>

City of Boston

Capital Projects Fund

BALANCE SHEETS
June 30, 2004, 2003, 2002, 2001 and 2000
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
ASSETS					
Cash and investments.....	\$ 82,694	\$ 62,761	\$ 80,537	\$ 90,976	\$ 60,347
Cash and investments held by trustees.....	3,094	3,788	3,745	-	-
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	-	-	-	-	309
Departmental and other.....	-	-	-	-	315
Total receivables.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>624</u>
Due from other funds.....	-	101	-	388	1,741
Other assets.....	-	-	-	-	-
Total assets.....	<u>\$ 85,788</u>	<u>\$ 66,650</u>	<u>\$ 84,282</u>	<u>\$ 91,364</u>	<u>\$ 62,712</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 4,560	\$ 9,845	\$ 9,593	\$ 5,732	\$ 7,266
Other accrued liabilities.....	25,951	-	-	-	-
Other liabilities.....	-	35	35	1,788	1,788
Due to other funds.....	-	-	-	58,026	75,385
Due to other governments.....	-	-	-	732	482
Total liabilities.....	<u>30,511</u>	<u>9,880</u>	<u>9,628</u>	<u>66,278</u>	<u>84,921</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances and other.....	50,821	84,184	112,020	176,212	141,480
Future appropriations.....	50,374	42,875	55,874	-	-
Unreserved:					
Undesignated (deficit).....	<u>(45,918)</u>	<u>(70,289)</u>	<u>(93,240)</u>	<u>(151,126)</u>	<u>(163,689)</u>
Total fund balance.....	<u>55,277</u>	<u>56,770</u>	<u>74,654</u>	<u>25,086</u>	<u>(22,209)</u>
Total liabilities and fund balance.....	<u>\$ 85,788</u>	<u>\$ 66,650</u>	<u>\$ 84,282</u>	<u>\$ 91,364</u>	<u>\$ 62,712</u>

City of Boston

Capital Projects Fund

Statement of Revenues, Expenditures, Other Financing
Sources (Uses) and Changes in Fund Balance
Fiscal Years Ending June 30, 2004, 2003, 2002, 2001 and 2000
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
REVENUES:					
Local:					
Investment income.....	\$ -	\$ -	\$ -	\$ -	\$ -
Departmental and other revenue.....	7,985	-	8,649	23,444	3,959
Total local revenues.....	<u>7,985</u>	<u>-</u>	<u>8,649</u>	<u>23,444</u>	<u>3,959</u>
Intergovernmental:					
Intergovernmental.....	10,917	13,095	13,609	51,632	9,820
Total intergovernmental revenues.....	<u>10,917</u>	<u>13,095</u>	<u>13,609</u>	<u>51,632</u>	<u>9,820</u>
Total revenues.....	<u>18,902</u>	<u>13,095</u>	<u>22,258</u>	<u>75,076</u>	<u>13,779</u>
EXPENDITURES:					
Capital outlays.....	132,562	164,891	139,593	185,475	255,991
Debt Service.....	-	25,000	-	-	-
Total expenditures.....	<u>132,562</u>	<u>189,891</u>	<u>139,593</u>	<u>185,475</u>	<u>255,991</u>
Excess (deficiency) of revenues over expenditures.....	<u>(113,660)</u>	<u>(176,796)</u>	<u>(117,335)</u>	<u>(110,399)</u>	<u>(242,212)</u>
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	147,986	304,440	170,915	209,719	145,330
Payments to escrow agent to refund debt.....	(35,819)	(130,740)	-	(52,025)	-
Transfers out.....	-	(14,788)	-	-	2,683
Total other financing sources, net.....	<u>112,167</u>	<u>158,912</u>	<u>170,915</u>	<u>157,694</u>	<u>148,013</u>
SPECIAL ITEM:					
Proceeds from sale of capital assets.....	-	-	13,300	-	-
Net change in fund balances.....	(1,493)	(17,884)	66,880	47,295	(94,199)
Fund balance, beginning of year	56,770	74,654	7,774	(22,209)	71,990
Fund balance, end of year.....	<u>\$ 55,277</u>	<u>\$ 56,770</u>	<u>\$ 74,654</u>	<u>\$ 25,086</u>	<u>\$ (22,209)</u>

City of Boston

Internal Service Fund

BALANCE SHEETS
June 30, 2004, 2003, 2002, 2001 and 2000
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
ASSETS					
Cash and cash equivalents.....	\$ 19,702	\$ 14,133	\$ 12,052	\$ 7,714	\$ 4,044
Receivables:					
Departmental and other receivables....	295	279	151	49	101
Due from other funds and sources.....	645	620	727	791	761
Due from component units.....	41	-	-	-	-
Other assets.....	1,980	240	1,606	1,776	1,193
Total assets.....	<u>\$ 22,663</u>	<u>\$ 15,272</u>	<u>\$ 14,536</u>	<u>\$ 10,330</u>	<u>\$ 6,099</u>
 LIABILITIES					
Accrued Liabilities:					
Warrants and accounts payable.....	\$ 17	\$ 17	\$ 25	\$ 22	\$ -
Judgments and claims ⁽¹⁾	6,114	7,325	7,051	10,000	11,202
Total liabilities.....	<u>6,131</u>	<u>7,342</u>	<u>7,076</u>	<u>10,022</u>	<u>11,202</u>
 FUND EQUITY					
Unrestricted.....	16,532	7,930	7,460	308	(5,103)
Total fund equity.....	<u>16,532</u>	<u>7,930</u>	<u>7,460</u>	<u>308</u>	<u>(5,103)</u>
Total liabilities and fund equity...	<u>\$ 22,663</u>	<u>\$ 15,272</u>	<u>\$ 14,536</u>	<u>\$ 10,330</u>	<u>\$ 6,099</u>

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

City of Boston
Internal Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Equity
Fiscal Years Ending June 30, 2004, 2003, 2002, 2001 and 2000
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
REVENUES					
Employer contributions.....	\$ 61,406	\$ 53,853	\$ 53,042	\$ 47,660	\$ 45,629
Employee contributions.....	22,886	18,773	18,367	16,744	15,177
Miscellaneous.....	36	167	510	1,807	719
Total operating revenues.....	<u>84,328</u>	<u>72,793</u>	<u>71,919</u>	<u>66,211</u>	<u>61,525</u>
EXPENDITURES					
Administrative and general.....	-	-	-	546	373
Benefits ⁽¹⁾	75,726	72,323	64,767	60,254	60,925
Total operating expenditures..	<u>75,726</u>	<u>72,323</u>	<u>64,767</u>	<u>60,800</u>	<u>61,298</u>
Changes in net assets	8,602	470	7,152	5,411	227
Net assets (deficit), beginning of year.....	7,930	7,460	308	(5,103)	(5,330)
Net assets, end of year.....	<u>\$ 16,532</u>	<u>\$ 7,930</u>	<u>\$ 7,460</u>	<u>\$ 308</u>	<u>\$ (5,103)</u>

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

City of Boston
Enterprise Funds
BALANCE SHEETS
Fiscal Years Ending June 30, 2004, 2003 and 2002
(in thousands)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS			
Current assets:			
Cash and investments.....	\$ 525.00	\$ 841.00	\$ 702.00
Cash and investments held by trustees.....	45,985	56,286	64,777
Receivables, net.....	-	1,140	-
Due from component units.....	116,739	122,869	129,103
Due from other governments.....	-	-	2,600
Other assets.....	3,174	3,360	1,555
Total current assets.....	<u>166,423</u>	<u>184,496</u>	<u>198,737</u>
Total assets.....	<u>\$ 166,423</u>	<u>\$ 184,496</u>	<u>\$ 198,737</u>
LIABILITIES			
Current liabilities:			
Warrants and accounts payable.....	\$ -	\$ -	\$ 269.00
Accrued liabilities.....	-	3,127	-
Due to other funds.....	17,000	18,000	-
Other liabilities.....	3,046	-	-
Current portion of long-term debt.....	8,905	9,695	6,835
Total current liabilities.....	<u>28,951</u>	<u>30,822</u>	<u>7,104</u>
Noncurrent liabilities:			
Special obligation bonds.....	109,700	112,480	114,790
Revenue bonds.....	117,426	123,776	136,360
Total noncurrent liabilities.....	<u>227,126</u>	<u>236,256</u>	<u>251,150</u>
Total liabilities.....	<u>256,077</u>	<u>267,078</u>	<u>258,254</u>
NET ASSETS			
Unrestricted.....	(89,654)	(82,582)	(59,517)
Total net assets.....	<u>\$ (89,654)</u>	<u>\$ (82,582)</u>	<u>\$ (59,517)</u>

City of Boston

Enterprise Funds

**Statement of Revenues, Expenditures, and Changes in Net Assets
Fiscal Years Ending June 30, 2004, 2003 and 2002**

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

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SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION

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

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

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

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General

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

The City is the twentieth largest city in the United States and the center of the seventh largest Consolidated Metropolitan Statistical Area (“CMSA”) in the nation, consisting of the Boston Primary Metropolitan Statistical Area (“PMSA”) plus the contiguous PMSAs of Brockton, Fitchburg-Leominster, Lawrence, Lowell, Manchester (New Hampshire), Nashua (New Hampshire), New Bedford, Portsmouth-Rochester (New Hampshire-Maine), and Worcester (Massachusetts-Connecticut). The Boston CMSA had a population of 5,819,100 in 2000, as reported by the U.S. Department of Commerce, Bureau of the Census (the “Bureau of the Census”). In 2000, the City had a population of 589,141, as reported by the Bureau of the Census, and had 688,077 jobs as reported by the U.S. Bureau of Economic Analysis from data of the Massachusetts Division of Employment and Training. The ratio of jobs to population indicates that the City provides a direct source of employment and income for an area that extends well beyond its borders. Measured in terms of jobs, the City’s economy comprises approximately 18% of the Massachusetts economy and 10% of that of the six New England states.

Overview of Recent Economic Conditions

This report presents the major economic, demographic, and market indicators for the Boston economy. For the most part, these indicators demonstrate that the City’s economy was very strong through the 1990s and into 2000. By early 2001, however, an economic slowdown was moving toward a national recession. The events of September 11th compounded matters. Recent economic data, through December 2004, indicate an improving, and in most cases, growing economy.

The Boston economy peaked most recently during 1999-2000, as Boston’s office, hotel, and housing markets were among the strongest in the nation by mid-year 2000 and into early 2001. Signs of economic slowing in the national and state economies first became notable commencing in January 2001. Boston’s slowing economic growth in 2001 was clear given an increasing unemployment rate, a growing number of initial unemployment claims, a higher level of continuing unemployment claims, a falling hotel occupancy rate and lower average daily hotel room rate, a growing office vacancy rate, and a slowing in residential sales. Unemployment rates, which had declined to a low of 2.2%, 2.6%, and 2.9% in the Boston metropolitan area, the Commonwealth, and in the City, respectively, by the end of 2000, rose to levels of 5.2%, 5.8% and 6.0%, respectively during 2003. Boston’s office market weakened with rising vacancy rates (over 12%), rising availability rates (16%) and negative absorption (negative change in net occupied space) for three consecutive years, as has been the case for most other major office markets in the country. Hotel occupancy fell from 78% in 2000 to 70% in 2001, and rose slightly to 71% in 2003. The total number of residential home sales, however, has been strong, with steady volume through 2004, due to low interest rates, while sales prices are still holding firm and even rising in most cases. Evidence of a turnaround in the U.S. and Massachusetts economies first became apparent in late 2003 and persisted through 2004.

In Boston, as of the end of Winter 2004-2005, signs of a slow but improving economy in Massachusetts, metropolitan Boston and the City remained evident. The latest data show improvement in the labor market as well. Initial and continuing unemployment claims have fallen and the unemployment rate has stabilized and is beginning to decline as shown by data from the state, Boston metropolitan area, and City of Boston.

Statistical Data

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

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

The U.S. Bureau of Labor Statistics publishes data and reports about the workforce and related subjects including unemployment rates, area wages, and cost-of-living adjustments. Final data for 2003 are the most recent annual data available; the most recent monthly data are for December 2004.

The U.S. Bureau of Economic Analysis publishes quarterly and annual statistics on income and employment. The most recent annual figures for the nation, New England, and Massachusetts are for 2003. The most recent annual data for the county and the metropolitan area are for 2002. The most recent quarterly statistics are for the second quarter of 2004. The City comprises approximately 87% of Suffolk County's population and approximately 96% of its employment.

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

Statistical data do not necessarily reflect current activity because of delays resulting from the time required to collect, tabulate and publish such data. While the BRA believes that it has used the most recent data readily available to it in the discussion in this section, because of such necessary delays, the data contained herein may not reflect current conditions or trends. Moreover, statistical data are approximations and generalizations subject to various sources of error inherent in the statistical process, and may be revised on the basis of additional data. Within such limits, the statistical data contained herein describe past activity and are not presented with a view toward predicting future economic activity either in particular categories or in general.

New England, Massachusetts and Metropolitan Boston Economies

New England comprises a six-state region that had a combined population of 14.2 million persons and 8.7 million jobs in 2003 according to the Bureau of Economic Analysis annual data. Total personal income in New England grew at an annual average compound rate of 5.7% from 1990 through 2003, just below the 6.3% national rate for the same period. In the most recent period for which data are available, from second quarter 2003 through second quarter 2004, personal income in New England grew at a rate of 5.0%, which was slightly below the national rate of 5.2%. Employment in New England grew by 823,943 from 1990 through 2003, an annual average of 0.7%.

The Massachusetts economy, with 6.4 million people and 4.0 million jobs in 2003, showed substantial growth in the 1990s. Total personal income in Massachusetts grew at a 5.9% annual average rate from 1990 through 2003, slightly higher than the 5.7% rate of increase for New England, but still below the national rate of 6.3%. From second quarter 2003 through second quarter 2004, personal income grew by 4.5%, a bit lower than the 5.2% national average for the same period. Massachusetts also gained 377,417 jobs between 1990 and 2003, an annual average of 0.7%.

The Boston-Cambridge-Quincy metropolitan area, as defined by the BEA (consisting of Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties in Massachusetts, and Rockingham and Strafford counties in New Hampshire) had 4.4 million people and 3.0 million jobs in 2002, and has shown economic trends similar to those for the Commonwealth. Total personal income from 1990 through 2002 grew at an annual average rate of 6.5%, just above the national mark of 6.3%. The most recent employment data show a gain of 343,170 jobs for the 1990-2002 period, an annual gain of 1.0%. The following table shows the 1990 and 1999-2003 trends for the U.S., New England, Massachusetts, and Metropolitan Boston; employment data for the City are set forth under "Employment Structure, Employment Trends and Occupational Changes" and its accompanying table.

**Population, Income and Employment
1990, and 1999-2003
(Income in current year dollars)**

	<u>1990</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
United States						
Total Personal Income (\$000)	\$4,861,963,000	\$7,796,137,000	\$8,422,074,000	\$8,718,165,000	\$8,868,261,000	\$9,148,680,000
Per Capita Income (\$)	\$19,477	\$27,939	\$29,847	\$30,580	\$30,795	\$31,459
Population	249,622,814	279,040,168	282,177,754	285,093,813	287,973,924	290,809,777
Employment	139,380,900	162,955,300	166,758,800	166,959,700	166,500,000	166,990,400
New England						
Total Personal Income (\$000)	\$300,473,808	\$458,386,577	\$503,960,765	\$524,388,980	\$528,912,845	\$540,069,307
Per Capita Income (\$)	\$22,712	\$33,126	\$36,121	\$37,328	\$37,420	\$38,018
Population	13,229,502	13,837,653	13,952,174	14,047,999	14,134,420	14,205,480
Employment	7,918,098	8,562,455	8,775,891	8,834,238	8,773,592	8,742,041
Massachusetts						
Total Personal Income (\$000)	\$138,781,619	\$216,220,842	\$240,208,628	\$249,237,720	\$249,889,456	\$253,527,948
Per Capita Income (\$)	\$23,043	\$34,227	\$37,756	\$38,944	\$38,913	\$39,408
Population	6,022,639	6,317,345	6,362,076	6,399,869	6,421,800	6,433,422
Employment	3,646,584	3,988,554	4,096,551	4,124,253	4,065,492	4,023,997
Metropolitan Boston ⁽¹⁾						
Total Personal Income (\$000)	\$102,200,006	\$162,637,319	\$182,380,414	\$188,379,607	\$188,417,978	NA
Per Capita Income (\$)	\$24,702	\$37,219	\$41,435	\$42,501	\$42,436	NA
Population	4,137,302	4,369,743	4,401,595	4,432,389	4,440,043	NA
Employment	2,689,049	2,960,960	3,046,389	3,076,050	3,032,219	NA

(1) This metropolitan area includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprises the Boston-Cambridge-Quincy MA-NH MSA.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, December 2004. 2000 population figures for all of the above are from the U.S. Census Bureau, except for Metropolitan Boston, which is from the BEA.

Employment Structure, Employment Trends and Occupational Changes

Between 1990 and 2000, the City's employment structure continued to shift from traditional labor intensive manufacturing jobs to technology and service jobs, as shown in the table below, "City of Boston Employment, 1990, 1995 and 2000, With Percent Share, Absolute Change, and Percent Change." Over the decade of the 1990s, the City's economy gained over 68,000 jobs with an increase of 11%. Service industries, including transportation/communication/public utilities, finance/insurance/real estate and the full range of professional specialty services, expanded their share of the City's total employment from 63% in 1990 to 68% in 2000. The share of total employment in manufacturing and trade declined, however, from 5% to 4%, and from 13% to 12%, respectively.

**City of Boston Employment, 1990, 1995 and 2000, With Percent Share, Absolute Change, and Percent Change
SIC (Standard Industry Classification)**

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

Source: 1990, 1995 and 2000, figures are mathematically derived from U.S. Bureau of Economic Analysis Series for Suffolk County ("BEA Regional Economic Information System 1969-2001, May 2003") pro-rated to Boston geography. Due to use of pro-rating factors, minor discrepancies of 1 to 3 units between totals and employment categories may result.

The economy of the Boston metropolitan area primarily rests on high technology, finance, professional and business services, defense, and educational and medical institutions. The City's economy is more specialized in the financial, governmental, business and professional services and educational and medical sectors than the suburban economy, which is more specialized in high technology and the defense industry. As used in this section, "professional services" includes business and professional services such as data processing, bookkeeping, news syndicates, law, accounting, engineering, advertising, and architecture. "Non-professional business services" includes building maintenance, security guards, duplicating services, etc.

The following table shows Boston's employment growth by industry category for 2001, 2002, and 2003. The industry categories are in the North American Industrial Classification System (NAICS) format, which the BEA began using in 2001. From employment in 2000 (shown in the previous table) to 2003 (a preliminary estimate) an estimated 55,129 jobs have been lost, representing about 8.0% of total employment. Employment for 2003 in the following table is based upon final year-end data from the Department of Employment and Training, and final 2002 data from BEA, projected for 2003.

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

<u>Industry</u>	<u>2001</u>	<u>2002</u>	<u>2003</u> ⁽¹⁾	<u>Absolute Change</u>	<u>Percent Change</u>
Fishing/Mining/Agriculture	123	382	346	223	181.0%
Utilities	2,703	2,420	2,196	-507	-18.7
Construction	19,501	18,841	17,083	-2,418	-12.4
Manufacturing	18,655	16,450	14,524	-4,131	-22.1
Wholesale Trade	11,007	10,489	9,535	-1,472	-13.4
Retail Trade (excludes food service)	31,080	30,597	30,858	-222	-0.7
Transportation and Warehousing	24,903	22,941	21,831	-3,072	-12.3
Transportation	23,373	21,377	20,120	-3,252	-13.9
Information	22,330	21,025	17,815	-4,515	-20.2
Finance and Insurance	86,824	83,007	76,767	-10,057	-11.6
Banking	19,972	19,301	19,631	-341	-1.7
Securities and other Financial Investment Activities	47,949	44,928	39,227	-8,722	-18.2
Insurance Carriers and Related Activities	18,903	18,778	17,909	-994	-5.3
Real Estate and Rental and Leasing	18,620	19,763	18,410	-209	-1.1
Professional, Scientific, and Technical Services	74,919	70,300	67,061	-7,858	-10.5
Legal Services	20,970	20,956	20,078	-892	-4.3
Accounting, Tax Preparation, Bookkeeping	10,540	9,353	8,332	-2,171	-20.7
Architectural, Engineering, Design, and Related	12,230	11,452	10,346	-1,884	-15.4
Computer Systems Design and Related Services	6,485	5,156	5,136	-1,349	-20.8
Management, Scientific, and Technical	10,936	10,497	10,766	-170	-1.6
Scientific Research and Development Services	6,599	6,716	6,555	-44	-0.7
Other Professional, Scientific and Technical Serv.	7,195	6,170	5,850	-1,345	-18.7
Management of Companies and Enterprises	10,445	9,786	9,061	-1,385	-13.3
Admin. & Support and Waste Mgmt and Remediation Services	40,282	37,445	37,939	-2,342	-5.8
Educational Services	42,942	44,998	45,623	2,682	6.2
Colleges and Universities	36,777	38,733	39,167	2,390	6.5
Health Care and Social Assistance	100,403	102,259	103,835	3,432	3.4
Hospitals	65,414	68,987	69,978	4,564	7.0
Arts, Entertainment, and Recreation	12,408	13,043	13,054	647	5.2
Accommodation and Food Services	44,299	42,736	42,402	-1,897	-4.3
Accommodation	10,962	9,505	9,612	-1,349	-12.3
Food Service and Drinking Places	33,337	33,231	32,628	-709	-2.1
Other Services (except public administration) ⁽²⁾	26,346	26,852	27,033	687	2.6
Government	90,013	84,390	77,574	-12,439	-13.8
Total	677,801	657,725	632,948	-44,853	-6.6

(1) 2003 employment is an estimate based upon final year-end data from the Commonwealth's Department of Employment and Training (DET) and an estimate for BEA.

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

Source: 2001-2003 figures are mathematically derived from U.S. Bureau of Economic Analysis Series for Suffolk County, pro-rated to Boston geography. Due to use of pro-rating factors, minor discrepancies of 1 to 3 units between totals and employment categories may result.

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

Data from the two following tables show that employment was lower in each month than in same month of the previous year in the Boston metropolitan area from January 2002 through October 2004. The preliminary figure for November 2004, however, shows a total increase of 2,200 jobs in the metropolitan area from the employment level in November 2003. The drop from January 2002 through November 2004 was 32,800 jobs, or -1.67%. From the peak metro employment of 2,098,700 in December 2000 to the latest month available, November 2004, the total job loss has been 160,800 or -7.7%. The comparative change from the same month of the previous year has been improving, however, since December 2003 (the date of the regional recovery), having gone from -2.6% to +0.1% by November 2004. Additionally, September through November 2004 have shown three consecutive months of growing employment.

The industry composition of employment comparing November 2003 with November 2004 shows that

most job losses occurred in information, transportation/warehousing/utilities, and government. Gains were evident in retail trade, leisure and hospitality, education and health services and construction. Only small losses were apparent in all other sectors except for natural resources and durable goods manufacturing, which were unchanged.

**Boston Metropolitan Area Total Non-Agricultural Employment
Monthly, 2002-2004
(not seasonally adjusted, employment in 000's)**

<u>Month</u>	<u>2002</u>		<u>2003</u>		<u>2004</u>	
	<u>Employment</u>	<u>Change from Same month of Previous Year</u>	<u>Employment</u>	<u>Change from Same month of Previous Year</u>	<u>Employment</u>	<u>Change from Same month of Previous Year</u>
January	1,970.8	-3.5%	1,924.3	-2.4%	1,888.1	-1.9%
February	1,962.2	-3.9	1,911.2	-2.6	1,883.4	-1.5
March	1,972.3	-3.5	1,917.0	-2.8	1,890.4	-1.4
April	1,980.1	-3.5	1,933.1	-2.4	1,910.9	-1.1
May	1,989.4	-3.3	1,942.7	-2.3	1,924.7	-0.9
June	2,000.9	-3.4	1,954.6	-2.3	1,941.5	-0.7
July	1,980.0	-2.9	1,931.4	-2.5	1,923.4	-0.4
August	1,974.0	-2.9	1,921.0	-2.7	1,913.0	-0.4
September	1,977.7	-2.5	1,927.3	-2.5	1,923.6	-0.2
October	1,979.4	-2.3	1,935.1	-2.2	1,933.8	-0.1
November.....	1,985.1	-2.0	1,935.8	-2.5	1,938.0(P)	+0.1
December	1,986.5	-2.1	1,934.0	-2.6	NA	NA
ANNUAL.....	1,979.9	-3.0	1,930.6	-2.5	NA	NA

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

P: Preliminary

**Non-Agricultural Wage and Salary Employment by Industry
November 2003 and November 2004
Boston, Massachusetts – New Hampshire PMSA
(seasonally unadjusted, employment in 000's)**

<u>Industry</u>	<u>2003</u>	<u>2004</u>	<u>Change</u>	<u>Percent</u>
Non-Agricultural Total	1,935.8	1,938.0	+2.2	+0.1%
Natural Economic Resources.....	0.9	0.9	0.0	0.0
Construction	80.9	82.1	+1.2	+1.5
Manufacturing.....	158.8	158.5	-0.3	-0.2
Durable Goods	108.8	108.8	0.0	0.0
Non-Durable Goods	50.0	49.7	-0.3	-0.6
Trade, Transportation & Utilities	327.4	329.8	+2.4	+0.7
Wholesale Trade	80.0	79.1	-0.9	-1.1
Retail Trade.....	198.3	203.7	+5.4	+2.7
Transport., Warehousing & Utilities	49.1	47.0	-2.1	-4.3
Information.....	62.9	61.1	-1.8	-2.9
Financial Activities	163.4	162.0	-1.4	-0.9
Professional and Business Services.....	310.8	307.9	-2.9	-0.9
Education and Health Services	368.6	373.2	+4.6	+1.2
Leisure & Hospitality.....	164.4	168.6	+4.2	+2.6
Other Services.....	67.1	66.4	-0.7	-1.0
Government.....	230.6	227.5	-3.1	-1.3

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

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

The following table below indicates that, as of 2000, 69% of City residents were white-collar workers and 31% were blue-collar and service workers, as compared to 1960 when 44% were white-collar workers and 46% were blue-collar and service workers. As shown in the following table, this trend among City residents away from blue-collar and service occupations and toward white-collar occupations was evident between 1960

and 1990. During the decade of the 1990s this trend showed some change. White-collar occupations continued to grow but at a slower pace, with managerial, professional, and technical jobs gaining but sales and office workers declining. At the same time, blue-collar and services occupations continued to decline, with the exception of production and transportation workers who showed a modest increase between 1990 and 2000.

Occupational Change in the City's Resident Labor Force

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

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

Percentages may not add due to rounding.

Unemployment

In 2003 the annual average unemployment rate for the City equaled the national rate of 6.0%, which was slightly above that of Massachusetts at 5.8% and also above that for the metropolitan rate area at 5.2%. All of these rates were above the rates reached in the year 2000. The average annual number of people unemployed in the City during 2003 equaled 18,710, a slight increase from the 18,034 annual average for 2002 and above the 8,706 unemployed in 2000. The 2000 Census data for Boston, which differ from the Bureau of Labor Statistics rates shown below due to sample size, accuracy of defining persons in the labor force and over-counting the officially unemployed, showed that when Boston's total unemployment rate equaled 7.2% in 2000, the rate for whites equaled 5.1%, and the rate for all minority groups combined equaled 10.2%. This pattern is typical of many of the nation's urban centers.

Annual Unemployment Rates, 1993-2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
City of Boston	6.6%	5.8%	5.4%	4.4%	4.2%	3.4%	3.3%	2.9%	4.1%	5.8%	6.0%
Boston PMSA ⁽¹⁾	6.0	5.2	4.7	3.7	3.4	2.8	2.7	2.2	3.3	4.8	5.2
Massachusetts	6.9	6.0	5.4	4.3	4.0	3.3	3.2	2.6	3.7	5.3	5.8
New England	6.8	5.9	5.4	4.8	4.4	3.5	3.3	2.8	3.7	4.9	5.4
United States	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.7	5.8	6.0

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

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

As the following table illustrates, monthly data for 2004, through November, show an improvement over 2003 and 2002 data for all areas. In November 2004, Boston's unemployment rate equaled 4.2% compared with 5.5% in November 2003, and 5.6% in November 2002. The number of unemployed in November 2004 equaled 12,940 as compared to 16,744 unemployed in November 2003.

**Monthly Unemployment Rates for Boston, Boston PMSA, Massachusetts,
New England and the United States for 2002, 2003 and 2004⁽¹⁾**

	City of Boston			Boston PMSA ⁽²⁾			Massachusetts			New England			United States		
	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004	2002	2003	2004
Jan.	5.7%	5.9%	5.6%	4.8%	5.4%	5.2%	5.5%	6.2%	6.2%	5.2%	5.9%	5.7%	6.3	6.5%	6.3%
Feb.	5.5	5.7	5.1	4.7	5.3	4.8	5.4	6.2	5.8	5.2	5.9	5.5	6.1	6.4	6.0
Mar.	5.7	6.1	5.1	4.9	5.5	4.7	5.5	6.4	5.6	5.1	6.0	5.3	6.1	6.2	6.0
Apr.	5.6	5.8	4.6	4.6	5.1	4.0	5.1	5.7	4.7	4.7	5.5	4.6	5.7	5.8	5.4
May.....	5.6	6.0	5.2	4.5	5.1	4.4	4.9	5.6	5.0	4.6	5.3	4.7	5.5	5.8	5.3
Jun.	6.1	6.5	5.7	5.0	5.4	4.8	5.4	5.9	5.3	4.9	5.5	4.9	6.0	6.5	5.8
Jul.	6.3	6.7	5.9	5.2	5.5	4.8	5.6	6.0	5.4	4.9	5.5	4.9	5.9	6.3	5.7
Aug.	6.1	6.7	5.9	5.0	5.4	4.8	5.4	5.8	5.3	4.8	5.3	4.7	5.7	6.0	5.4
Sep.	6.3	6.6	5.0	5.2	5.5	4.2	5.5	5.9	4.7	4.8	5.2	4.3	5.4	5.8	5.1
Oct.	5.7	5.8	4.6	4.8	4.9	3.8	5.2	5.4	4.3	4.7	5.0	4.1	5.3	5.6	5.1
Nov.	5.6	5.5	4.2	4.7	4.7	3.6	5.1	5.3	4.2	4.7	5.0	4.0	5.6	5.6	5.2
Dec.....	5.3	5.2	NA	4.6	4.7	NA	5.1	5.4	NA	4.8	5.1	NA	5.7	5.4	NA

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

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

Sources: U.S. Bureau of Labor Statistics for United States, New England and Massachusetts and Massachusetts Division of Employment and Training for the City and Boston PMSA (December 2004). Largest Employers.

The following table lists each of the forty-two largest private employers in Boston, known to have had more than 1,000 employees in 2004. In the aggregate, these employers provided approximately 21% of private sector employment in the City in 2004.

**Largest Private Employers In Boston, 2004
(listed alphabetically)**

Adecco Staffing	Hebrew Rehabilitation Center for the Aged
American Cleaning Company, Inc.	Investors Financial Services Corp
American Employers Insurance Co.	John Hancock
Arnold Advertising	KPMG, LLP
Arthur Anderson, LLP	Liberty Mutual
Bain Capital Partners, LLC	Massachusetts Electric Construction Co.
Beth Israel Deaconess Medical Center	Massachusetts Eye and Ear Infirmary
Blue Cross Blue Shield of Massachusetts	Massachusetts Financial Services Co.
Boston College	Massachusetts General Hospital
Boston Company, Inc.	New England Baptist Hospital
Boston Medical Center	New England Financial
Boston Safe Deposit and Trust Co., Inc.	New England Medical Center
Boston University	Northeastern University
Brigham and Women's Hospital	PricewaterhouseCoopers, LLP
Children's Hospital	Putnam Investments, LLC
Dana-Farber Cancer Institute	St. Elizabeth's Medical Center
Faulkner Hospital	State Street Bank and Trust Co.
Fidelity Investments	Teradyne, Inc.
Fleet Boston Financial	Thomson Corporation
Gillette Company	Verizon Communication
Harvard University (graduate schools)	WGBH

Note 1: Because it has been independently determined that they each have over 1,000 employees, the following three organizations are included in the above list even though they do not appear in the original source data: Boston University, Fleet Boston Financial, and Harvard University professional schools.

Note 2: The following Boston firms not in the above list are also likely to have over 1,000 employees but their employment information has not been verified: Delta Airlines, Northwest Airlines, Shaw's Supermarkets, Stop and Shop Supermarkets, and US Air.

Note 3: Public sector and non-profit organizations are not included except for hospitals, colleges, and media companies.

Note 4: Because it has been independently determined to have fewer than 1,000 employees, Bickford's restaurants was the only firm excluded from the original source data.

Source: Dun and Bradstreet from zapdata.com, 2004, except for changes made as noted above.

Although there has been a significant decline in public sector employees in the City since 1990, the public sector still accounts for a large number of employees in the City. According to the BRA, using a series consistent with the Bureau of Economic Analysis, there were an estimated 77,574 federal, state and local government workers in Boston in 2004, a reduction of 21,350, or -21.6% from 1990. Certain state government offices, federal regional offices, U.S. Postal Service facilities, state-chartered authorities and commissions (such as the Massachusetts Port Authority and the Massachusetts Bay Transportation Authority), and the City's local government are all located within the City.

Labor Force and Education

According to the U.S. Department of Commerce Bureau of the Census, the City's resident labor force declined during the 1970s but increased during the 1980s. In contrast to the 12% decline in population between 1970 and 1980, the City's labor force (those residents aged 16 and over, available to work) declined by only 4%. The difference in these rates of decline was attributable to the fact that the decline in population was concentrated in the under-16 age group. Since 1980, the increase in the number and age of the population have combined with the rising labor force participation of women, minorities, youth and the elderly to produce a larger labor force overall. By 1990, the City's population had increased by 2% over 1980 levels, while the City's labor force increased by 12.8% in the same period, according to data from the U.S. Bureau of the

Census. During the 1990's Boston's population continued to rise, posting a 2.6% increase between 1990 and 2000. During the same time period the City's labor force decreased by 4%, according to the Massachusetts Department of Employment and Training.

General improvement in educational attainment of residents aged 25 and over continued throughout the 1970-2000 period. The percentage of this population that had completed four or more years of college almost quadrupled during this period from 10% to 36%. This change, in part, reflected the trend for an increasing percentage of Boston public school system graduates to seek higher education. This percentage increased from 36% in 1970, to 78% in 2002, based upon Boston School Department figures. Improving educational attainment levels and shifting occupational patterns suggest a concurrent transformation of the City's work force as the City's economy has moved to a service-dominated employment base.

The City supports entry-level and advanced job training programs, including the following: English-as-a-Second Language training, pre-vocational and vocational training, adult literacy training, and support counseling. In addition, linkage contributions paid by developers into the Neighborhood Jobs Trust provide a supplemental source of funding for job training programs. For a full discussion of the City's housing and jobs linkage program see "The Linkage Program," below.

Years of School Completed by Boston Residents Age 25 and Over, 1970, 1980, 1990 and 2000

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

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

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

Income, Wages, and Cost of Living

Per capita personal income for Suffolk County was \$41,227 in 2002, 34% above the national per capita personal income of \$30,795, according to the U.S. Bureau of Economic Analysis. An historical summary of per capita income shows that from 1980 to 1990 Suffolk County's per capita income grew at a rate greater than that for the nation, in contrast to the 1970-1980 period when it rose at a slower rate. Suffolk County's per capita income grew at a faster rate than the per capita income growth rates for the United States, New England, and Massachusetts and just barely below the rate of growth for Metropolitan Boston (as defined in the table below) between 1990 and 1997. The City's median household income (in current year dollars), based on U.S. Census data, rose from \$7,835 in 1970, to \$12,530 in 1980, \$29,180 in 1990 and \$39,629 in 2000. The figures in this paragraph and the chart directly below reflect earned income of persons residing in the named areas plus rents, interest and other unearned income and transfer payments from governmental entities. As such, these figures take into account certain income sources not included in the survey of average annual wages in the following paragraph, which reflects earned income of persons who work (but do not necessarily reside) in the named areas.

Per Capita Personal Income Comparison, 1970, 1980, and 1990-2003
(in current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metro Boston</u> ⁽¹⁾	<u>Suffolk County</u> ⁽²⁾
1970.....	\$ 4,095	\$ 4,453	\$ 4,486	\$ 4,515	\$ 4,652
1980.....	10,183	10,701	10,673	10,806	10,477
1990.....	19,447	22,712	23,043	24,702	24,641
1991.....	19,892	22,969	23,423	25,142	24,983
1992.....	20,854	24,172	24,538	26,451	25,936
1993.....	21,346	24,752	25,176	27,138	26,415
1994.....	22,172	25,687	26,303	28,336	27,648
1995.....	23,076	26,832	27,457	29,621	28,232
1996.....	24,175	28,194	28,933	31,280	29,810
1997.....	25,334	29,687	30,498	32,877	30,990
1998.....	26,883	31,677	32,524	35,211	33,529
1999.....	27,939	33,126	34,227	37,219	35,030
2000.....	29,847	36,121	37,756	41,435	38,134
2001.....	30,580	37,328	38,944	42,501	40,644
2002.....	30,795	37,420	39,913	42,436	41,227
2003.....	31,459	38,018	39,408	NA	NA

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

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

Source: U.S. Department of Commerce, Bureau of Economic Analysis, December 2004. 2000 population figures for all of the above are from the U.S. Census Bureau, except for Metropolitan Boston, which is from the BEA.

Data from the U.S. Bureau of Economic Analysis indicate that the average annual wage per job for 1970 through 2003 by place of work, have been consistently higher over time in Suffolk County than in the Boston metropolitan area and the Commonwealth. In 2003, Suffolk County's average wage per job (\$58,476) was 20% greater than that in the Boston metropolitan area (\$48,808) and 29% greater than the average state earnings level (\$45,174). The average annual wage per job reflects the combined income earned by individuals at their place of work for all industries combined.

Average Wage Per Job Comparison, 1970, 1980, 1990, 2000-2003
(in current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metro Boston</u> ⁽¹⁾	<u>Suffolk County</u> ⁽²⁾
1970.....	\$ 6,922	\$ 6,897	\$ 7,038	\$ 7,051	\$ 7,789
1980.....	13,997	13,356	13,524	13,643	15,468
1990.....	23,322	25,403	26,289	26,681	31,266
2000.....	34,718	39,918	43,218	47,042	55,522
2001.....	35,582	40,827	43,842	47,646	57,602
2002.....	36,102	40,995	43,808	47,361	56,887
2003.....	37,130	42,299	45,174	48,808	58,476

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

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

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, December 2004.

During the years 1991-2003, based on the U.S. Bureau of Labor Statistics Consumer Price Index, the cost of living index rose at an annual average rate of 2.89% in the Boston metropolitan area, while the national index increased at a 2.56% annual rate. In 2003 the index for Boston rose at 3.8% while the national rate grew by 2.3%. From November 2003 to November 2004, the cost of living in the Boston metropolitan (Boston PMSA) area rose 2.5%, compared to a 3.5% rate rise for the nation.

**Consumer Price Index for All Urban Consumers
For 1991 through November 2004
(CPI-U)**

	<u>United States</u> <u>Index</u>	<u>Percent</u> <u>Change</u>	<u>Metro Boston</u> <u>Index</u>	<u>Percent</u> <u>Change</u>
1991	136.2	NA	145.0	NA
1992	140.3	3.0%	148.6	2.5%
1993	144.5	3.0	152.9	2.9
1994	148.2	2.6	154.9	1.3
1995	152.4	2.8	158.6	2.4
1996	156.9	3.0	163.3	3.0
1997	160.5	2.3	167.9	2.8
1998	163.0	1.6	171.7	2.3
1999	166.6	2.2	176.0	2.5
2000	172.2	3.4	183.6	4.3
2001	177.1	2.8	191.5	4.3
2002	179.9	1.6	196.5	2.6
2003	184.0	2.3	203.9	3.8
2003 (November)	184.5	1.8	206.5	3.0
2004 (November)	191.0	3.5	211.7	2.5

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

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

Population

The U.S. Bureau of the Census reported the City's population as 589,141 in 2000, a 2.6% increase over 1990 and building on the 2.0% increase in the 1980s. The number of households in the City increased from 217,622 in 1970 to 218,457 in 1980, 228,464 in 1990, and 239,528 in 2000, while household size fell from 2.8 to 2.3 persons per household from 1970 to 2000. The U.S. Bureau of the Census population for Massachusetts in 2000 was 6,349,097, or an increase of 332,672 persons (5.5%) from the 1990 census. The population of metropolitan Boston rose to 3,398,051 in 2000, a rise of 170,344 persons or 5.3% over the decade. Estimates from the U.S. Census for population in 2004 have been released for states. The population estimate for Massachusetts as of July 1, 2004 was 6,416,505, a gain of 1.1% over that for April 2000. The latest estimates for cities are for 2003. The population estimate for Boston as of July 1, 2003 was 581,616, a 1.3% drop from the population total in April 2000.

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

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

(1) Boston PMSA.

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

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

Boston continues to be a city of young adults due to the large number of students and young adults living and working in the City. One out of every three persons in Boston is between 20 and 34 years old. The baby boom population (aged 35 to 54 years) increased significantly, to 20%, as that cohort aged and continued to show a preference for city living. The City saw a decline in the elderly population (aged 65 and over) between 1990 and 2000 as that segment declined by nearly 5,000 people to 10% of the population. Boston showed a general rise in the number of children as that population (aged 18 and under) increased by over 6,700 persons to 20% of the population. The trend toward fewer families of related

people living together to more non-family households comprised of single persons and roommates, continued in Boston in the 1990s. There was also a trend toward more “non-traditional” families as the data showed more relatives and non-relatives other than the householder and spouse living in families. Overall, the total number of households rose. Single-person households continued to grow. Families with children under 18 also grew, although married couples with young children fell because of the continued trend toward single-parent families with children. Children over 18 living with their families showed an upward trend as college students commuted in increasing numbers, and the cost of housing kept older children at home longer. Group quarters population continued to increase both for the institutionalized and non-institutionalized populations, the vast majority of which is the student dormitory population. Household size has only fallen by 2.5%, going from 2.37 persons to 2.31 despite the large growth in single person households. Average family size edged only marginally lower from 3.19 to 3.17 persons.

Medical and Higher Educational Institutions

Boston’s medical and educational institutions are an important component of its economy, providing employment opportunities for residents of the City and the Boston metropolitan area. Expenditures by the institutions’ patients, students and visitors are important to the City’s trade and service sectors.

Twenty inpatient hospitals are located within the City, including Massachusetts General Hospital, Brigham and Women’s Hospital, Beth Israel/Deaconess Hospital, Children’s Hospital, the New England Medical Center and Boston Medical Center. These hospitals had a combined total of 5,882 beds in 2003. In 2003 the hospitals admitted 238,000 in-patients, had nearly 5 million outpatient visits, and assisted in almost 23,000 births according to data from the American Hospital Association. The City is also the home of the medical and dental schools of Harvard, Tufts and Boston Universities, and of twenty-five public neighborhood health clinics, not including health maintenance organizations and membership clinics.

In 2003, there were an estimated 103,835 persons employed in health services in the City, based on an employment series consistent with U.S. Bureau of Economic Analysis data. Health services represent over one out of every six jobs within the City. Growth in the health services sector has been stable, despite varying economic conditions. Data from this employment series showed that the number of hospital employees in Boston between 2001 and 2003 grew from 65,414 to 69,978.

Between 1999 and 2004 several large medical buildings were completed. In 1999 the Shriners Burns Institute’s new building and the Franciscan Hospital gymnasium were finished. A new South End Health Center with 121,661 square-feet of space was opened in 2001. Tufts University completed a \$40 million biomedical research building and nutrition center of 146,800 square feet in 2002. Also in 2002, the Harvard Institutes of Medicine completed the redevelopment of the former English High School into medical research space with a \$120 million, 435,000 square-foot building. In 2003, Building 114 in the Charlestown Navy Yard with 90,000 square-feet of medical research space for Massachusetts General Hospital was renovated and opened. In the Longwood medical area, Children’s Hospital recently finished two buildings, a medical research building and a clinical building totaling 440,000 square feet. In 2004 Emmanuel College finished a 300,000 square foot medical research building for Merck pharmaceutical company. At Harvard Dental School in the Longwood section of Boston, a new building with 24,000 square-feet of educational space and 16,000 square-feet of medical research space is complete. In October 2004, Massachusetts General Hospital opened a new \$125 million 420,000 square foot ambulatory care facility with a 220,000 square foot outpatient clinic, the Yawkey Clinic, and a 725-car garage.

As of January 2004, there were two medical research building projects in construction and six hospital or medical research projects awaiting the start of construction. At Boston University a new \$80 million sciences building with 187,000 square-feet of medical research space is ongoing at BioSquare in the South End. Massachusetts General Hospital is also participating in the redevelopment of the Charles River Plaza expansion that will provide 387,000 square-feet of medical research space, which will open in Spring 2005 with some ancillary retail space to the West End. Several BRA Board-approved medical projects include: the Joslin Diabetes Center’s proposed 490,000 square-foot expansion project; the 105,000 square-foot Boston University Medical Center’s Moakley Cancer Care Center; Emmanuel College’s medical research building of 166,000 square feet; the 575,000 square-foot Blackfan Research Center in the Longwood area; the 440,000 square foot Longwood North medical research building in the Longwood

section; and the Brigham and Women's in-patient hospital building expansion of 330,000 square feet of new space.

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

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

As of academic year 2003-2004, the New England Board of Higher Education reported 127 colleges and universities in the Commonwealth of Massachusetts, at which over 435,996 students were enrolled. The City's 34 universities, colleges, and community colleges had a combined enrollment in fall 2003 of 132,831, a 4.3% gain from fall of 1990. These numbers include some of the professional and graduate schools of Harvard and Tufts Universities, whose principal campuses are in Cambridge and Medford, respectively. Based on total graduate and undergraduate enrollment, Boston University was the largest university in Boston in the fall of 2003, with 29,049 students. Boston, with only 10% of the state's population, has 31% of the statewide college student enrollment.

From 1999 through 2004 several higher education building projects were completed. In 1999 Suffolk University completed its new \$65 million Law School on Tremont Street in downtown Boston. In 2002 three developments were completed: Northeastern University finished the Behrakis Health science Building with 120,000 square-feet; Simmons College finished a new Graduate Center; and Harvard Business School completed the 47,000 square-foot Hawes Hall. In 2003 Boston College added a Faculty Administration building with 156,000 square feet of space. Emerson College has completed construction of its new \$40 million, 11-story, 80,000 square-foot Performing Arts Center on Allen's Alley adjacent to the Emerson Majestic Theater on Tremont Street. The Massachusetts College of Pharmacy has finished constructing a 93,300 square-foot addition to the White building.

Between 1990 and 1998, Boston's colleges and universities added 10,511 undergraduate dormitory beds. Since 1998 another 5,093 dormitory beds have opened to Boston's undergraduate students: Boston College opened one dorm with 322 beds; Boston University opened two dorms with 1,018 beds; Emmanuel College added one dorm with 225 beds; Mass College of Art finished one dorm with 310 beds; Mass. College of Pharmacy completed one dorm with 270 beds; Northeastern opened five dorms with 2,017 beds; Suffolk University built one dormitory with 368 beds; and Wentworth Institute added one dorm with 563 beds. In addition graduate housing has been constructed for 720 students at Boston University and Harvard University. The total of 16,324 new dormitory beds since 1990, consisting of 15,604 new beds in undergraduate dorms plus 720 new beds in graduate dorms, is the equivalent of nearly 4,100 new housing units. The recent addition means that Boston's colleges and universities now accommodate 33,475 students with on-campus housing. The only two undergraduate dormitories under construction as of the end of 2004 were the 360-bed dorm at Wentworth and a new \$60 million dormitory for Emerson College on Boylston Street. While college enrollment remains stable, new student housing is pulling students out of the neighborhood housing stock, easing housing prices and ameliorating tight vacancies.

A number of new educational facilities are currently being constructed, or have recently been approved. Northeastern University is about to begin construction on Building F, a combined educational and residential facility. Boston College is building the 72,000 square-foot Boston College Yawkey Athletic

Center. Simmons College is undertaking a new library project. Harvard Business School is renovating Baker Library. Boston College High School is completing a 60,000 square-foot addition. Harvard University continues to plan for future academic uses in the Allston neighborhood on land it owns near the Business School Campus and the athletic fields.

Tourism

According to the Greater Boston Convention and Visitors Bureau (“CVB”), an estimated 15.9 million people visited the Boston metropolitan area in 2003, up by 5% from the 15.1 million visitors in 2002. These visitors included tourists, business travelers and convention and meeting delegates who traveled at least 100 miles to get to the City. The latest data on the economic impact of tourism from the CVB show that, for greater Boston, visitors spent an estimated \$7.53 billion for hotel accommodations, meals, entertainment, shopping, transportation and other services during 2003. The latest data for Suffolk County indicates that in the county alone the total domestic direct traveler impact in 2002 was \$4.4 billion, supporting 41,050 jobs and a payroll of \$1.1 billion, while generating \$123 million in state tax receipts and \$78 million of local tax receipts.

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

The City of Boston is home to three major professional sports teams—the world champion Boston Red Sox baseball team, the Boston Bruins hockey team and the Boston Celtics basketball team. The City also provides venues for concerts, ice shows, circuses, theater, and other entertainment performances and amateur sports events. The Fleet Center, a privately-financed, multi-purpose arena in Boston’s North Station District constructed by the New Boston Garden Corporation, a subsidiary of Delaware North, owner of the existing Boston Garden/North Station, opened on September 30, 1995. The new ownership of Boston Red Sox baseball franchise has canceled the previous owner’s plans for a new ballpark. The new owners have undertaken renovations of the existing Fenway Park instead, including the addition of new seating and modernizing facilities, and have also proposed additional changes to the existing structure.

Boston is an attractive destination for conventions, meetings, and trade-and-gate shows. Currently Boston has three small and medium convention sites: the John B. Hynes Veterans Memorial Convention Center, the World Trade Center and the Bayside Exposition Center. Together, these facilities have a combined capacity of over one million people per year. In addition, the Massachusetts Convention Center Authority (“MCCA”) and the City have completed a new 1.6 million square-foot convention and exhibition center in Boston that can host large national conventions. In 2004 Boston was projected to host over 350 total events—meetings, conventions and expositions—which included 100 large events and a total of 17 “citywide” conventions; defined as events that would each use over 2,000 hotel rooms on the peak night, which usually requires at least three hotels.

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

Several cultural institutions are pursuing development plans that are either currently proposed, approved, or under construction. The Museum of Fine Arts is planning a 462,400 square-foot expansion

which is currently under review. An Islamic Cultural Center in the Roxbury neighborhood is BRA Board-approved. As part of the Rose Kennedy Greenway (which is the largely parks-related project on top of the Central Artery project in downtown Boston) there will be a Boston Cultural Museum and possibly a greenhouse/botanical garden (the Darwin Project) or a Boston History Museum—see “Large Public Sector Projects,” below. The Institute for Contemporary Art (the “ICA”) is completing its designs for a new facility on the South Boston Waterfront.

Over 100 new permanent artist studios will be under construction in the Fort Point Channel area and in Jamaica Plain. The City has also selected a developer to create 54 more artist studios in the South End. In April 2004, Artists for Humanities, a non-profit organization that helps Boston’s youth explore careers in the fields of arts and design by working with professionals in those fields, completed a 23,500 square-foot building in South Boston containing an art gallery, a performance studio, a function hall, a photography studio, a darkroom, graphic design printing studios, and office space.

Hotel Market

The number of hotel rooms in the City increased from 6,907 in 1980 to 12,136 as of July 1, 1997—an increase of 76%. Boston’s favorable hotel market over the 1992-1997 period and the decision to build the new Boston Convention and Exposition Center stimulated considerable new development. Between July 1997 and December 2004, twenty-three new hotels and five expansion projects were completed, adding a total of 4,219 rooms. During 2003 and 2004 the following hotels were completed: Embassy Suites, a 273-room hotel in East Boston near Logan International Airport; Commonwealth Hotel, a 149-room new hotel in Kenmore Square; the Marriott Residence Inn at Tudor Wharf, a 168-room new hotel in Charlestown; an 81-room Courtyard by Marriott at 88 Exeter Street in the Back Bay; the Hotel Onyx, a 112-room Kimpton new hotel near North Station; the Hampton Inn at Crosstown, a 175-room new hotel that is part of a mixed-use development of office, hotel, and retail space in Roxbury; Jurys Boston, a 220-room Jurys Doyle establishment in the Back Bay created through the adaptive re-use of a former police headquarters building; and the Bulfinch Clarion Hotel, an 80-room adaptive reuse development near North Station.

Four other hotels with 1,528 rooms are now under construction in Boston. A 164-room Courtyard by Marriott in the South Bay/Roxbury district will open in 2005. An Intercontinental Hotel is under construction in downtown Boston at 500 Atlantic Avenue (the Boston Edison site) that will contain 424 hotel rooms and 130 residential condominiums, and which is due to open in late Summer 2006. The 790-room Westin Headquarters hotel is under construction adjacent to the site of the new Boston Convention and Exhibition Center (BCEC). This phase of the Westin hotel is scheduled to open in 2006; a second phase of 320 additional rooms has been approved but not scheduled for development. In January 2005 the 150 room Mandarin Oriental hotel broke ground on Boylston Street in the Back Bay. Eight more hotels have BRA Board approvals but are not yet started.

Between 1991 and 2000, average annual occupancy rates grew steadily from 70.1% to 78.4% and Average Daily Room (“ADR”) rates rose steadily from \$118.17 to \$198.00. 2001 brought a more challenging environment for the hospitality industry as a slowing economy and the events of September 11th combined to dampen hotel market performance in Boston. In 2001 the occupancy rate fell to 69.6% and the room rate to \$182.52. For 2002, Boston’s hotel occupancy, according to Pinnacle Advisory Group, an independent hospitality industry consultant, stood at 72.2% and the average daily room rate equaled \$164.39. Pinnacle reported a 4.2% increase in Boston hotel demand for the year 2003, but with room supply growing even more than demand, the annual occupancy rate declined to 71.1%, and ADR also declined to \$155.52. The combined effect was a 7.3% reduction in Revenue Per Available Room (“RevPAR”) in 2003 compared to 2002. Preliminary, full year data for 2004 shows a 9.7% increase in room demand, and an increase in the occupancy rate to 74.7%. The 2004 ADR reached \$167.49, a 7.7% gain over ADR for 2003, while RevPAR rose to \$125.17 or 13.3%.

Transportation

The City is a major national and international air terminus, a seaport, and the center of New England’s rail, truck and bus service. The City is served by three limited-access interstate highways which connect it to the national highway system: U.S. 90 (the “Massachusetts Turnpike”), which leads westward from downtown Boston 138 miles to the New York State border; U.S. 95, the East Coast’s principal north-

south highway, which connects Boston to Portland, Maine to the north and New York City and Washington, D.C. to the south; and U.S. 93, another north-south interstate highway, that extends from just south of the City north to New Hampshire and Maine. The City is also served by two national railroads, Amtrak and Conrail, a regional rail carrier, Boston and Maine (a subsidiary of Guilford Transportation Industries), and Bay Colony, a local carrier.

Transportation planning includes both major highway and mass transit programs. The Massachusetts Bay Transportation Authority ("MBTA") provides commuter rail, subway, local bus and express bus services to 175 cities and towns in eastern Massachusetts, offering public transit alternatives to a population of 4.7 million people in an area of 3,200 square miles. The MBTA, the fifth largest mass transit system in the nation as determined by ridership, currently serves about 1.1 million persons per day. The draft capital plan for 2005-2009 summarized below is not yet approved but is currently under review.

The capital program of the MBTA (Capital Investment Program) totals approximately \$2.96 billion over fiscal years 2005-2010, averaging about \$592 million per year. Approximately \$2.96 billion of bonds will be issued to fund capital expenditures, approximately \$1.31 billion of capital expenditures will be funded through federal grants, and the balance of capital expenditures will be funded with pay-as-you-go capital funding, state reimbursement and other project financing.

The five-year Capital Investment Program for fiscal years 2005-2009 consists of four major programmatic areas: (i) reinvestment in the infrastructure (\$2.07 billion); (ii) accessibility improvements (\$152 million); (iii) enhancement of existing service (\$233 million); and (iv) system expansion efforts (\$504 million). Capital Investment Program spending by transportation mode is as follows: subway, \$1.10 billion; commuter rail, \$518 million; Silver Line, \$178 million; bus, \$317 million; and systemwide, \$814 million.

Infrastructure improvements refer to vehicles, track/right-of-way, signals, communication, power, maintenance facilities, stations, facilities, bridges, and fare equipment. The major infrastructure spending will take place on revenue vehicles (\$646 million); station modernization (\$338 million); rail signaling systems (\$176 million); maintenance facilities, including rail car houses and bus garages (\$163 million); track/right-of-way (\$105 million); and fare equipment (\$185 million).

Several specific system enhancement projects are underway. Current efforts are devoted towards the North Station Transportation Center, serving the Orange Line and Green Line subways, where an enhancement of the Green Line/Orange Line transfer station is underway. To date, \$220 million has been spent on this project in Phases one, two, and three while the next phase is expected to require \$68 million until project completion in fiscal year 2007. Two other system enhancements anticipated for the future are the following: (i) an effort to restore light-rail vehicle service along the Arborway corridor, and (ii) adding auto vehicle identifier technology to green line vehicles to allow the Operation Control Center to have more control over the spacing, flow, and speed of green line trains. The current plan also provides for \$60.3 million to be spent on parking facilities. The most significant efforts are the planned expansion of the North Quincy Garage with 1,189 spaces for park-and-ride passengers on the Red Line subway, the Lawrence Station multi-modal facility improvements, which would provide 900 parking spaces, and a new 500 space parking garage at Woodland Station. The majority of the other parking projects are located at commuter rail stations.

Since 1985 the MBTA has pursued large-scale commuter rail system expansion projects, including new rail service to Worcester, Middleborough, Plymouth, and Newburyport. The 2005-2010 capital plan programs \$318.7 million toward the expansion of the commuter rail system, or 63% of expansion expenditures overall. The majority of the funding is devoted to the rehabilitation of the Old Colony Greenbush Branch with \$310 million planned for future expenditures over six years. This project consists of the construction of 17.1 miles of track, seven stations, a layover facility, a tunnel through historic Hingham Square, and the purchase of rolling stock. The New Bedford/Fall River Extension (Phase 1) includes design and construction to support extension of MBTA services to New Bedford and Fall River. This project will proceed when all permits are issued, the necessary rights-of-way are purchased, and state funds are made available. Other efforts include the completion of three projects that include the Newburyport extension, the Worcester Commuter Rail extension, and the Old Colony rehabilitation on the Middleborough and Plymouth lines.

Finally, the major MBTA subway enhancement project is the Silver Line. The current 2005-2010 capital program includes \$175.1 million for the Silver Line project, or 35% of the MBTA's system-wide expansion effort. The MBTA is constructing the Silver Line in three phases to operate as part of its core downtown transit system. Phase I provides bus rapid transit services along Washington Street (through the Downtown, Chinatown, the South End, and Roxbury neighborhoods). Phase II provides bus rapid transit services along the South Boston Piers Transitway, which is located on the South Boston waterfront. Phase III of the Silver Line project will connect Washington Street to South Station and Logan Airport via a tunnel that will connect the Phase I and Phase II segments. In July 2002 Phase I of the Silver Line began servicing 14 new stations along Washington Street. Phase II was partially completed in 2004, with the addition of three additional Silver Line stations opened in the South Boston Seaport District: South Station, Courthouse Station, and World Trade Center Station. Currently, there are two major projects underway currently related to the Silver Line: the continuation of Phase II, and conceptual planning and design for Phase III.

Since 1991, Amtrak has spent \$1.8 billion on a multi-year high-speed rail infrastructure project intended to provide better ride quality, permit faster train speeds, and increase capacity for passengers on the rail corridor between Boston and New York. A key component of infrastructure upgrades was electrification of the remaining segment of the Northeast Corridor rail line between New Haven and Boston, which became operational in 2000. Amtrak has taken delivery of 20 new Acela Express high-speed trains, and 15 high-horsepower electric locomotives. The new rolling stock reduces rail travel time from downtown Boston to downtown New York City to three hours and twenty-five minutes—which is competitive with air travel. When combined with all other planned infrastructure improvements over the next five years, the new high-speed trains will further reduce travel time to approximately three hours and fifteen minutes. The equipment contract also included construction of three new maintenance facilities servicing the trains and locomotives. One of these maintenance facilities, completed in 1999, is located in Boston at Southampton Yard. Ridership between New York and Boston has grown significantly as a result of the new high-speed service, despite the general downturn in the economy and regional travel. In fiscal year 2004 Amtrak carried 827,000 passengers between New York and Boston—an increase of 20% over the pre-Acela year of 2001. The new Boston—Portland, Maine passenger rail service (the “Downeaster”) commenced December 15, 2001. The 200-passenger train runs four times a day in each direction between North Station and Portland. The trip takes 2 hours and 45 minutes, and makes intermediate stops in Woburn and Haverhill (Massachusetts), Exeter, Durham, and Dover (New Hampshire), and Wells, Saco, and Old Orchard Beach (Maine). The roundtrip fare from Boston to Portland, Maine is \$42.

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

Seaport and Airport

The Massachusetts Port Authority (“Massport”) was created by the state legislature to develop and manage the City's major air and sea transportation centers, and the Tobin Memorial Bridge over the Mystic River. Massport is financially independent, and the City is not responsible for any debt or other obligations incurred by Massport. Heavy use of Boston Logan International Airport (“Logan Airport”) and the Port of Boston has compelled significant expansion of both facilities. Massport's net investment in its facilities through June 2004 exceeded \$3.18 billion, consisting of \$2.53 billion invested in airports and \$655 million invested in the Tobin Bridge, maritime development and other capital projects.

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

The City's port tonnage fell from the 1950s through the 1990s as a result of changes in transportation technology and in the regional economy. Since 1998 the Port of Boston has ranked as the 12th largest container port on the U.S. Atlantic Coast by container volume and for the past 20 years, the Port has handled between 1.2% and 1.8% of all U.S. Atlantic Coast port volume. During fiscal 2004 the Port

activity of 93,627 boxed containers increased 8.7% over fiscal 2003, primarily as a result of new far-east service provided by COSCO, while the 12,198 automobiles handled in fiscal 2004 decreased by 59% from fiscal 2003 (reflecting the relocation of Volkswagen's importing business from Moran Terminal to Rhode Island) and the 144,304 tons (in bulk tonnage) for fiscal 2004 decreased by 11.4% from fiscal 2003's bulk tonnage.

The Port of Boston is now a major cruise port. The total number of cruise passengers in fiscal 2004 (200,836) decreased by 3.1% compared to fiscal 2003, but grew 7.9% compared to fiscal 2002, reflecting a trend of continued growth in cruise traffic. The cruise port mainly operates in the months of May through October.

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

In calendar 2004, Logan Airport served a total of 26.0 million passengers, a 14.0% increase from the 22.8 million passengers served in 2003. A report on calendar year 2003 prepared by Airports Council International ("ACI") showed that Logan was the most active airport in New England, the 18th most active in the United States and the 35th most active in the world.

Logan Airport also plays an important role as a center for processing domestic and international air cargo. According to ACI, Logan Airport ranked 19th in the nation in total air cargo volume in 2003. In fiscal 2004 total combined cargo and mail volume was 809.2 million pounds: a 1.1% decrease from the 817.8 million pounds in fiscal 2003.

In January 2003, Massport projected that it would spend about \$1.14 billion during fiscal years 2004-2008 for ongoing capital improvements to Hanscom Field, Logan Airport, the Tobin Memorial Bridge and the port facilities, and for improvements and major maintenance at various other Massport properties. Massport currently expects to finance these projects with a combination of bond proceeds, passenger facility charges, federal grants and internally generated funds. The capital program currently equals approximately \$240 million per year. The plan to add a new runway at Logan airport was approved by state and federal authorities and has cleared all challenges in court. See "Large Public Sector Projects," below.

Construction Activity

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

The following table sets forth the estimated potential construction activity in the City from fiscal years 1994-2004, estimated as indicated in the notes to the table. It should be noted that the issuance of a building permit and payment of a fee do not necessarily result in construction activity.

Revenue from building permit fees during fiscal 2004 indicated that the estimate of total potential construction activity was \$2.67 billion. Revenue from building permit fees increased in all but four of the fiscal years between 1994 and 2004. Between fiscal years 2003 and 2004, building permit revenue increased from \$20.15 million to \$22.72 million.

**Boston Building Permit Revenues and Estimated Potential Construction Activity
Ten Fiscal Years, 1994-2004**

	Building Permit Revenues⁽¹⁾	Estimated Potential Construction Activity⁽²⁾	Estimated Potential Construction Activity Adjusted For Inflation⁽³⁾
1994.....	\$9,039,951	\$1,063,523,647	\$1,429,802,299
1995.....	7,629,395	897,575,882	1,173,097,593
1996.....	11,777,653	1,385,606,235	1,764,042,464
1997.....	9,199,877	1,082,338,471	1,332,754,288
1998.....	14,757,703	1,736,200,395	2,094,190,313
1999.....	11,404,006	1,341,647,713	1,591,328,275
2000.....	17,922,648	2,108,546,846	2,416,287,035
2001.....	27,191,839	3,199,039,882	3,495,247,279
2002.....	19,055,144	2,241,781,647	2,399,833,645
2003.....	20,145,888	2,370,104,471	2,442,248,369
2004.....	22,724,810	2,673,507,019	2,673,507,019
Total	<u>\$170,848,914</u>	<u>\$20,099,872,208</u>	<u>\$22,812,338,579</u>
Annual Average 1994-2004	<u>\$15,531,719,</u>	<u>\$1,827,261,109</u>	<u>\$2,073,848,961</u>

- (1) Building permit revenues in current dollars. Columns may not add due to rounding.
- (2) Potential construction activity estimated by dividing permit revenues by 0.85%, which is the midpoint between permit fees calculated at 0.7% of the first \$100,000 estimated value of development cost, and 1% for the remainder of development cost.
- (3) Estimated potential construction activity adjusted to November 2003 constant dollars (CPI-U Boston).

Source: City of Boston, Auditing Department and City of Boston Annual Reports. Compiled by Boston Redevelopment Authority's Policy Development and Research Department (January 2005).

Large Public Sector Projects

2005 the Boston metropolitan area will continue to be the site of several major public sector projects. In addition to the Boston Convention and Exposition Center ("BCEC") Project, two large transportation projects—the depression of the Central Artery, the elevated section of U.S. 93 that runs through downtown Boston and serves as the principle six-lane highway carrying traffic through the City; and the construction of a four-lane Ted Williams tunnel under Boston Harbor (together, the "Central Artery/Tunnel Project or CA/T")—are under construction. The CA/T Project, which is intended to improve traffic flow, is under the control of the Massachusetts Turnpike Authority.

The first major milestone achieved by the CA/T was the completion of the Ted Williams Tunnel, in late 1995, which initially opened for limited use, and was open to all traffic in January 2003 when the U.S. 90 extension under Fort Point Channel was completed. The second major milestone, the Leverett Circle Connector Bridge, opened a week ahead of schedule in October 1999. The four-lane bridge over the Charles River carries traffic between Leverett Circle in downtown Boston and U.S. 93 in Charlestown. The third major milestone was achieved in January 2003 with the completion of the extension of U.S. 90 under Fort Point Channel to South Boston connecting the highway with the Ted Williams Tunnel and Logan Airport in East Boston. This major interchange in South Boston now provides direct access from the western suburbs to Logan Airport, as well as to development in the South Boston Waterfront including the new BCEC Project. The Ted Williams Tunnel is expected to carry 98,000 vehicles per day in 2010. Prior to the Transportation Projects, the Central Artery's only connection with Logan Airport was via the existing two-lane Sumner and Callahan tunnels, which handled traffic from north, west and south of the City. The fourth major milestone was the completion of the Northbound Central Artery and the opening of the Leonard P. Zakim Bunker Hill Bridge over the Charles River in March 2003. An initial opening of the southbound Central Artery segment occurred on December 20, 2003. The date for the I-93 complete southbound opening is now projected for March 2005 to June 2005, and the date for the CA/T Project substantial completion is now projected for May 2005 to September 2005, reflecting the achievement of previous construction milestones. The CA/T Project, now due to be completed in 2005 at an estimated total cost of \$14.63 billion, will have been nearly half funded by the federal government while the remainder has been the responsibility of the Commonwealth of Massachusetts. Demolition of the existing elevated

structure is now complete. Construction on the development parcels including landscaping and parks will begin after the CA/T Project is finished.

As of August 31, 2004, CA/T Project construction was 94.3% complete, based on the new cost/schedule update 11 (CSU Rev. 11) construction budget. The construction budget increased from the CSU Rev. 10 budgeted amount of \$9.356 billion to \$9.422 billion, which incorporates the transfer of amounts previously included in the CSU Rev. 10 budget as contingent and cost savings in other areas; the total project budget has not increased. As of August 31, 2004, approximately \$13.888 billion was under contract or agreement, which constitutes 95.0% of total budgeted costs for the CA/T Project. That amount includes \$9.087 billion of construction commitments, which constitutes approximately 96.4% of the total construction budget of \$9.422 billion.

CSU Rev. 11 was completed and filed on July 1, 2004. On July 30, 2004, the October 2004 Finance Plan was filed with the Federal Highway Administration. The independent auditor engaged by the Executive Office for Administration and Finance has filed its final report on CSU Rev. 11. The final report concluded that the total cost estimate of the CA/T Project in the amount of \$14.63 billion set forth in CSU Rev. 11 was aggressive but did not recommend that the estimate be increased.

The Claims and Changes Department of the CA/T Project is responsible for administering the commercial aspects of the CA/T Project's construction contracts. In the fall of 2002, the Turnpike Authority Chairman directed the Claims and Changes Department to establish a "close-out" plan to resolve the pending backlog of contractor claims on the CA/T Project (at that time there were nearly 5,000 outstanding change order issues and claims with an average age of over 300 days).

In February 2003, the National Academy of Engineering and the National Research Council (NRC) issued a report to the Turnpike Authority that identified as a major priority the resolution of outstanding contractor claims and recommended a target resolution date of July 2004. The Turnpike Authority Chairman approved a Claims and Changes Department claim resolution plan with the objective of meeting the National Academy's recommended target date of July 2004. The Turnpike Authority Chairman later approved, as part of the annual budget revision process, an Expedited Claim Resolution Plan prepared by the CA/T Claims Department with the objective of meeting the NRC's recommended target date. The claim resolution plan focused budget resources and established aggressive timetables for settlement of thousands of open issues on eighteen large construction contracts that were substantially complete pending close-out or that represented the major on-going CA/T Project contracts. Together, these contracts represented over 80% of the outstanding CA/T Project open claim and change matters.

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

As of July 31, 2004, settlements in principle have been reached with contractors on seven of these priority contracts. These seven, of which four now await final implementing contract modifications, were settled within the parameters of the CA/T Project's budget cost estimates. In addition, significant progress has been made in the past few months during structured mediated negotiations on five other large CA/T contracts, including three representing the most complex contract disputes on the CA/T Project. Settlement in at least two of these cases is imminent and will fully address several hundred open CA/T Project issues.

Massport has developed a long-range capital program of approximately \$3.0 billion for improvements at its facilities, most of which are located in the City. The capital program includes a major modernization of Logan Airport, over half of which is completed, that will include a new double-decked roadway system, a new 3,150 space parking garage, a new public transit terminal, improved walkways,

major terminal renovations, a new 600-room hotel, and a new sign system. This capital program also includes non-Logan improvements and privately financed investments at Massport facilities. Massport has proposed the construction of a new runway at Logan Airport to enhance the efficiency of operations and to relieve reported flight delays. This proposal has received both state and federal environmental approval. Massport successfully sought the lifting of a previous court injunction prohibiting construction of the runway. There are no longer any pending state or federal court challenges to the environmental approval of the project. In the New England region, capital and operating improvements at the five other regional airports have resulted in capacity upgrading and more efficient usage of air traffic operations.

The Massachusetts Water Resources Authority (“MWRA”), an independent state authority, has recently completed construction of one of the largest wastewater treatment facilities in the nation. This project, which was undertaken pursuant to a federal district court order, was part of MWRA’s capital improvement program costing approximately \$3.2 billion (1999 dollars) and brought wastewater discharges in Boston Harbor into compliance with federal and state requirements.

The MWRA has also spent approximately \$756 million on Wastewater System Improvements and approximately \$1.4 billion on Waterworks System Improvements. The largest expenditures have been for the Walnut Hill Treatment Plant, improved water storage facilities and reduction of combined sewer overflow.

The MWRA-approved FY05 Capital Improvement Program anticipates the spending of approximately \$1.6 billion on additional water and wastewater system improvements over the next ten years. The largest expenditures will be to rehabilitate large sewer interceptors and pump stations, combined sewer overflow projects, and water treatment and distribution system improvements. Relatively small portions of these improvements are located within the City, but they should nonetheless provide major improvements in the system infrastructure that serves the City. Projects are funded through state loans and the issuance by MWRA of revenue bonds backed by rates and charges paid by system users. Such rates and charges are expected to continue to increase each year, dictated in large part by increased debt service costs in connection with financing its capital program. The City is not directly responsible for the costs of any of the above-described projects, although the Boston Water and Sewer Commission (the “BWSC”), which pays approximately 32% of all MWRA rates and charges, is expected to bear a portion of the cost of the MWRA capital program through increased user fees.

The Boston Housing Authority (“BHA”) recently completed major revitalization initiatives at two of its public housing developments: Mission Main, in the Mission Hill neighborhood of Boston, and Orchard Park, in Roxbury. The BHA was able to initiate the revitalization of these developments when it was awarded two HOPE VI grants from the U.S. Department of Housing and Urban Development (“HUD”). The grants, totaling \$80 million, were used to implement a new approach to public housing financing, incorporating innovative partnerships with public and private entities that leveraged additional development funds. The initiatives not only revitalized the BHA sites, but the surrounding neighborhoods as well. Construction is underway at Maverick Gardens, the BHA’s latest Hope VI site. Currently owned by the Boston Housing Authority, the Maverick redevelopment will result in 396 new apartments, both affordable and market rate, along the East Boston waterfront. The new housing units will consist of townhouse style units and two midrise apartment buildings. Seventy-seven percent or 305 apartments will remain available for public housing residents. The remainder, 91 apartments, will be rented at market rate. The project also includes a Citywide Homeownership Initiative that will provide 50 homeownership opportunities for public housing residents and other eligible applicants. The project got its start with the award of a \$35 million HOPE VI grant from the federal government. Funding for the \$105 million project is also being provided by a number of public/private partners including the City of Boston (Neighborhood Housing Trust and Department of Neighborhood Development), state funded low-income tax credit equity, the Boston Housing Authority, the Massachusetts Housing Finance Authority, and the Department of Housing and Community Development. Developing the project with the BHA are Trinity East Boston Partners, which is a collaboration between Trinity Financial and the East Boston Community Development Corporation. The BHA chose Trinity East Boston Partners as its development team after a formal competitive process was initiated last year. Phase one and two of the project are expected to occur simultaneously and consist of 230 apartments. Phase three will consist of 166 apartments and is expected to begin in early 2005 and be completed during the summer of 2006. The total unit mix will be 103 one-bedroom units, 147 two-bedroom units, 118 three-bedroom units and 28 four-bedroom units. While the footprint for phases one and three sits

on the existing site, phase two of the project will be built on a vacant parcel of land across Sumner Street. The BHA is now commencing a HOPE VI process for the Franklin Hill site in Dorchester.

Chapter 152 of the Acts of 1997 (“The Convention Center Act”) authorized the development of the BCEC Project on a 60-acre site in South Boston through the joint efforts of the City, the Commonwealth, the BRA, and the MCCA. The 1.6 million square foot facility includes approximately 516,000 square feet of contiguous exhibition space on one level, approximately 160,000 square feet of meeting space and a 40,000 square foot ballroom, as well as banquet and lecture halls. The BRA was authorized by the Convention Center Act to acquire and prepare the site for the BCEC Project and its role in the project is completed. The MCCA is the owner and operator of the BCEC. The construction of the BCEC was completed in June 2004 and the first convention was held July 12-15, 2004.

To date, the BRA has been reimbursed \$173.5 million by the City, and \$62.9 million by the Commonwealth for the site acquisition and preparation costs. Additional cost for site acquisition and preparation is primarily dependent on the outcome of eminent domain court cases for those parcels for which a final settlement has not been reached (less than one-tenth of the site acreage). The City estimates that the potential liability for site acquisition and preparation costs will not exceed the total amount authorized in the Convention Center Act.

All cost of design and construction of the BCEC Project was funded by the Commonwealth out of bond proceeds supported by the Convention Center Fund established pursuant to the Convention Center Act. The MCCA’s construction budget for the BCEC Project was \$621.5 million plus \$30 million in transportation-related infrastructure improvements.

In addition to the BCEC Project, the MCCA is involved in the development of a convention center hotel on the northeast corner of the BCEC Project site. After a public bidding process, a team composed of Starwood Hotels and Resorts Worldwide and Carpenter & Company was selected in November 1999 to be the operator and developer of the on-site hotel. The developer signed a development agreement with the MCCA and made a substantial deposit as part of the agreement. A trio of local developers, Stephen Karp, Joseph O’Donnell and Joseph Fallon, subsequently entered into an agreement with Starwood Hotels to join the development team. The development team was selected to receive a \$15 million HUD loan from the City of Boston. The hotel’s financing was finalized and construction began in June 2004. Construction of the project is well underway. Foundation work is nearly complete and structural steel erection is ongoing.

Empowerment Zone Designation

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

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

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

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

One example of BCI's commitment to human and economic development has been its investment in Crosstown. BCI loaned \$7.0 million to Crosstown Associates, LLC to assist in the development of a mixed-use commercial development comprised of a 175-room hotel, 60,000 square feet of retail space, and a 650-space parking garage. This Phase I will create approximately 1,100 permanent jobs. All jobs will include a benefits package. Crosstown Associates, LLC has been working with BCI, local community-based organizations, and neighborhood residents of the EZ to prepare Zone residents for employment opportunities arising from the Crosstown Center Project. Crosstown Associates, LLC is further committed to hiring residents of the EZ. This phase of the project opened in June 2004 at the corner of Massachusetts Avenue and Melnea Cass Boulevard. Phase II will include offices and additional parking. When the Center is complete, there will be 1,500 workers in permanent jobs ranging from hospitality to office work. The BCI board voted to support the use of \$5 million in HUD 108/EDI loans and grants and \$48 million in bonds to the Crosstown Center. In addition the BCI board invested \$7 million as equity toward the construction of the hotel and garage. The total development cost of the project will be \$70.4 million.

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

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

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

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

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

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

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

Office Market and New Development

The City and its neighborhoods currently have approximately 66.5 million square feet of office space. By the third quarter of 2004 (September 30th) Boston’s overall vacancy rate according to CB Richard Ellis was 12.8% (16.8% availability when including space to sublet). Another realty firm, Spaulding & Slye, places the City’s office vacancy rate at 11.9%. (availability 17.4%). There is no accepted standard accounting for office vacancy rates so private realty firm surveys vary based upon the amount of office space covered, geographical coverage, and inclusion of new or old office space. Due to the economic slowdown, office vacancies have risen substantially from early 2001 through late-2004. Absorption (change in net occupied space) for 2004 through September according to CB Richard Ellis was -1,363,802 square feet. In the third quarter of 2004, CB Richard Ellis Boston’s downtown office vacancy rate of 12.8% still ranked Boston as the sixth best downtown office market out of the nation’s twenty largest downtowns.

Among the larger concerns in Boston’s office market in the third quarter of 2004 were the projected personnel downsizing and real estate consolidations surrounding the mergers of Manulife Financial and John Hancock and Bank of America and Fleet Boston. According to CB Richard Ellis, the above entities have contributed 720,000 square feet and 460,000 square feet of sublease space, respectively. Also, further inflating these availability statistics, according to CB Richard Ellis, were large concurrent contributions of space by Deutsche Bank (346,000 square feet at 2 International Place); State Street Bank (325,000 square feet at 1 Lincoln and One Federal Street); and Massachusetts Financial Services (135,000 square feet at 500 Washington Street). The overall result has been almost 2 million square feet of office space coming to the market, inflating sublease space by 25% of total availability, and representing a gain of almost 10% over second quarter statistics.

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

As of December 2004, three large office developments with 2.3 million square feet of new office space have been approved by the BRA Board but not yet started: Two Financial Center, a 176,838 square foot building behind the One Financial Center tower in the Fort Point Channel district; the Fan Pier project in South Boston waterfront district, containing 1.2 million square feet of office space; and Midway

(Channel Center), a 866,500-square foot development that is also located in South Boston. In addition there are several pending office developments under review in the Downtown, South Boston, and Charlestown districts with over 3 million square feet of space that will likely become available, if approved, after 2007 at the earliest. The largest one of these is the South Station Air Rights with 1.2 million square feet of office space.

Boston Office Market—September 30, 2004

<u>Market</u>	<u>Total (SF)</u>	<u>Available (%)</u>	<u>Vacancy (%)</u>	<u>YTD Absorption*</u>	<u>Average Asking Rent</u>
Central Business District.....	34,706,158	19.3%	13.1%	-971,526	\$35.68
Back Bay.....	13,145,270	15.0	13.2	-171,058	\$36.18
South Boston Seaport District.....	4,693,182	17.4	17.0	+112,423	\$26.81
Charlestown/East Boston.....	2,848,796	18.1	18.0	-235,315	\$18.25
North Station/Waterfront.....	2,774,930	14.2	13.2	-9,846	\$24.18
Midtown.....	2,622,772	10.4	3.9	-164,361	\$24.12
South Station.....	1,280,839	14.6	9.6	-36,667	\$23.85
Dorchester/South Boston.....	860,987	9.4	9.4	+2,700	\$23.29
Allston/Brighton/Longwood Medical.....	1,613,936	8.8	8.8	+34,873	\$21.85
Fenway/Kenmore Square.....	1,929,639	5.0	5.0	+74,975	\$24.16
<u>Total Boston Office Market.....</u>	<u>66,476,509</u>	<u>16.8%</u>	<u>12.8%</u>	<u>-1,363,802</u>	<u>\$33.22</u>

* Column may not add due to rounding.

Source: CB Richard Ellis, Third Quarter 2004.

Comparative Office Vacancy Rates 20 Largest Downtown Office Markets as of September 30, 2004

<u>City</u>	<u>Vacancy Rate</u>	<u>City</u>	<u>Vacancy Rate</u>
Washington DC.....	8.3%	Baltimore.....	17.2%
San Diego.....	9.2	Oakland.....	17.2
Manhattan (Midtown).....	9.3	San Francisco.....	17.4
Philadelphia.....	11.2	Phoenix.....	19.2
Manhattan (Downtown).....	11.9	Kansas City.....	20.6
Boston.....	12.8	Houston.....	20.9
Chicago.....	14.6	Atlanta.....	21.2
Seattle.....	15.4	Minneapolis-St. Paul.....	21.8
Denver.....	16.0	Dallas.....	24.0
Los Angeles.....	16.8	Detroit.....	24.2
National Average ⁽¹⁾ 14.4%			

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

Source: CB Richard Ellis Office Vacancy Index, Third Quarter 2004.

Retail Market

As of 1997, the date of the last U.S. Economic Census, Boston was within the ninth largest metropolitan retail market in the nation, consisting of the City plus the Massachusetts metro areas of Lowell, Lawrence, Salem and Brockton. Of the approximately 15 million square feet of retail space in the City, approximately 7.3 million square feet are located in downtown Boston and Back Bay and almost 8 million square feet in the neighborhoods. For 2003 it is estimated that there were about 63,000 employees in retail stores consisting of about 30,000 in retail and 33,000 in food and beverage establishments. About 2,262 retail establishments were located in the City in 1997 and had estimated total sales of \$5.6 billion according to the U.S. Census of Retail Trade. 2002 figures on sales are close to \$6.5 billion. In addition to retail there are about 16,000 employees in personal services businesses that range from laundry, dry cleaning, and beauty and barbering services to travel, rental copying, and banking services that handle retail customers. These businesses do over \$1.0 billion in sales annually in Boston.

Recent major retail projects in downtown Boston include: TJ Maxx and H&M in the first phase of 33 Arch Street; Eddie Bauer's and Citizen's Bank in the Lafayette Corporate Center in Downtown Crossing; a CVS at 55 Summer Street; a Walgreen's at Winthrop Square; and a Sports Club/LA and Loews Boston Common movie theaters at the new Ritz Carlton Towers at Millennium Place. As part of the office and mixed-use projects Fan Pier (135,000 square feet) will have substantial new retail space. Also, in the South

Boston waterfront district Massport is looking to develop a large retail mall on the Core Block across from the new BCEC facility. In the Back Bay an addition to Prudential mall (60,000 square feet) at the 111 Huntington Avenue building, and an Eastern Mountain Sports store on Boylston Street recently opened. A variety of smaller retail projects in planned developments downtown are under review.

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

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

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

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

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

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

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

Industrial Market and Recent Developments

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

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

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

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

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

Housing Stock, Housing Values, and Development

The U.S. Bureau of the Census reported on some characteristics of the City's housing stock in April 2000. The total of 250,863 units grew by 1,072 from 1990, the date of the previous decennial census. The composition of occupied housing has been changing. The number of occupied rental apartments increased between 1990 and 2000, going from 157,920 to 162,302, a gain of 4,382 or 2.8%. The number of owner-occupied units also increased between 1990 and 2000, going from 70,544 to 77,226, a gain of 6,682 or 9.5%. The percentage of owner to occupied units increased from 30.9% to 32.2% between 1990 and 2000. With the small addition of new units and the large gain in occupied units the number of vacant units dropped from 22,399 in 1990 to 12,407 in 2000 while the vacancy rate for owner and renter housing fell from 2.6% and 7.8%, respectively, in 1990 to 1.0% and 3.0%, respectively, in 2000. As of late 2001, the housing vacancy rate was rising slightly.

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

Within the City, the U.S. Bureau of the Census reported from the 2000 Census that the median value of an owner-occupied unit was \$190,603 in 2000, the median monthly mortgage payment was \$1,370, and the median gross rent in the City was \$802 per month in 2000. The reason these costs appear to be lower than the rent and sales figures in tables below is that the Census numbers track what people with existing housing are paying, not including any subsidies which might be involved (for rental housing) and the owner costs are what existing owners are paying. The tables below show what new owners would pay for sales prices and what new renters would pay in rent.

An April 2004 study done by the City's Department of Neighborhood Development showed that the median rent for an apartment in Boston in 2003 as advertised in the newspapers was \$1,400 per month for a two-bedroom apartment. Median rents for a two-bedroom apartment ranged from a high of \$2,250 in the Back Bay to a low of \$1,150 in East Boston.

**Median Advertised Asking Monthly Rent in Boston Neighborhoods
and the Volume of Advertised Two-Bedroom Apartments
For 2002 and 2003**

<u>Neighborhood</u>	<u>Median Rent</u>			<u>Volume of Apartments</u>		
	<u>2002</u>	<u>2003</u>	<u>Percent Change</u>	<u>2002</u>	<u>2003</u>	<u>Percent Change</u>
Allston/Brighton	\$1,450	\$1,350	-7%	449	462	2.9%
Back Bay/Beacon Hill	2,100	2,250	7	492	556	13.0
Central	1,998	2,100	5	280	242	-13.6
Charlestown.....	1,800	1,700	-6	187	164	-12.3
Dorchester	1,300	1,250	-4	83	115	38.6
East Boston.....	1,200	1,150	-4	53	43	-18.9
Fenway/Kenmore	1,613	1,650	2	48	66	37.5
Hyde Park.....	1,250	1,325	6	23	50	117.4
Jamaica Plain.....	1,500	1,400	-7	180	220	22.2
Mattapan.....	**	1,350	***	6	16	***
Roslindale.....	1,300	1,250	-4	95	124	30.5
Roxbury.....	1,398	1,350	-4	20	23	15.0
South Boston	1,450	1,400	-4	228	245	7.5
South End	1,800	1,900	5	131	148	13.0
West Roxbury.....	1,300	1,300	0	92	109	18.5
<u>Citywide</u>	<u>1,550</u>	<u>1,400</u>	<u>-11</u>	<u>2,367</u>	<u>2,583</u>	<u>17.6</u>

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

*** Not meaningful.

Source: City of Boston, Department of Neighborhood Development, "Real Estate Trends, Annual Report 2003." Uses the Boston Sunday Globe, from apartment listings for the first Sunday of the month. Apartments that include utilities or parking in the monthly rent are not represented in this survey (April 2004).

After nearly five years of relative stability from 1992 through 1995, home prices have risen at a fast pace since the first quarter of 1996. The National Association of Realtors reported that the median sale price of existing homes in the Boston metropolitan area was \$354,800 for 2003, an 11.3% increase over the 2000 median sales price. Between 1993 and 2003 the median price, not adjusted for inflation, more than doubled.

**Greater Boston Annual Median Sales Prices for Existing Homes, 1992-2004
(Current Year Dollars)**

<u>Year</u>	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Annual Median</u>	<u>Annual % Change</u>
1992.....	\$168,200	\$173,300	\$175,100	\$165,200	\$171,100	0.6
1993.....	160,500	175,600	176,900	172,700	173,200	1.2
1994.....	170,600	181,300	187,300	176,600	179,300	3.5
1995.....	175,100	179,000	183,200	177,400	179,000	(0.2)
1996.....	197,300	195,300	195,300	177,100	189,300	13.0
1997.....	NA	NA	NA	NA	229,000	21.0
1998.....	NA	NA	NA	NA	258,400	12.8
1999.....	265,000	294,000	301,000	291,000	290,000	12.2
2000.....	303,000	330,300	356,000	329,500	314,200	8.3
2001.....	NA	NA	NA	NA	NA	NA
2002.....	NA	NA	NA	NA	NA	NA
2003.....	329,800	355,500	366,600	354,400	354,800	NA
2004.....	347,100	366,500	398,900	NA	NA	NA

Note: Data for the quarters of 1997 and 1998 and for 2001 and 2002 were not available from the National Association of Realtors.

Note: The data series from 1992 ended in the year 2000. The series beginning in 2003 uses different source data so medians from the two series are not comparable. A completely revised unified series should be available in 2005 for all years.

Source: National Association of Realtors (January 2005).

Within the City, residential sales prices have been increasing steadily. The median sales price for a single-family home in Boston increased from \$270,000 in the first quarter of 2002 to \$330,500 in the fourth quarter of 2003, a 22% rise over twenty-one months. Condominium prices also increased from \$285,000 in

the first quarter of 2002 to \$326,000 in the fourth quarter of 2003, a 14% rise in twenty-one months.

**Median Residential Sales Prices for Boston
First Quarter 2002 Through Fourth Quarter 2003
(Current Year Dollars)**

<u>Year</u>	<u>Quarter</u>	<u>Single Family</u>	<u>Two Family</u>	<u>Three Family</u>	<u>Condominium</u>
2002	First	\$270,000	\$310,000	\$336,250	\$285,000
	Second	287,500	342,500	360,000	305,000
	Third	320,000	375,000	400,000	300,000
	Fourth	300,000	364,000	417,000	295,000
2003	First	\$319,500	\$375,000	\$424,000	\$294,000
	Second	338,950	386,000	430,000	319,000
	Third	335,000	430,000	460,000	302,250
	Fourth	330,500	434,000	466,000	326,000

Source: City of Boston, Department of Neighborhood Development using Banker & Tradesman data (June 2004).

Banker & Tradesman, a local trade journal, reported that during 2003 there were 1% more total residential sales in the City than there were in 2002 (8,960 versus 8,893). Sales of single-family homes remained roughly the same and sales of condominiums and multi-family non-condominiums rose slightly in 2003 compared with 2002. Data for 2004, through November, show a significant rise in residential sales for all types of housing over the previous year.

**Annual Residential and Condominium Sales in Boston
1991-2003 and Through November 2004**

<u>Year</u>	<u>Single Family Sales</u>	<u>Percent Change</u>	<u>Multi-Fam. Residential Sales⁽¹⁾</u>	<u>Percent Change</u>	<u>Total Condominium Sales</u>	<u>Percent Change</u>	<u>Residential and Condo Sales⁽²⁾</u>	<u>Percent Change</u>
1991	906	1%	1,662	-15%	2,028	-9%	4,596	-10%
1992	1,114	23	1,720	4	2,432	20	5,266	15
1993	1,264	13	2,059	20	2,827	16	6,150	17
1994	1,596	26	2,619	27	3,024	7	7,239	18
1995	1,564	-2	2,696	3	2,925	-3	7,185	-1
1996	1,578	1	2,743	2	3,566	22	7,887	10
1997	1,616	2	2,854	4	4,017	13	8,487	8
1998	1,505	-7	3,032	6	4,431	10	8,968	6
1999	1,569	4	3,242	8	5,089	15	9,901	10
2000	1,335	-15	2,919	-10	4,757	-7	9,011	-9
2001	1,281	-4	2,407	-18	4,266	-10	7,954	-12
2002	1,372	7	2,410	0	5,111	20	8,893	12
2003	1,369	0	2,433	0	5,158	1	8,960	1
Jan.-Nov. 2003	1,253	NA	2,160	NA	4,705	NA	8,118	NA
Jan.-Nov. 2004	1,569	25%	2,643	22%	6,751	43%	10,963	35%

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

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

Source: Banker and Tradesman (January 2005).

Prices and sales volumes for single-family homes and for condominiums show strength and remarkable diversity across the neighborhoods of Boston. Areas of the City with the largest numbers of single-family home sales included West Roxbury, Dorchester, Hyde Park and Roslindale. In 2003, single family prices ranged from \$242,000 in East Boston, to \$2.3 million in the Back Bay with the city-wide median at \$333,000 and the typical house going for \$360,000 in West Roxbury, the most suburban-style single family neighborhood within the City limits. The median sales price was up 13% and the sales volume was down 9% between 2002 and 2003.

Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Single Family Homes
In Boston's Neighborhoods, 2002 and 2003
(Not inflation adjusted)

<u>Neighborhood</u>	<u>2002 Single Family Price</u>	<u>2003 Single Family Price</u>	<u>Percent Change</u>	<u>2002 Sales Volume</u>	<u>2003 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton	\$364,000	\$380,000	4%	63	73	16%
Back Bay/Beacon Hill ...	1,600,000	2,275,000	42%	19	29	53
Central	**	**	***	1	4	***
Charlestown.....	446,200	463,000	4	72	60	-17
Dorchester	265,000	315,000	19	185	185	0
East Boston.....	187,500	242,000	29	53	44	-17
Fenway/Kenmore	**	**	***	1	1	***
Hyde Park.....	255,000	295,000	16	227	161	-29
Jamaica Plain.....	442,250	510,000	15	80	63	-21
Mattapan.....	205,000	255,000	24	84	83	-1
Roslindale.....	309,000	333,000	8	133	164	23
Roxbury.....	228,000	293,500	29	56	44	-21
South Boston	312,500	325,000	4	74	63	-15
South End	717,250	1,000,000	39	18	19	6
West Roxbury.....	340,000	360,000	6	295	241	-18
Citywide	295,000	333,000	13	1,361	1,235	-9

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

*** Not meaningful.

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

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

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

Source: City of Boston, Department of Neighborhood Development, April 2004, Real Estate Trends, Annual Report 2003".

Condominium sales volume and prices also showed strength and diversity across the neighborhoods of Boston in 2003. The most expensive neighborhoods for condominiums were Central (downtown, including the North End, the West End, and the waterfront), the Back Bay/Beacon Hill, the South End, and Charlestown neighborhoods, which are the core residential pockets closest to downtown. Five neighborhoods still had condominiums with the median price of \$250,000 or below: Dorchester, East Boston, Hyde Park, Roxbury, and West Roxbury. The median citywide condominium price as of year-end 2003 was \$312,500, up 5% from the \$299,000 price for year-end 2002. Sales volume was down by 9%.

Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Condominiums
In Boston's Neighborhoods, 2002 and 2003
(Not inflation adjusted)

<u>Neighborhood</u>	<u>2002 Condominium Price</u>	<u>2003 Condominium Price</u>	<u>Percent Change</u>	<u>2002 Sales Volume</u>	<u>2003 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton	\$209,000	\$237,000	13%	581	601	3%
Back Bay/Beacon Hill	400,000	435,000	9	893	677	-24
Central	409,000	439,000	7	511	413	-19
Charlestown.....	381,500	377,400	-1	373	258	-31
Dorchester	186,750	233,000	25	220	292	33
East Boston.....	156,000	173,875	11	82	52	-37
Fenway/Kenmore	250,000	263,000	5	264	241	-9
Hyde Park.....	120,000	231,500	93	43	61	42
Jamaica Plain.....	260,000	290,000	12	311	320	3
Mattapan.....	187,000	253,000	35	25	18	-28
Roslindale.....	229,500	269,000	17	170	131	-23
Roxbury	219,950	250,000	14	96	98	2
South Boston	273,250	305,000	12	466	436	-6
South End	400,000	395,000	-1	761	802	5
West Roxbury.....	190,000	217,750	15	171	140	-18
Citywide	299,000	312,500	5	4,967	4,540	-9

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

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

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

Source: City of Boston, Department of Neighborhood Development, April 2004, “Real Estate Trends, Annual Report 2003.”.

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

Housing construction accelerated between 2000 and 2003 with the first Leading The Way housing strategy. The City has counted 7,900 housing units added from 2000 through 2002 including more than 2,200 affordable new units. Another 5,000 households were protected from displacement through City efforts to prevent their subsidized apartments from becoming market-rate. Virtually all of the Boston Housing Authority’s vacant units are now being reclaimed to create new housing, particularly for the homeless.

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

Downtown and the Back Bay experienced significant residential building in 2001-2004 with nine large developments completed, totaling 1,364 new housing units. Also in the Downtown and Back Bay four large housing developments are underway and three more are approved for a total of 2,393 new units to be added.

**Downtown and Back Bay Housing
Completed 2001 – 2004**

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

Source: Boston Redevelopment Authority, January 2005.

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

Project	Area	Total	Afford. Market		Status
		Units	Units	Units	
44 Prince Street	North End	57	6	51	Underway
500 Atlantic Avenue	Waterfront	359	47	312	Underway
Battery Wharf	North End	100	0	100	Underway
140 Clarendon Street(YWCA)	Back Bay	188	82	106	Approved
Fan Pier	Waterfront	675	130	545	Approved
Kensington Place	Midtown	346	61	285	Approved
Liberty Place	Midtown	468	70	398	Underway
TOTAL		2,393	406	1,987	

Source: Boston Redevelopment Authority

In the neighborhoods a variety of projects are complete or under construction. Between 2001 and 2004 there were 20 large projects (comprising 10 or more units) completed, adding 962 units. There are 26 developments that are currently underway or in pre-construction, representing 1,802 units.

**Neighborhood Housing
Completed 2001 – 2004
(only projects of 10 or more units, not including dormitories)
(listed alphabetically by neighborhoods)**

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

Source: Boston Redevelopment Authority, January 2005.

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

Project	Neighborhood	Total Units	Afford. Units	Market Unit	Status
163-165 Chestnut Hill Ave. (I)	Allston/Brighton	12	1	11	Underway
163-165 Chestnut Hill Ave. (II)	Allston/Brighton	24	3	21	Underway
35-45 Coffey Street	Dorchester	46	5	41	Underway
Atrium Lofts	East Boston	217	32	185	Underway
29 Peterborough Street	Fenway/Kenmore	11	1	10	Underway
Buckminster Hotel	Fenway/Kenmore	22	2	20	Underway
120 Mountfort Street	Fenway/Kenmore	37	4	33	Underway
Glenwood Avenue	Hyde Park	20	2	18	Underway
25 Alpine St. (residential conversion)	Hyde Park	44	5	39	Underway
Village at Cleary Square	Hyde Park	59	6	53	Underway
Hillside Homes at Franklin Park	Jamaica Plain	12	2	10	Underway
JP Cohousing	Jamaica Plain	30	3	27	Underway
525-527 East 2 nd Street	South Boston	13	1	12	Underway
Trolley House Condos	South Boston	24	2	22	Underway
St. Peter & Paul Church and Rectory	South Boston	44	8	36	Underway
Midway Phase 1	South Boston	44	6	38	Underway
3 Dorchester Street	South Boston	54	29	25	Underway
Channel Center (Midway) – Ph. 1 Pc. 6	South Boston	76	0	76	Underway
Channel Center – Phase 1	South Boston	89	36	53	Underway
Massport Parcels F2, G, and J	South Boston	465	15	450	Underway
422-424 Massachusetts Ave.	South End	10	2	8	Underway
601 Albany Street	South End	30	3	27	Pre-Construction
Gateway Terrace – Dover Residences	South End	133	13	120	Underway
Harrison Commons	South End	136	13	123	Underway
5168-5178 Washington Street	West Roxbury	48	5	43	Underway
Sophia Snow House	West Roxbury	102	102	0	Pre-Construction
TOTAL		1,802	252	1,501	

Source: Boston Redevelopment Authority, January 2005.

The Linkage Program

The City implemented its development linkage program in December 1983, in order to direct some of the benefits of downtown investment to the building of affordable housing in its neighborhoods, through the Neighborhood Housing Trust (NHT), and job training for City residents, through the Neighborhood Jobs Trust (NJT). Under the program, which was amended in 1986 and again in 2001, real estate developers seeking approval of large scale commercial or institutional developments are required to enter into agreements obligating them to make payments in the amount of \$8.62 per square foot of construction over 100,000 square feet, of which \$1.44 per square foot goes to a job training fund and \$7.18 per square foot goes for affordable housing purposes. The fee was last adjusted as of November 30, 2001.

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

Based on data through 2004, NHT funding contributed to the construction or renovation of 7,604 housing units in 89 projects in the City’s neighborhoods. Affordable housing units for low and moderate-income residents comprise 81% (6,116 units) of this total. Of these 114 housing developments created,

linkage funds, for the most part, accounted for fewer than 8.2% of the total development costs of the projects. NHT grant awards are allocated to fund low and moderate-income housing through the renovation of old buildings and schools, as well as to assist in the creation of new housing. Projects have included rental units; single room occupancy units, such as housing for pregnant, homeless women and alcohol recovery programs; condominiums; housing cooperatives; and home ownership.

Funds for the NJT come from the jobs portion of the linkage fees equaling \$1.44 for every square foot that a development project exceeds 100,000 square-feet. The job training component of the linkage program was established by the 1986 amendment to the legislation and was followed by the creation of the NJT in 1987. Payments are made in two parts, with one half due at the point a building permit is issued, and the balance due one year later, or upon the issuance of an occupancy permit for the building. Between fiscal years 1988 and 2004 \$15.1 million of funds had been committed, and nearly \$11 million of funds had been awarded, resulting in the creation of 116 programs. Services funded under this program include: model program designs for entry-level jobs training, school-to-work transition, family literacy, workplace-based education, private sector involvement in the design and delivery of services, and capacity building in impacted communities. The NJT is particularly interested in supporting new and innovative education and training activities which result in high wage employment, new or non-traditional employment opportunities, and community based projects that respond to specific communities' documented education and training needs. The NJT is committed to providing appropriate services to the residents of neighborhoods where (or adjacent to where) a given development project is located, while ensuring that residents throughout the City have access to new jobs resulting from development. In addition to the nearly \$11 million awarded, approximately \$950,000 has been spent on administration, bringing total expenditures from the NJT to nearly \$12 million.

APPENDIX C

AUTHORIZATIONS AND PURPOSES

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

Amount	Purpose	Statute	Effective Date
\$ 2,323.10	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 21, 1998
20,390.78	Capital Improvements - Act '73	C642 s7A Act 1973	December 5, 1986
22,832.94	Remodeling & Extraordinary Repairs	C44 s7 (3A)	December 26, 1986 amended on November 28, 1989
49,618.66	Remodeling & Extraordinary Repairs	C44 s7 (3A)	March 13, 1987
50,066.76	Capital Improvements - Act '73	C642 s7A Act 1973	December 31, 1987
307,959.17	Remodeling & Extraordinary Repairs	C44 s7 (3A)	January 21, 1988
62,252.04	Construction of Public Ways	C44 s7 (5)	May 30, 1989
1,096,804.91	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 30, 1989 amended on November 28, 1989
18,054.07	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 30, 1989
85,062.42	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 30, 1989 amended on November 28, 1989
138,785.05	Traffic Signal and Public Lighting Installation	C44 s7 (14)	June 27, 1990
84,115.05	Construction of Public Ways	C44 s7 (5)	June 27, 1990
59,679.57	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 27, 1990
2,239,232.20	Construction of Sidewalks	C44 s7 (6)	April 23, 1992 amended on May 25, 1994
72,647.08	Remodeling & Extraordinary Repairs	C44 s7 (3A)	April 23, 1992
1,382,981.67	Traffic Signal, Public Lighting, Police Comm., and/or Fire Alarm Installations	C44 s7 (14)	April 23, 1992 amended on May 25, 1994, June 23, 1995, June 25, 1996, October 21, 1997

Amount	Purpose	Statute	Effective Date
\$ 132,055.84	Urban Renewal - Charlestown Navy Yard	C121B s20	May 14, 1993 amended on June 20, 1994, June 2, 1995
4,467.48	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 4, 1993
1,947,311.15	Construction of Bridges	C44 s7 (4)	June 4, 1993 amended on May 25, 1994, June 23, 1995, June 25, 1996
43,211.37	Construction of Buildings; Acquisition of Land	C44 s7 (3)	December 20, 1993
9,813.08	Capital Improvements - Act '91; School Dept.	C642 s7B Act 1991	May 4, 1994
11,801.74	Capital Improvements - Act '91	C642 s7B Act 1991	May 4, 1994
1,496,697.01	Construction of Public Ways	C44 s7 (5)	May 25, 1994 amended on June 25, 1996
50,582.02	Capital Improvements - Act '91	C642 s7B Act 1991	June 2, 1995
48,765.93	Urban Renewal - All Areas	C121B s20	June 2, 1995 amended on June 4, 1996, September 30, 1997
389,456.02	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995 amended on October 21, 1997
136,686.79	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995
779,319.78	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	June 23, 1995
161,496.73	Construction of Buildings; Acquisition of Land	C44 s7 (3)	June 23, 1995
58,963.99	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 23, 1995

Amount	Purpose	Statute	Effective Date
\$ 778,009.56	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
142,277.12	Capital Improvements - Act '91	C642 s7B Act 1991	June 4, 1996
2,358,165.01	Capital Improvements - Act '96	C642 s7C Act 1996	June 4, 1996
905,250.00	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
82,221.70	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 25, 1996 amended on October 30, 1997
645,377.47	Capital Improvements - Act '96 School Dept.	C642 s7C Act 1996	July 9, 1996 amended on September 30, 1997, October 28, 1997, May 12, 1998
833,561.42	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 26, 1996 amended on October 21, 1997
219,959.64	Capital Improvements - Act '96	C642 s7C Act 1996	August 5, 1996 amended on September 30, 1997
1,609.35	Capital Improvements - Act '96	C642 s7C Act 1996	September 30, 1997
1,638,583.23	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
41,821.43	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
525,511.24	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
1,001.34	Capital Improvements - Act '96; Neighborhood Development	C642 s7C Act 1996	June 30, 1998
7,339.79	Construction of Buildings; Acquisition of Land	C44 s7 (3)	July 21, 1998
524,030.30	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 21, 1998
54,592.79	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 21, 1998

Amount	Purpose	Statute	Effective Date
\$ 30,114.77	Urban Redevelopment and Renewal	C121B s20	August 24, 1998
29,094.79	Urban Redevelopment and Renewal	C121B s20	July 22, 1999
1,051.40	Acquisition of Land; Cemeteries	C44 s7 (20)	August 12, 1999
160,160.45	Capital Improvements - Act '96	C642 s7C Act 1996	July 22, 1999
682,718.39	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 12, 1999
4,255.67	Construction of Buildings; Acquisition of Land	C44 s7 (3)	August 12, 1999
160,886.06	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 12, 1999
68,724.03	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	February 29, 2000
515,065.28	Construction of Buildings; Acquisition of Land	C44 s7 (3)	August 7, 2000
759,442.21	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 7, 2000
338,877.17	Construction of Public Ways	C44 s7 (5)	August 7, 2000
30,192.45	Departmental Equipment	C44 s7 (9)	August 7, 2000
242,027.67	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 7, 2000
78,584.78	Capital Improvements - Act '96	C642 s7C Act 1996	July 17, 2000
136,076.33	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 7, 2000
92,162.38	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 28, 2000
115,101.22	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 1, 2001
4,445,008.28	Remodeling & Extraordinary Repairs	C44 s7 (3A)	September 7, 2001
662,688.30	Construction of Bridges	C44 s7 (4)	August 16, 2001

Amount	Purpose	Statute	Effective Date
\$ 1,198,612.26	Construction of Public Ways	C44 s7 (5)	September 7, 2001
167,121.99	Departmental Equipment	C44 s7 (9)	September 7, 2001
1,768,685.80	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	September 7, 2001
50,120.93	Capital Improvements - Act '96	C642 s7C Act 1996	August 17, 2001
345.46	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	September 7, 2001
2,755,607.52	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 5, 2002
2,296,798.30	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 5, 2002
979,174.37	Construction of Bridges	C44 s7 (4)	August 5, 2002
5,285,360.79	Construction of Public Ways	C44 s7 (5)	August 5, 2002
2,002,670.23	Departmental Equipment	C44 s7 (9)	August 5, 2002
263,707.35	Traffic Signal and Public Lighting Installation	C44 s7 (14)	August 5, 2002
87,465.57	Acquisition of Land; Cemeteries	C44 s7 (20)	August 5, 2002
925,891.36	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 5, 2002
4,448,027.06	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 28, 2003
9,111,280.46	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 28, 2003
744,014.62	Construction of Public Ways	C44 s7 (5)	July 28, 2003
230,441.66	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 28, 2003
500,667.56	Computer Hardware School Dept.	C44 s7 (28)	July 28, 2003
123,971.13	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 29, 2004
12,634,158.77	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 29, 2004

Amount	Purpose	Statute	Effective Date
\$ 261,749.00	Traffic Signal and Public Lighting Installation	C44 s7 (14)	July 29, 2004
384,150.39	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 29, 2004
505,000.00	Computer Hardware School Dept.	C44 s7 (28)	July 29, 2004
\$ 75,000,000.00	New Money Bonds		
47,975,000.00	Refunding	C643 s13 Act 1983	April 4, 2001
4,800,000.00	Refunding	C643 s13 Act 1983	August 14, 2002
\$ 52,775,000.00	Refunding Bonds		
\$ 127,775,000.00	New Money Bonds plus Refunding Bonds		

PROPOSED FORM OF OPINION OF BOND COUNSEL

PALMER & DODGE LLP111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

[Date of Delivery]

Lisa C. Signori
Collector-Treasurer and Chief Financial Officer
City of Boston
Boston, MassachusettsRe: \$127,775,000
City of Boston, Massachusetts
General Obligation Bonds, 2005 Series A
dated February 1, 2005

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

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

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

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

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

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

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

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

Palmer & Dodge LLP

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Boston, Massachusetts (the "City") in connection with the issuance of its \$127,775,000 General Obligation Bonds, 2005 Series A, dated February 1, 2005 (the "Bonds"). The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

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

"Owners of the Bonds" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

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

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

SECTION 3. Provision of Annual Reports.

(a) The City shall, not later than 365 days after the end of each fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted when available separately from the balance of the Annual Report.

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

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

- (a) quantitative information for the preceding fiscal year of the type presented in the City's Official Statement dated February 9, 2005 relating to the Bonds regarding (i) the revenues and expenditures of the City relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the City, and (vi) pension obligations of the City, and
- (b) the most recently available audited financial statements of the City, prepared in accordance with generally accepted accounting principles.

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

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

SECTION 5. Reporting of Material Events.

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

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.

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

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

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

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

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

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

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

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

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

Date: _____, 2005

CITY OF BOSTON, MASSACHUSETTS

By _____
Collector-Treasurer and Chief Financial Officer

Mayor

City Auditor

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

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

Bond Insurance

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

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds (as defined in the Official Statement) maturing in years 2018 through 2025 (the "Insured Bonds") as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

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

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

MBIA

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

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

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

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

MBIA Information

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

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004, are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2004 MBIA had admitted assets of \$10.4 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

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

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

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

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

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

FINANCIAL GUARANTY INSURANCE POLICY**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

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

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

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

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

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

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

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

MBIA Insurance Corporation_____
President

Attest:

Assistant Secretary