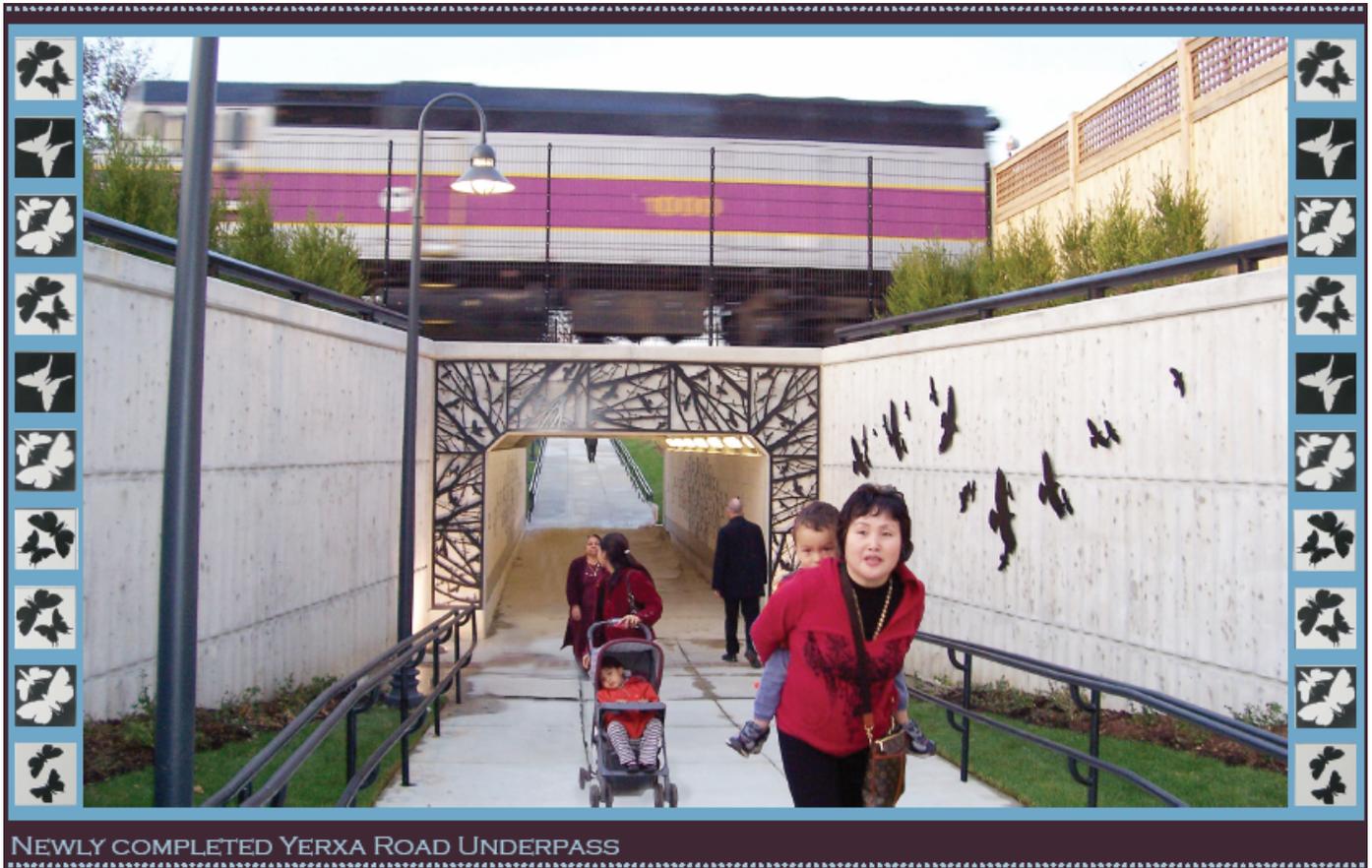




City of Cambridge, Massachusetts

Fiscal Year 2008 Budget Summary



This photo features the recently completed Yerxa Road Underpass in North Cambridge. The underpass between Walden Square Road and Yerxa Road provides a safe, direct route beneath the commuter rail line in North Cambridge. After extensive renovation, it reopened to pedestrians and cyclists in November 2006. Located behind the Peabody School and Rindge Field, the underpass allows easy access connecting numerous community facilities on the north side of the tracks and the residential areas on the south side. The underpass is fully accessible, well lit and welcoming, with extensive landscaping and public art.

This project is an example of the City supporting the City Council Goals of “Fostering Community and Supporting Neighborhood Vitality” and “Providing High-Quality Services” as well as improving public safety and accessibility for our citizens. Artist Randal Thurston created the artwork for the entrance ramps, portals and interior walls. The public art greatly enhances the experience of walking and biking through the underpass. His work was funded through Cambridge’s “1% for the Arts” Program, which commissions public art. The butterflies featured on the cover are the graphics from the tiles inside the underpass.



May 21, 2007

To the Honorable, the City Council and the residents and taxpayers of Cambridge:

The Adopted FY08 Operating Budget of \$412,274,625, which represents a \$14,890,435 (3.75%) increase over the FY07 adjusted budget, and Capital Budget of \$20,048,660 allocate a combined \$432,323,285 towards the realization of citywide goals set forth by the City Council. I believe we have responded to the City Council’s goal of producing an FY08 Budget that is limited in its growth of the property tax levy while not diminishing services.

CITY COUNCIL GOALS

- Evaluate City expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers.
- Provide high quality services, including excellent customer service, effectively and efficiently and continually strive to update the public on issues and services.
- Preserve and create affordable housing for low, moderate and middle-income residents.
- Strengthen and support public education and other learning in Cambridge for the benefit of resident of all ages.
- Foster community and support neighborhood vitality. Support opportunities for citizens to know each other within their neighborhoods and across the city.
- Value and support the racial, socioeconomic, cultural and religious diversity of our city. Cambridge will continue to be a city that welcomes, values and respects people of all abilities.
- Deliver high quality public safety services and maintain a high level of public confidence in these services.
- Promote a healthy environment by adopting environmentally sound and energy efficient practices throughout the community.
- Promote the advantages of “doing business in Cambridge” and work to strengthen mutually beneficial partnerships with businesses and universities. Highlight the unique benefits of Cambridge as a community in which to live and work; focus on transmitting the values and identity of Cambridge.

The FY08 budget increase is largely attributable to a 3.0% cost of salary increase for employees, a 12.7% increase in employee health insurance, a 4.0% increase in employee pension costs, a 4.5% combined increase in Massachusetts Water Resource Authority and State (Cherry Sheet) assessments, a property-tax supported debt service increase of 15.1% and energy increases of 14.7%. In addition, the Operating Budget includes the reduction of 2 full-time positions as well as reductions in non-salary accounts. Overall, the City has reduced 31 full-time positions since FY03. The City Administration and City Council have produced a budget plan that focuses FY08 resources on addressing organizational challenges and capitalizing on strategic opportunities, recognizing that, as we work through challenging financial times, failure to make difficult decisions today will lead to even more difficult decisions in the future.

MAJOR ORGANIZATIONAL CHALLENGES

• Rising health insurance and pension costs continue to impact operating budgets.
• Rising energy costs of 14.7% in FY08 create additional challenges to the operating budgets of departments.
• Starting in FY08, Other Post Employment Benefits (OPEB) liabilities, as a result of GASB 45 reporting requirements, will be quantified and will require future action.
• A national trend of increasing construction costs and the long-term impact of school building capital needs with uncertain reimbursement from the Massachusetts School Building Authority (MSBA) together place additional pressure on controlling our debt service costs funded from property taxes.
• Continued reduction in our Community Development Block Grant and other federal grants along with limited increases in local aid from the State puts added pressure on the need to find additional local revenue sources other than the property tax.



OUTLOOK AND CONCLUSION

The long-term outlook for Cambridge continues to be very positive as long as we continue to manage our resources wisely. This has been confirmed by our continued AAA bond rating at a time when many communities have seen a reduction in their ratings.

Because of our continued strong financial condition, we have been able to maintain both City and School services while embarking on a very ambitious public investment program, which is highlighted by the new Main Library Project, Public Safety Facility and West Cambridge Youth and Community Center, at a time when many communities are reducing services.

The sound financial practices of this and previous City Councils have left the City with substantial reserves including \$68 million in Free Cash and approximately \$73.7 million in excess levy capacity that allows Cambridge the flexibility to respond to periods of economic decline as well as the ability to take advantage of unique opportunities. However, the Commonwealth, as well as the federal government, still remain vital financial partners in the delivery of our services. Significant reductions in the current level of state or federal support would be difficult for the City to absorb without impacting the property tax levy.

We will continue our strategy to analyze the overall finances of the City in the long-term, using our five-year financial plan and debt and reserve policies, in order to maintain stability and predictability in our budgeting and financial planning processes. Managing our resources wisely as well as being realistic in our expectations regarding budget growth will continue to be the key to our economic growth and stability.

By being cognizant of our financial limitations and working together, I am confident that we can continue to provide the wide array of services that our residents have come to expect, while at the same time meeting the needs of our infrastructure that will benefit our citizens for decades to come.

Very truly yours,

Robert W. Healy
City Manager

I encourage you to visit Cambridge Online....



Visit our Web site at www.cambridgema.gov to learn more about the City and while you're there sign up for notifications about events by looking for the Cambridge E-Line logo.

City Council Members

Kenneth E. Reeves, Mayor

Timothy J. Toomey, Jr., Vice Mayor

Henrietta Davis

Marjorie C. Decker

Anthony D. Galluccio

Craig A. Kelley

Brian Murphy

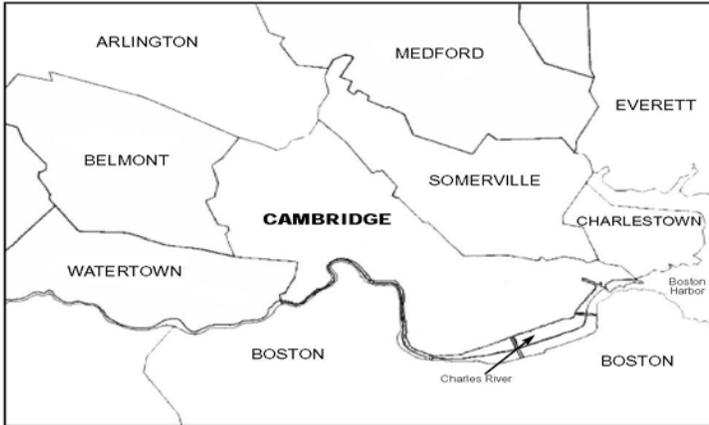
E. Denise Simmons

Michael A. Sullivan



City of Cambridge (6.26 square miles) and Surrounding Communities

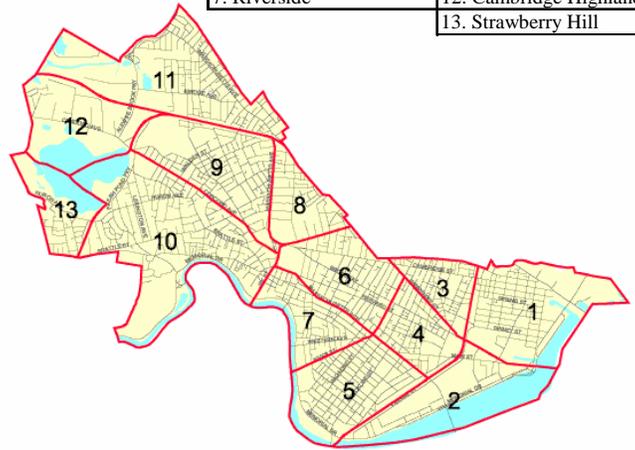
Please visit the City's Web page (www.cambridgema.gov) for GIS geographic information system) and Community Development neighborhood reports and maps.



CAMBRIDGE AND SURROUNDING COMMUNITIES

City of Cambridge Neighborhoods at a Glance

Neighborhood	3. Wellington-Harrington	8. Agassiz
1. East Cambridge	4. Area IV	9. Neighborhood Nine
2. MIT	5. Cambridgeport	10. West Cambridge
	6. Mid-Cambridge	11. North Cambridge
	7. Riverside	12. Cambridge Highlands
		13. Strawberry Hill

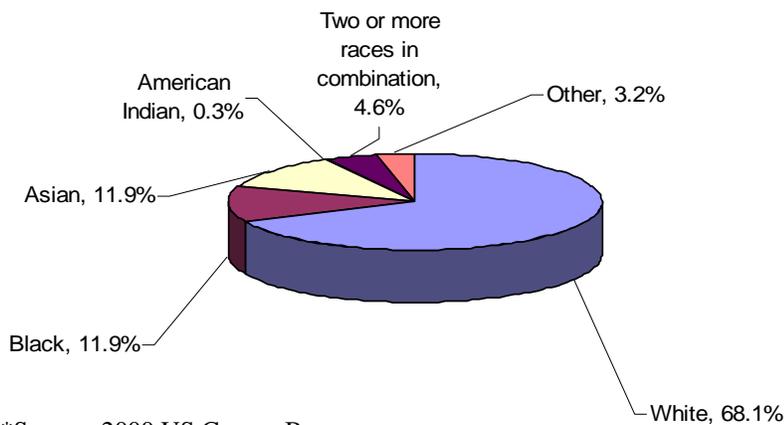


The Ten Largest Employers in the City

(Source: Cambridge Community Development Department and cited employers, 2006)

Rank	Name of Employer	Nature of Business	Number of 2006 Employees
1.	Harvard University	Education	10,068
2.	MIT	Education	7,864
3.	City of Cambridge	Government	2,819
4.	Mt. Auburn Hospital	Medical	1,813
5.	Cambridge Health Alliance	Medical	1,567
6.	Federal Government	Government	1,514
7.	Biogen Idec	Biotechnology	1,434
8.	Genzyme Corporation	Biotechnology	1,370
9.	Novartis Institute	Biotechnology	1,200
10.	Millennium Pharmaceuticals	Biotechnology	1,175

Cantabridgians by Population Characteristics (Total population of 101,355*)



*Source: 2000 US Census Bureau



A. Cambridge Real Property and Personal Property Taxes at a Glance

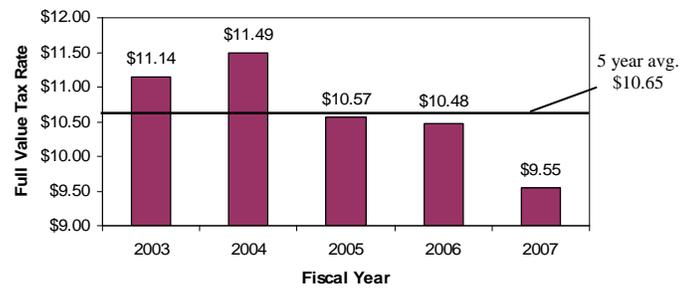
1. Total Assessments (In Millions)

Fiscal Year	Real Property	Personal Property	Total
2007	\$21,507.8	\$659.3	\$22,167.1
2006	\$21,242.1	\$604.8	\$21,846.9
2005	\$20,880.7	\$467.3	\$21,348.0
2004	\$18,782.7	\$443.9	\$19,226.6
2003	\$17,382.8	\$368.0	\$17,750.8



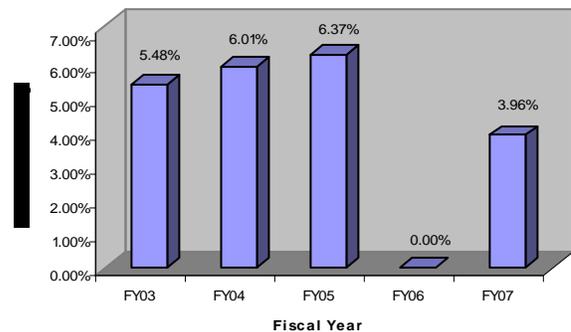
2. Property Tax Rates (per \$1000 of assessed value)

Fiscal Year	Commercial/ Industrial	Residential	Full Value
2003	\$18.67	\$7.26	\$11.14
2004	\$19.08	\$7.63	\$11.49
2005	\$18.28	\$7.78	\$10.57
2006	\$17.86	\$7.38	\$10.48
2007	\$18.30	\$7.48	\$9.55



3. City Property Tax Levies

Fiscal Year	Total Levy
2007	\$231,787,094
2006	\$222,960,291
2005	\$222,953,435
2004	\$209,599,396
2003	\$197,720,546



4. Top Ten Taxpayers (Fiscal 2007)

Owner	Nature of Business	Assessed Valuation	Amount of Taxes	% of Total Tax Levy
Mass. Institute of Technology	Education	\$1,420,488,100	\$24,374,479	10.52%
Boston Properties	Commercial	468,316,000	8,570,183	3.70
BioMed Realty Trust	Commercial	432,837,100	7,920,919	3.42
Equity Partners	Commercial	244,367,800	4,112,838	1.77
Novartis Pharmaceuticals	Biotechnology	221,426,400	4,052,103	1.75
New England Development	Commercial	193,047,200	3,532,764	1.52
PREEF American Reit II Corp.	Commercial	180,000,400	3,294,007	1.42
One Kendall LLC	Commercial	177,922,500	3,232,199	1.39
Pres. & Fellows of Harvard College	Education	276,892,410	3,075,356	1.33
Lyme Properties	Commercial	152,607,200	2,421,560	1.04
		<u>\$3,767,905,110</u>	<u>\$64,586,408</u>	27.86%



B. Strength of Financial Position

1. Financial Policies and Guidelines

For the past eight years, the City has received the highest possible credit rating (AAA) from the three major credit rating agencies: Moody’s Investors Service, Fitch Ratings, and Standard & Poor’s. The City established a policy many years ago of providing high-quality services to the citizens of Cambridge without jeopardizing the financial condition of the City. In order to achieve these objectives, the City Council, in conjunction with the City administration, has placed a high emphasis on long-range financial planning and the need to conserve resources for use during economic downturns. By adhering to this policy, the City has been able to withstand the effects of the recession of the early 1990’s as well as the most recent downturn without any significant reductions in services. As Fitch Ratings noted in its most recent credit report, “Exceptional financial management and planning are demonstrated by the city’s strong financial position, characterized by ample reserve and liquidity levels.” Standard and Poor’s Corporation cites the City’s “long term planning and management approach” as a factor that has “contributed to its stable and strong financial position.”

As mentioned in the above paragraph, one of the primary reasons that the City is held in high regard by the financial community is the development and implementation of a long-term financial plan. This plan is reviewed on an annual basis in conjunction with the City’s bond sale and credit rating application process. The budget for the current fiscal year is used as the base year upon which future year projections are built. All expenditures, revenues, and property valuations are reviewed to ensure that the timeliest information is available to be used for future year projections. The budget for the current year is also compared to the projections for that year from previous five-year plans to determine the accuracy of the projections. If modifications to the projection process are needed to ensure more accuracy, the City’s financial staff will make changes accordingly. After careful review, this plan is submitted to the rating agencies prior to their review of the City’s financial condition. In addition to providing valuable information to the rating agencies, this plan serves as a basis upon which important decisions concerning the City’s financial future are made.

	FY04	FY05	FY06	FY07	FY08
Excess Levy Capacity (1)	\$41,419,047	\$44,697,016	\$65,088,067	\$73,658,042	\$75,000,000
General Fund Balance (2)	\$99,972,630	\$124,254,182	\$136,673,783	\$138,000,000	\$138,000,000
Free Cash (3)	\$34,868,986	\$53,554,528	\$68,010,377	\$58,000,000	\$58,000,000
Rapidity of Debt Retirement (4)	87.8%	82.2%	81.8%	83.0%	82.0%

- 1) Excess levy capacity is the difference between the amount in property taxes that the City is allowed to levy under state law and the amount the City actually levies. The amounts shown for FY04-07 are actual amounts and FY08 is a projected figure.
- 2) The amounts shown for General Fund balances include those funds moved to the General Fund to satisfy GASB 34 requirements.
- 3) Free Cash are funds remaining from the previous fiscal year that are available for appropriation. The figures shown for FY04-06 are actual amounts and those shown for FY07-08 are projected figures.
- 4) The percentages shown represent the percent of total debt that would be retired in ten years. With few exceptions, all debt issued by the City is retired within ten years.

As stated previously, the rating agencies have recognized the conservative nature of the City’s budgeting and financial management processes. In the area of debt issuance, it is particularly important to maintain all of the relevant indices below national standards. Moody’s Investors Service “expects the city’s below-average debt position to remain affordable given steady anticipated tax base expansion, sizable level of self-supporting debt, and the rapid debt retirement schedule.” The below-average debt position is a reference to debt ratios such as per capita debt and the ratio of debt to assessed valuation as well as the rapid retirement schedule and low percentage of debt service to the total budget. It is expected that these debt indicators will remain below national standards after all debt included in the five-year plan is issued. The debt to be issued includes tax-supported bonds issued to finance several large construction and renovation projects critical to the objective of maintaining a high quality of life in Cambridge. It is important to note that these low debt levels are the direct result of using bond proceeds to finance capital projects only after it has been determined that there are no other feasible means of financing the projects. For the first time, the FY08 Adopted Budget includes investment, debt management and reserve policies.



2. Monitoring Key Financial Indicators

Debt Ratios:

Population	Assessed Value	Net Direct Debt	Net Direct Debt as % of Assessed Valuation	Net Direct Debt Per Capita
101,355	\$22,167,135,334	\$162,627,282	0.7%	\$1,605

Measures of Performance:

	Per Capita Assessed Valuation	Unreserved Fund Balance as % of Revenues	Net Direct Debt as % of Assessed Valuation	Per Capita Income
Median	\$189,673	16.57%	0.86%	\$42,485
Cambridge	\$218,708	32.47%	0.70%	\$46,347

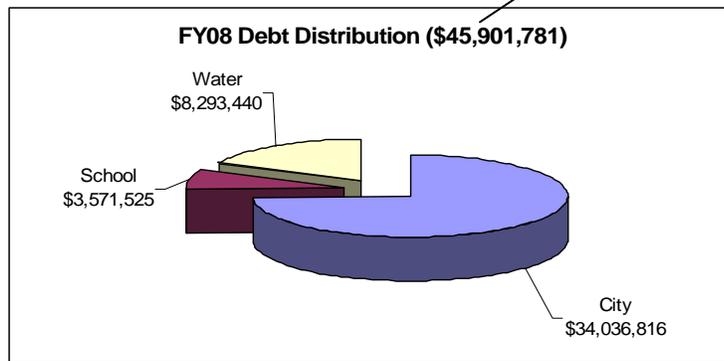
Source: Moody's Investors Service 2005 Local Government National Medians Report

3. Debt Management

Historical Debt Position:

	Total Debt ¹	Required Appropriation =	Debt Payment +	Interest Payment
FY04	\$216,151,932	\$37,287,975 =	\$28,056,090 +	\$9,231,885
FY05	\$223,732,142	\$38,502,786 =	\$29,484,947 +	\$9,017,839
FY06	\$245,196,981	\$40,322,957 =	\$30,705,099 +	\$9,617,858
FY07	\$282,202,132	\$44,995,848 =	\$34,030,127 +	\$10,965,721
FY08	\$280,345,759	\$45,901,781 =	\$34,825,374 +	\$11,076,407

¹As of June 30 of the previous fiscal year.



4. General Debt Limit Calculation

Equalized Valuation as of January 1, 2006	<u>\$24,529,458,900</u>
Debt Limit (5% of Equalized Valuation)	<u>\$1,226,472,945</u>
Total Outstanding Debt as of June 30, 2007	\$280,345,759
Total Authorized / Unissued Debt as of June 30, 2007	<u>\$134,192,444</u>
Total Outstanding Debt Plus Total Authorized / Unissued Debt	\$414,538,203
Amount of Outstanding Debt Outside the Debt Limit	\$54,294,363
Amount of Authorized / Unissued Debt Outside the Debt Limit	-
Outstanding Debt plus Authorized / Unissued Outside the Debt Limit	\$54,294,363
Total Outstanding Debt Plus Total Authorized / Unissued Debt	\$414,538,203
Less: Outstanding Debt plus Authorized / Unissued Outside the Debt Limit	<u>\$54,294,363</u>
Debt Subject to the Debt Limit	\$360,243,840
Debt Limit (5% of Equalized Valuation)	<u>\$1,226,472,945</u>
Remaining Borrowing Capacity Under Debt Limit	\$866,229,105



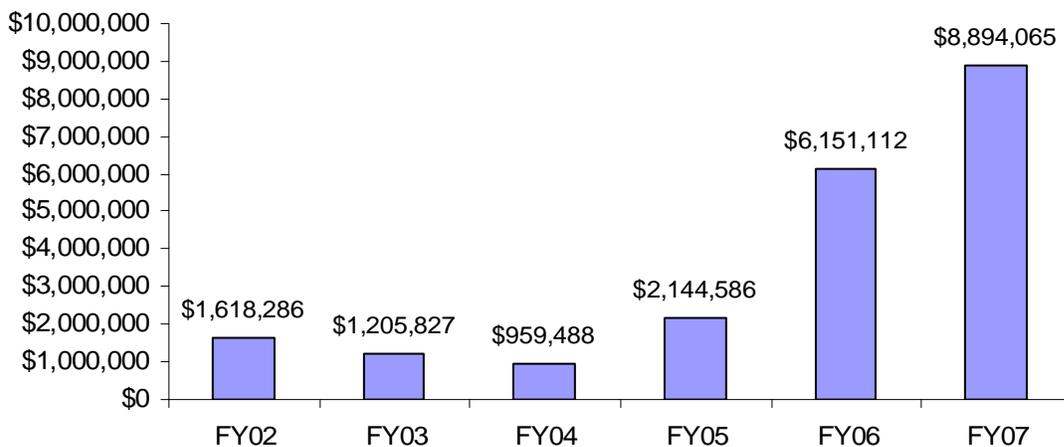
5. City Investment Strategy

Strategic Investment Objective

Maintain monthly cash flow analysis in order to invest available funds in a safe manner that maximizes yield, provides liquidity to meet funding needs and adheres to applicable State law and the City's investment policy. All Bank Money Market and Certificates of Deposit are fully collateralized. See Section II (pages 27-31) of the FY08 Adopted Budget for City's complete investment policy.

Historical Investment Interest Earning Collections (General Fund)

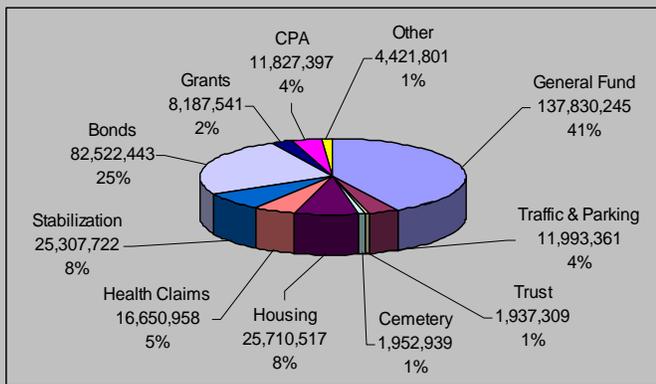
A concerted effort has been made in recent fiscal years to maximize the rate of return on investments for idol funds by proactively taking advantage of the highest interest rate opportunities generated by competitive bidding.



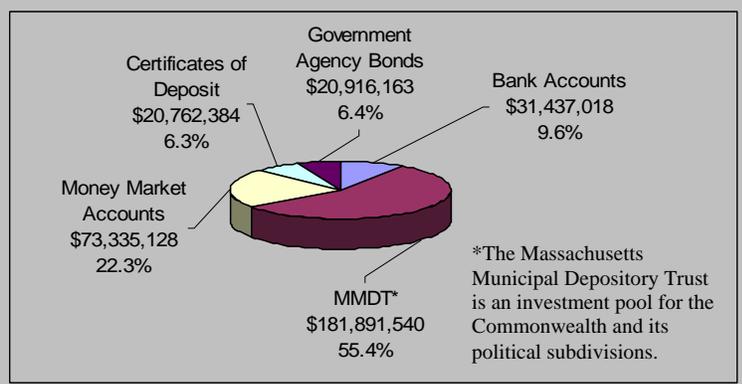
City's Managed Funds and Cash Investments as of June 30, 2007

It is important to note that the amount of funds invested by the City changes daily as a result of revenue deposits, purchase orders, expenditures and other obligations which affect current liabilities and the liquidity needs of the City.

Fund Balances as of 6/30/2007 = \$328,342,233



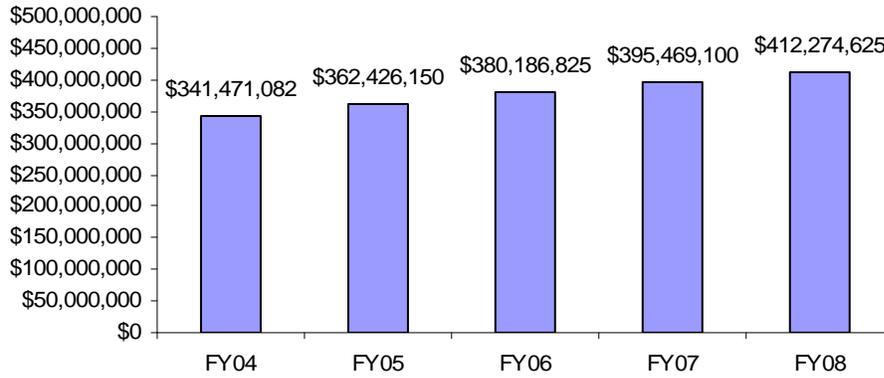
Cash Investments as of 6/30/2007 = \$328,342,233



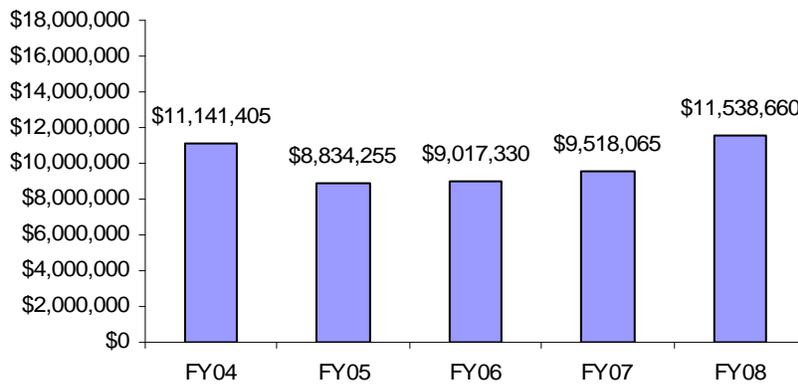


C. Operating and Capital Appropriations ~ 5 Year History

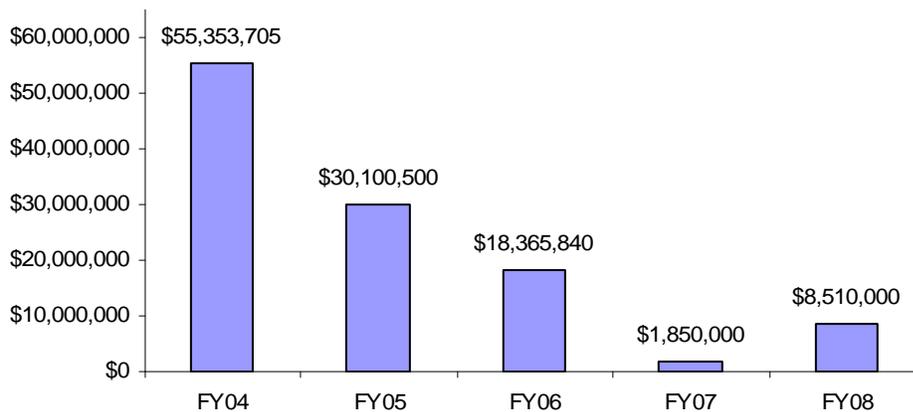
1. Operating Appropriations



2. Capital Appropriations (Non Bonded Projects)



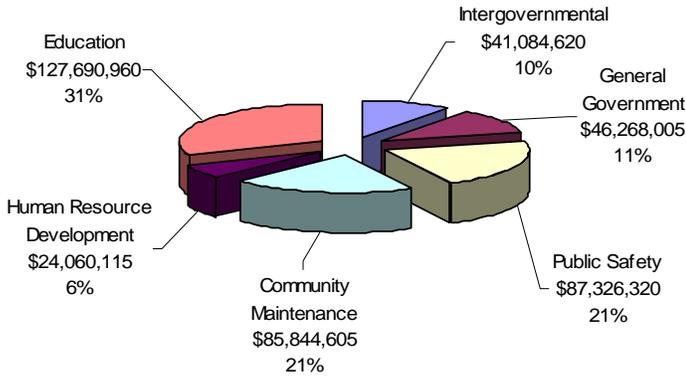
3. Capital Appropriations (Bonded Projects)



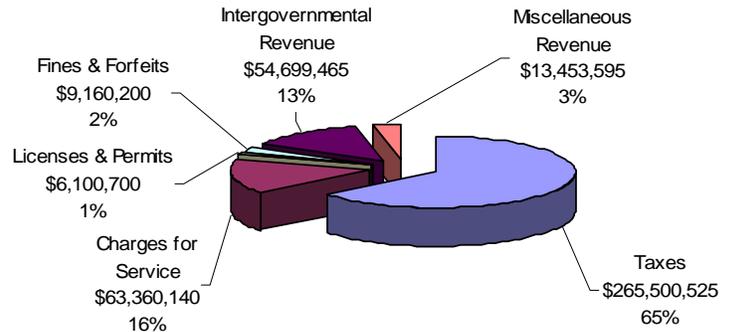


D. FY08 Operating Budget (\$412,274,625) ~ Appropriations and Financing Plan

APPROPRIATION BY FUNCTION



REVENUE BY SOURCE



General Government

Department	FY08 Budget
Mayor	\$725,905
Executive	1,654,445
City Council	1,101,055
City Clerk	825,930
Law	1,919,740
Finance	10,143,375
Employee Benefits	27,043,360
General Services	1,068,505
Election	911,630
Public Celebrations	836,560
Reserve	37,500
Subtotal	\$46,268,005

Public Safety

Department	FY08 Budget
Animal Commission	\$258,365
Fire	32,666,225
Police	35,175,675
Traffic, Parking & Transportation	9,221,865
Police Review & Advisory Board	85,450
Inspectional Services	2,522,235
License	839,355
Weights & Measures	111,510
Electrical	2,596,180
Emergency Management	164,285
Emergency Communications	\$3,685,175
Subtotal	\$87,326,320

Community Maintenance and Development

Department	FY08 Budget
Public Works	\$26,879,690
Water	17,898,685
Community Development	4,940,930
Historical	491,095
Conservation	85,045
Peace Commission	83,680
Cable T.V.	1,211,455
Debt Service	34,254,025
Subtotal	\$85,844,605

Human Resource Development

Department	FY08 Budget
Library	\$6,102,710
Human Services	16,997,140
Women's Commission	163,525
Human Rights Commission	176,640
Veterans	620,100
Subtotal	\$24,060,115

Intergovernmental

Department	FY08 Budget
M.W.R.A	\$18,856,840
Cherry Sheet Assessments	16,227,780
Cambridge Health Alliance	6,000,000
Subtotal	\$41,084,620

Education

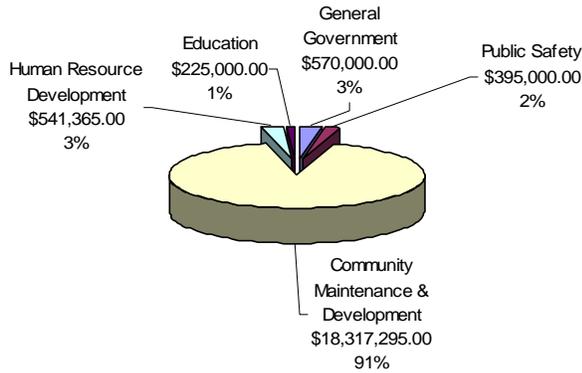
Department	FY08 Budget
Public Schools	\$127,690,960
Subtotal	\$127,690,960

CITYWIDE TOTAL	\$412,274,625
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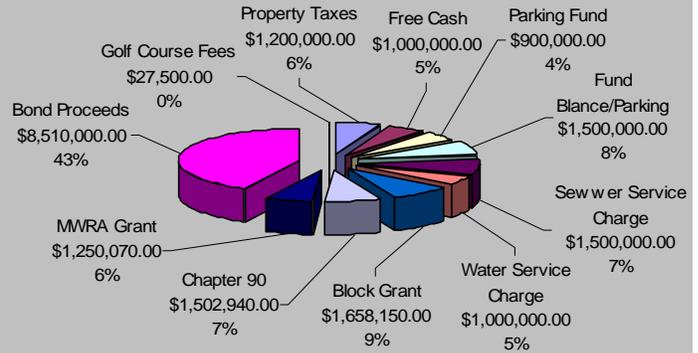


E. FY08 Capital Budget (\$20,048,660) ~ Appropriations and Financing Plan

PUBLIC INVESTMENT APPROPRIATIONS



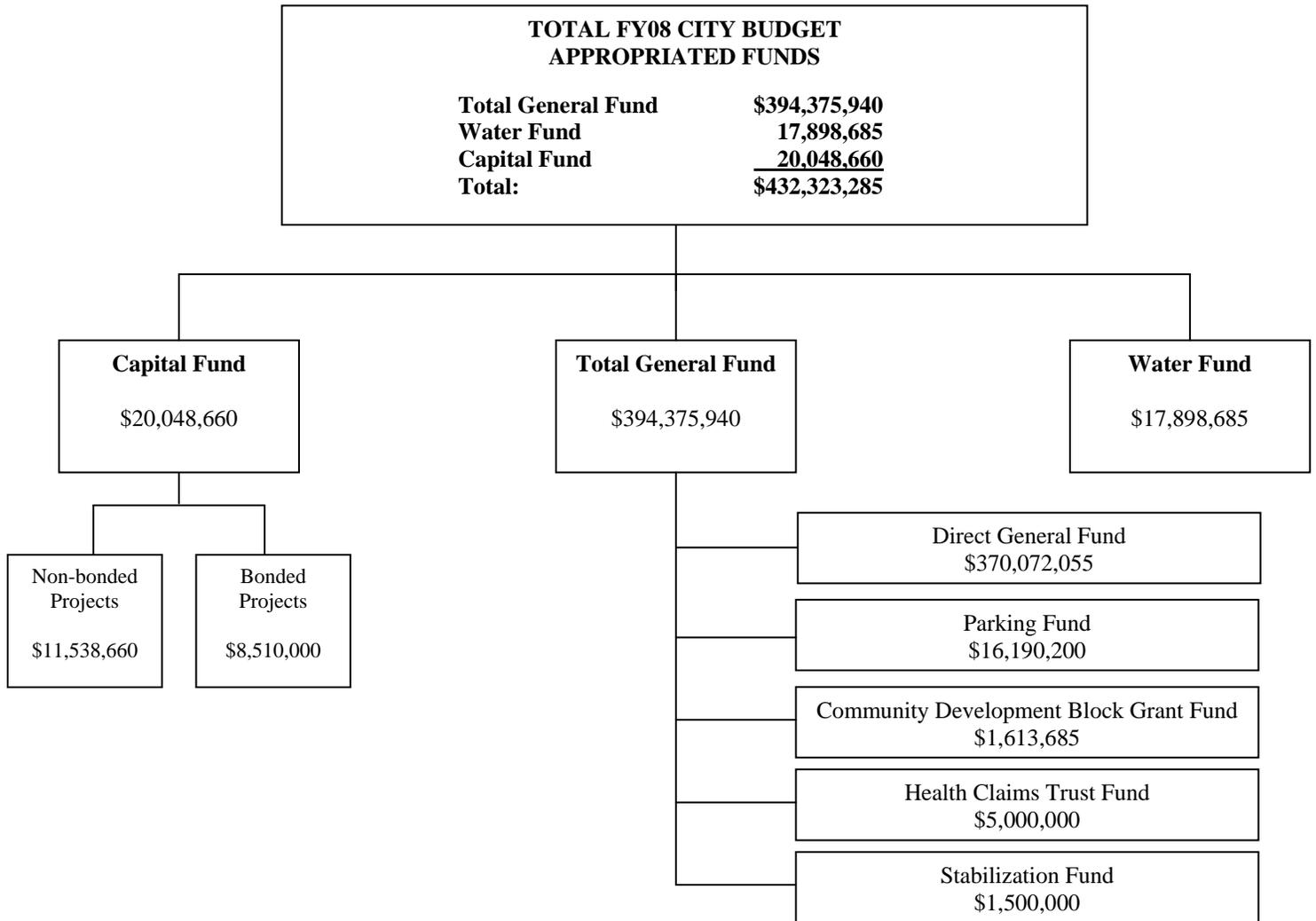
PUBLIC INVESTMENT FINANCING PLAN



General Government		General Government	
Acquisition of Personal Computers	\$70,000	Property Taxes	\$570,000
Technology Upgrades/Enhancements	500,000	Subtotal	\$570,000
Subtotal	\$570,000	Public Safety	
Public Safety		Property Taxes	\$395,000
Fire Vehicles/Equipment	\$250,000	Subtotal	\$395,000
Replacement of Street Lights/Poles	95,000	Community Maintenance and Development	
Public Safety/Technology Upgrades	50,000	Property Taxes	\$235,000
Subtotal	\$395,000	Free Cash	325,000
Community Maintenance and Development		Parking Fund Revenues	900,000
Street/Sidewalk Reconstruction	\$1,832,940	Fund Balance/Parking Fund	1,500,000
Park and Cemetery Tree Pruning	50,000	Sewer Service Charge	1,500,000
Parking Improvements	500,000	Water Service Charge	1,000,000
Water System Improvements	1,000,000	Block Grant	1,594,285
Sewer Reconstruction	10,660,070	Chapter 90	1,502,940
Traffic Calming	400,000	MWRA Grant	1,250,070
Harvard Square Enhancement Project	600,000	Bond Proceeds	8,510,000
Blanchard Road Improvement Project	1,500,000	Subtotal	\$18,317,295
Façade Improvement Program	150,000	Human Resource Development	
Employment Program Fund	350,000	Free Cash	\$450,000
Housing Rehab & Development	1,001,285	Block Grant	63,865
Neighborhood Business Development	243,000	Golf Course Fees	27,500
Public Art Conservation Fund	30,000	Subtotal	\$541,365
Subtotal	\$9,442,475	Education	
Human Resource Development		Free Cash	\$225,000
Parks and Recreation	\$491,365	Subtotal	\$225,000
Accessibility Improvements	50,000	GRAND TOTAL	
Subtotal	\$541,365	\$20,048,660	
Education			
School Equipment/Renovations	\$225,000		
Subtotal	\$225,000		
GRAND TOTAL	\$20,048,660		

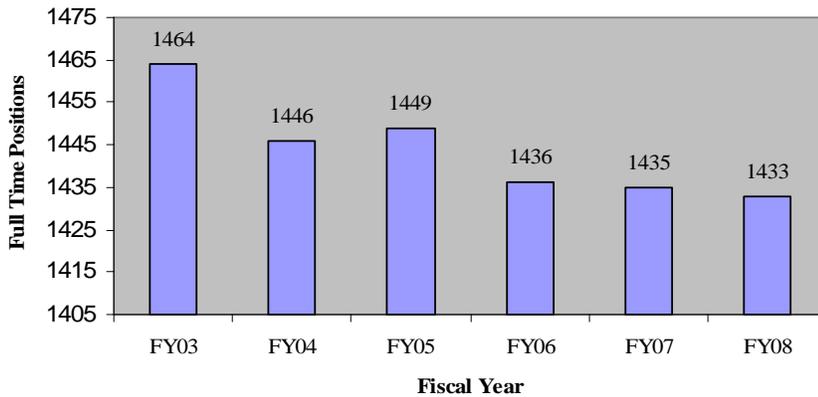


F. Total FY08 Appropriated Funds





G. Position List Comparison (Excluding Schools)

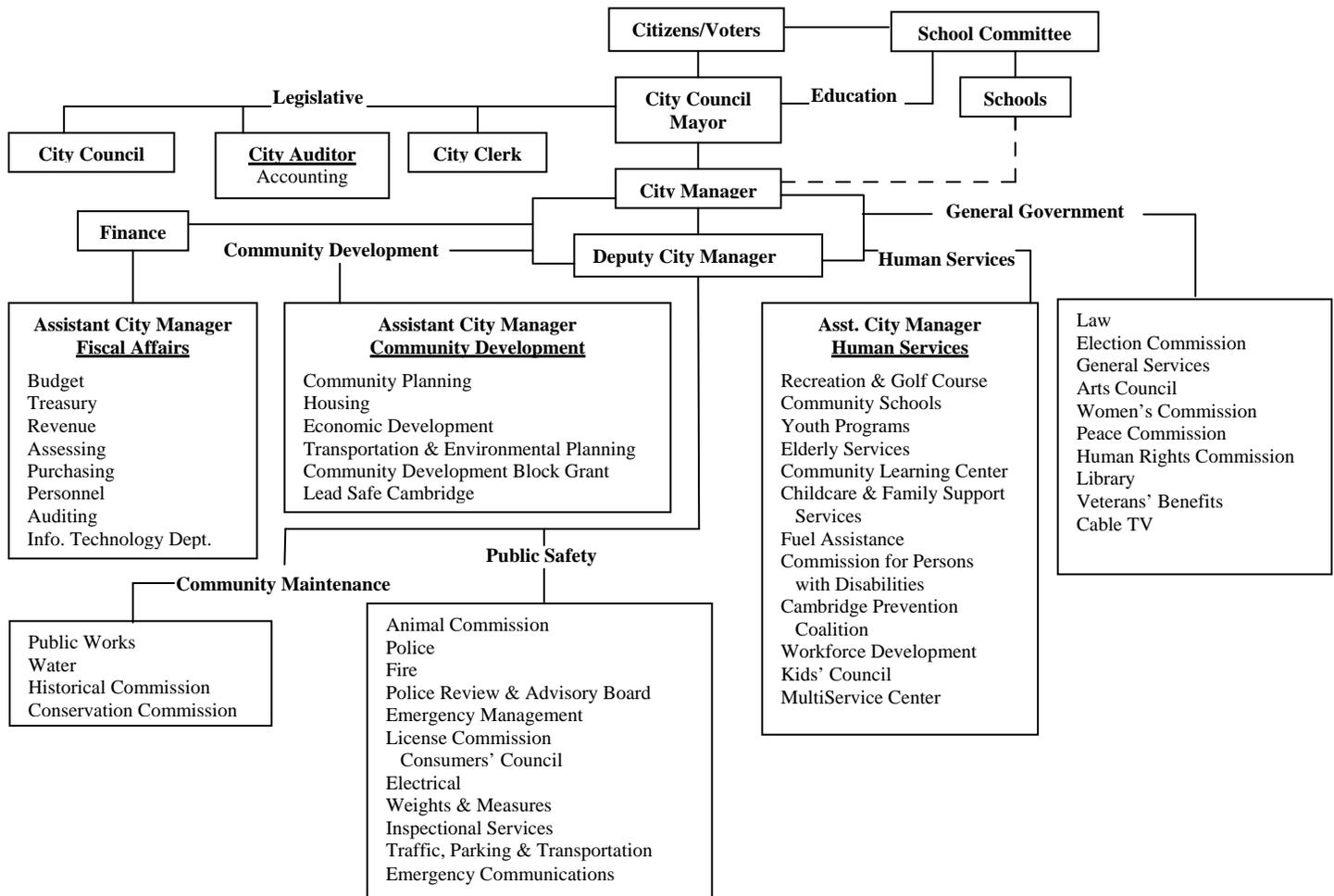


A Vacancy Committee, consisting of the City Manager, Deputy City Manager, Finance Director, Budget Director and Personnel Director, reviews requests from departments to fill vacancies as they occur. In some cases, position vacancies are held by the committee. This review, in conjunction with the budget process, has yielded a net reduction of 31 positions since FY03.

Department	FY06	FY07	FY08	FY07-08 Variance
Mayor	5	5	5	-
Executive	8	9	9	-
City Council	2	2	2	-
City Clerk	10	10	10	-
Law	11	11	11	-
Finance/Administration	2	2	2	-
Finance/Budget	4	4	4	-
Finance/Personnel	13	13	13	-
Finance/Assessors	15	15	15	-
Finance/Purchasing	8	8	8	-
Finance/Auditing	8	8	8	-
Finance/Revenue	8	8	8	-
Finance/Treasury	5	5	5	-
Finance/ITD	20	20	20	-
General Services	6	6	6	-
Election	8	8	8	-
Public Celebrations	5	5	5	-
Animal Commission	3	3	3	-
Fire	284	284	284	-
Police	307	307	307	-
Traffic, Parking, & Transportation	80	80	80	-
Police Review & Advisory Board	1	1	1	-
Inspectional Services	28	27	27	-
License Commission	9	9	9	-
Weights & Measures	1	1	1	-
Electrical	14	14	14	-
Emergency Management	2	2	2	-
Emergency Communications	39	39	39	-
Public Works	215	213	211	(2)
Water	63	63	63	-
Community Development	45	45	45	-
Historical Commission	5	5	5	-
Conservation Commission	1	1	1	-
Peace Commission	1	1	1	-
Cable Television	6	6	6	-
Library	60	60	60	-
Human Services	127	128	128	-
Commission on the Status of Women	2	2	2	-
Human Rights Commission	2	2	2	-
Veterans' Benefits/Services	3	3	3	-
GRAND TOTAL	1436	1435	1433	(2)

Organizational Chart

City of Cambridge, Massachusetts



Questions or Comments?

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