

**NEW ISSUE**  
**BOOK ENTRY ONLY**

**Fitch Ratings: AAA**  
**Moody's Investors Service: Aaa**  
**Standard & Poor's Rating Services: AAA**  
**(see "Ratings")**

*The opinion of Bond Counsel will state the following, under existing law: Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes, assuming continued compliance by the City with the Internal Revenue Code of 1986. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative tax imposed on individuals and corporations; interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "Tax Exemption" herein.*

**\$35,165,000**

**CITY OF CAMBRIDGE**  
**MASSACHUSETTS**  
**GENERAL OBLIGATION BONDS**  
**MUNICIPAL PURPOSE LOAN OF 2004**

**Dated: January 15, 2004**

**Due: January 1, 2005–2024**

**AMOUNTS, MATURITIES, INTEREST RATES, AND PRICES OR YIELDS**

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>
2005	\$3,090,000	2.500%	1.000%	2015	\$430,000	3.300%	3.350%
2006	3,090,000	2.500	1.200	2016	430,000	3.500	3.500
2007	3,090,000	2.500	1.450	2017	430,000	3.500	3.650
2008	3,090,000	2.500	1.800	2018	430,000	3.750	3.800
2009	3,085,000	2.500	2.100	2019	430,000	4.000	3.900
2010	3,085,000	2.500	2.350	2020	430,000	4.000	4.000
2011	3,085,000	2.500	2.600	2021	430,000	4.000	4.050
2012	3,085,000	3.000	2.800	2022	430,000	4.000	4.150
2013	3,085,000	3.000	3.000	2023	430,000	4.125	4.200
2014	3,080,000	3.300	3.290	2024	430,000	4.250	4.250

The Bonds will be dated January 15, 2004. Principal on the Bonds will be payable on January 1 of the years in which the Bonds mature. Interest will be payable semiannually on January 1 and July 1, commencing on July 1, 2004. The Bonds shall be subject to redemption prior to maturity as described herein.

The Bonds are issuable only as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 each and integral multiples thereof. Purchasers will not receive certificates representing their interest in Bonds purchased.

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

**CITY OF CAMBRIDGE, MASSACHUSETTS**

**THE CITY COUNCIL**

Michael A. Sullivan, Mayor  
Henrietta Davis, Vice-Mayor  
Marjorie C. Decker  
Anthony D. Galluccio  
David P. Maher  
Brian Murphy  
Kenneth E. Reeves  
E. Denise Simmons  
Timothy J. Toomey, Jr.

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**CERTAIN APPOINTED OFFICIALS**

Robert W. Healy, City Manager  
Richard C. Rossi, Deputy City Manager  
Louis A. Depasquale, Assistant City Manager for  
Fiscal Affairs and Treasurer/Collector  
Donald A. Drisdell, City Solicitor  
D. Margaret Drury, City Clerk  
James H. Monagle, City Auditor

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**BOND COUNSEL**

Palmer & Dodge LLP  
111 Huntington Avenue  
Boston, MA 02199-7613

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**FINANCIAL ADVISOR**

ARD Government Finance Group  
1601 North Kent Street  
Suite 800  
Arlington, VA 22209

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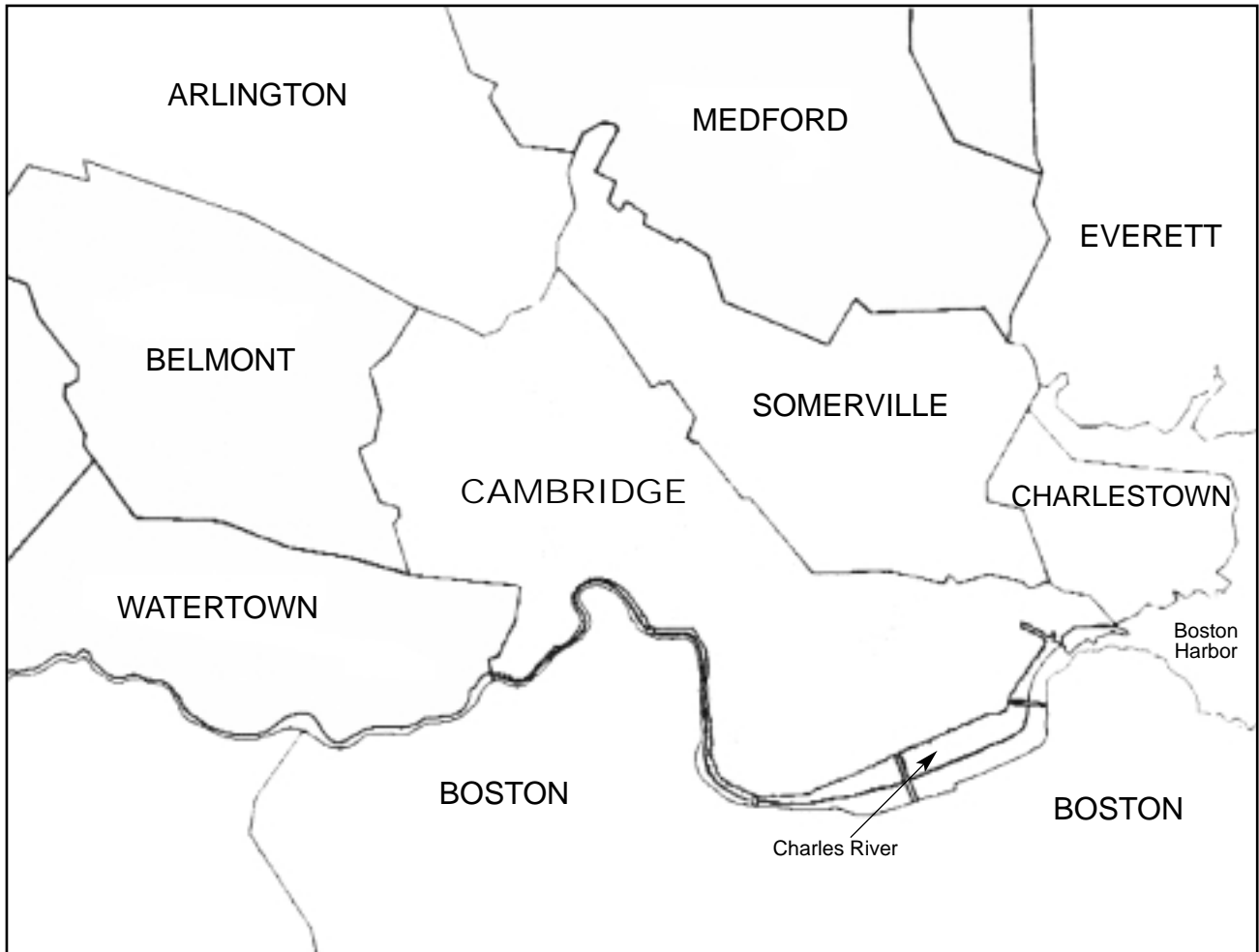
**CERTIFIED PUBLIC ACCOUNTANTS**

KPMG Peat Marwick  
99 High Street  
Boston, MA 02110

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**CAMBRIDGE AND SURROUNDING COMMUNITIES**

# **PART I: INTRODUCTION**

The following material is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement, reference to which is hereby made for all purposes.

## **The Issuer**

The City of Cambridge is located in Middlesex County across the Charles River from the City of Boston. Cambridge, first settled in 1630, was originally incorporated as a town in 1636 and became a city in 1846. Since 1940, Cambridge has operated under a council-manager form of government with nine city councillors elected every two years. Occupying a land area of 6.26 square miles, the City has a 2000 population of 101,355.

## **The Bonds**

The City of Cambridge General Obligation Bonds, Municipal Purpose Loan of 2004, in book-entry-only-form, dated January 15, 2004, are due January 1 in each year of the years 2005 through 2024 in the aggregate principal amount of \$35,165,000.

## **Security for the Bonds**

The Bonds are general obligations of the City of Cambridge, to the payment of which the full faith and credit of the City are irrevocably pledged. Payment is not limited to a particular fund or revenue source, but is payable from taxes which may be levied upon all taxable property in the City, subject to the limit imposed by Chapter 59, section 21C of the General Laws. (Refer to "Part II: The Bonds" for a complete description of the security for the Bonds and bondholder remedies.)

## **Use of Proceeds**

Proceeds of the Bonds will be used to finance the remodeling of various City buildings including the War Memorial, main library, a branch library, a fire station, and the police headquarters, street improvements, sewer reconstruction, acquisition and installation of an automated water meter reading system, acquisition and installation of fiber optic cable and network equipment, and open space improvements.

## **Optional Redemption**

Bonds maturing on or after January 1, 2015, will be subject to redemption beginning January 1, 2014 in whole or in part at any time, at the option of the City. See "Optional Redemption" in "Part II: The Bonds" for a more complete description of the redemption provisions of the Bonds.

## **Tax Exemption**

The opinion of Bond Counsel will state the following, under existing law: Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes, assuming continued compliance by the City with the Internal Revenue Code of 1986. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. 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.

## **Legal Matters**

A copy of the legal opinion of the firm of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, will accompany the Bonds. The opinion will be dated and given on and will speak only as of the date of original delivery of the Bonds to the successful bidder.

The scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for the accuracy or adequacy of any statements made in this Official Statement other than matters expressly set forth as their opinion and they make no representation that they have independently verified the same.

## **Delivery**

The Bonds are offered subject to prior sale, when, as, and if, issued by the City and accepted by the initial purchaser of the Bonds, subject to the receipt of an approving legal opinion by Palmer and Dodge LLP, Boston, Massachusetts, Bond Counsel. Delivery of the Bonds is expected on or about February 3, 2004.

**Financial Advisor**

ARD Government Finance Group, a division of ARD, Inc., Arlington, Virginia, is employed as the financial advisor to the City in connection with the issuance of the Bonds. The financial advisor's fee for services rendered with respect to the sale of the bonds is not contingent upon the issuance and delivery of the Bonds.

**Bond Counsel**

Palmer and Dodge LLP, Boston, Massachusetts, is employed as Bond Counsel to the City in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issue of the Bonds are contingent on the sale and delivery of the Bonds.

**Ratings**

Ratings are assigned by Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, Standard & Poor's Ratings Services, 55 Water Street, 38th Floor, New York, NY 10041-0003, and Fitch Ratings, One State Street Plaza, New York, New York 10004, as shown on the front cover. An explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The City furnished to such rating agencies the information contained in this Official Statement and certain publicly available materials and information about the City. Generally, rating agencies base their ratings on such materials and information, as well as investigations, studies and assumptions of the rating agencies. Such ratings may be changed at any time, and no assurance can be given that they will not be revised downward or withdrawn entirely by any or all of such rating agencies if, in the judgement of any or all, circumstances so warrant. Such circumstances may include, without limitation, changes in or unavailability of information relating to the City. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Bonds.

**Auditors**

A yearly independent audit of all accounts, books, records, and financial transactions of the City has been performed by KPMG Peat Marwick, Certified Public Accountants, of Boston, Massachusetts since fiscal year 1979. The opinion of the independent auditors for the period set forth in their report and the fiscal year 2003 Financial Statements are presented as a part of this Official Statement. (See Appendix A.)

**Absence of Material Litigation**

According to the City Solicitor, there is no litigation of any kind now pending or, to the best of his information, knowledge, and belief, threatened to restrain or enjoin the issuance or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Bonds are issued.

In addition, according to the City Manager, no litigation is considered likely to result either individually or in the aggregate in final judgements which would materially affect the City's financial position.

**Miscellaneous**

This Official Statement and any advertisement of the Bonds are not to be construed as a contract with the purchaser of the Bonds. Any statements made in this Official Statement involving matters of opinions or of estimates, whether or not so expressly identified, are set forth as such and not as representation of fact, and no representation is made that any of the estimates will be realized.

Information relating to the location, economy, and finances of the City of Cambridge and the surrounding areas found herein was prepared by the City under the direction of the ARD Government Finance Group, Financial Advisor to the City.

**Disclosure**

In preparing this Official Statement, the City has generally followed the disclosure guidelines recommended by the Government Finance Officers Association as presented in its January 1991 edition of "Disclosure Guidelines for State and Local Government Securities," and the information presented in this Official Statement substantially conforms to these guidelines to the best of the City's knowledge and belief.

**Continuing Disclosure**

The City has agreed to execute a Continuing Disclosure Agreement at closing to assist the purchasers of the Bonds in complying with the provisions of Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC") and as in effect on the date hereof, by providing annual financial information and material event notices required by the Rule. See the section herein "Continuing Disclosure" in "Part II: The Bonds".

**Competitive Sale of Bonds**

After competitive bidding on January 20, 2004 the Bonds were awarded to Citigroup Global Markets Inc., New York, NY, (the "Underwriter"). The Underwriter has supplied the information as to the public offering yields or prices of the Bonds set forth on the cover hereof. The Underwriter has informed the City that if all the Bonds are resold to the public at those yields or prices, they anticipate the gross Underwriters' compensation, after the deduction of the \$214,223.90 premium to the City, to be \$163,517.25. The Underwriter may change the public offering yields or prices from time to time.

**Additional Information**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. All quotations from and summaries and explanations of laws contained in this Official Statement do not purport to be complete, and reference is made to said laws for full and complete statements of their provisions.

Any questions concerning the contents of this Official Statement should be directed to the following: Louis A. Depasquale, Assistant City Manager for Fiscal Affairs, Treasurer, (617) 349-4220, or Roger P. Vacco, Palmer & Dodge LLP, (617) 239-0100.

## PART II: THE BONDS

### DESCRIPTION OF THE BONDS

#### General

The Bonds are dated January 15, 2004, and will bear interest from that date which will be payable beginning July 1, 2004 and semi-annually thereafter on January 1 and July 1 until maturity. The Bonds will mature on January 1 each year as specified below:

<u>Due January 1</u>	<u>Principal Amount</u>	<u>Due January 1</u>	<u>Principal Amount</u>
2005	\$3,090,000	2015	\$430,000
2006	3,090,000	2016	430,000
2007	3,090,000	2017	430,000
2008	3,090,000	2018	430,000
2009	3,085,000	2019	430,000
2010	3,085,000	2020	430,000
2011	3,085,000	2021	430,000
2012	3,085,000	2022	430,000
2013	3,085,000	2023	430,000
2014	3,080,000	2024	430,000

#### Optional Redemption

The Bonds that mature on or before January 1, 2014, are not subject to redemption prior to their stated maturities. The Bonds that mature on and after January 1, 2015, will be subject to redemption beginning January 1, 2014, in whole or in part at any time, at the option of the City, upon payment of 100% of the principal amount of Bonds to be redeemed plus interest accrued and unpaid to the redemption date.

#### Manner of Redemption

If less than all of the Bonds are called for redemption, the Bonds to be redeemed shall be selected by the City's Treasurer in such manner as may be determined to be in the best interest of the City. If less than all of the Bonds of a particular maturity are called for redemption, DTC or any successor securities depository will select the Bonds to be redeemed pursuant to its rules and procedures or, if the book-entry system is discontinued, the Bonds to be redeemed will be selected by the City Treasurer who has been appointed registrar (the "Registrar") by lot in such manner as the Registrar in its discretion may determine. In either case, each portion of the \$5,000 principal amount is counted as one Bond for such purposes. The City will cause notice of the call for redemption identifying the Bonds or portions thereof to be redeemed to be sent by facsimile transmission, registered or certified mail or overnight express delivery, not less than 30 days nor more than 60 days prior to the redemption date, to the registered owner thereof. The City shall not be responsible for mailing notice of redemption to anyone other than DTC or another qualified securities depository or its nominee unless no qualified securities depository is the registered owner of the Bonds. If no qualified securities depository is the registered owner of the Bonds, notice of redemption shall be mailed to the registered owners of the Bonds. If a portion of a Bond is called for redemption, a new Bond in principal amount equal to the unredeemed portion shall be issued to the registered owner upon the surrender thereof.

#### Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, 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 nominee 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 such maturity and will be deposited with DTC. The record date for debt service payment is the close of business on the fifteenth day of the month prior to the month in which a debt service payment comes due.



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 issues, 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 such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 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 Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The 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 notice 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 any 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 on each payable date in accordance with their respective holdings shown on DTC's records upon DTC's receipt of funds and corresponding detail information from the City or the Agent. 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 (nor its nominee), the 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 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 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 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.

## **AUTHORIZATION AND USE OF PROCEEDS**

The \$35,165,000 General Obligation Bonds consist of the following authorizations:

### **Library Construction**

\$8,650,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on January 22, 2001 to provide funds for renovations and the construction of an addition to the main library.

### **Street Reconstruction**

\$1,500,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 21, 2001 to provide funds for the reconstruction of Cambridge Street.

### **Building Renovations**

\$540,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 17, 1999 to provide funds for renovations to several City buildings.

### **Sewer Reconstruction**

\$9,420,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by loan orders of the City Council on May 15, 2000, May 21, 2001, May 20, 2002, and June 16, 2003 to provide funds for various sewer reconstruction projects.

### **Open Space Improvements**

\$9,100,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by loan orders of the City Council on May 17, 1999 and June 16, 2003 to provide funds for improvements to Russell and Donnelly Fields.

### **Yerxa Road Underpass Construction**

\$1,250,000 Authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on June 16, 2003 to provide funds for the construction of an underpass at Yerxa Road.

### **Fiber Optic Network Infrastructure**

\$350,000 \$350,000 was authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 12, 1997 to provide funds for the acquisition and installation of fiber optic cable and network equipment, including any renovations to city buildings necessary for the connections and internal wiring and related security improvements.

### **War Memorial Renovations**

\$1,200,000 \$1,200,000 was authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on May 21, 2001 to provide funds for renovations to the War Memorial building.

**Automated Meter Reading System**

\$3,000,000        \$3,000,000 was authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on June 16, 2003 to provide funds for the acquisition and installation of an automated meter reading system for water billing.

**Fire Station Renovations**

\$155,000        \$155,000 was authorized pursuant to Massachusetts General Laws, Chapter 44 by a loan order of the City Council on September 22, 2002 to provide funds for renovations to the Taylor Square Fire Station.

**SECURITY AND REMEDIES**

**Full Faith and Credit**

Under Massachusetts law, the Bonds constitute a pledge of the full faith and credit of the City of Cambridge. Payment is not limited to a particular fund or revenue source. Except for “qualified bonds” as described below (see *Serial Bonds and Notes* below) and setoffs of state distributions as described below (see *State Distribution* below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

**Tax Levy**

Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year “all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for (and) all amounts necessary to satisfy final judgements.” Specific provision is also made for including payments of rebate amounts not otherwise provided for and payments of notes in anticipation of federal aid or certain state aid in the next tax levy if the aid or reimbursement is no longer forthcoming. However, the total amount of a tax levy is limited by statute. The voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitations. (See *Tax Limitations* below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit. The City of Cambridge has not voted to exempt the debt service on the Bonds from the limitations.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgements on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgements, subject to the General Debt Limit (see “Authorization of General Obligation Bonds and Notes” and “Debt Limits”). Subject to the State Director of Accounts for judgements above \$10,000, judgements may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

**Court Proceedings**

In the opinion of Bond Counsel, the City of Cambridge is subject to suit on its general obligation bonds and notes. Courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgement on the bonds or notes from lawfully available funds or, if necessary, to order the City to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law (see *Tax Limitations* below). In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the City and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgement against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

**Restricted Funds**

Massachusetts statutes also provide that certain water, gas and electric, sewer, parking meter and passenger ferry fee receipts may be used only for water, gas and electric, sewer, parking, mitigation of ferry service impacts, and related purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, 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. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with the use of certain revenues for pro-

grams that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. Also, the annual allowance for depreciation of a gas and electric plant is restricted to use for plant renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financing are also not available for general municipal purposes.

### **State Distributions**

State grants and distributions may in some circumstances be available to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and disbursements the amount of any debt service paid on “qualified bonds” (see *Serial Bonds and Notes* below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of the Massachusetts Bay Transportation Authority (“MBTA”), the Metropolitan District Commission (“MDC”) and/or the Massachusetts Water Resources Authority (“MWRA”), or for charges necessary to meet obligations under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by the Commonwealth to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). 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 that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing provisions do not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. It should also be noted that adoption of the Commonwealth’s annual appropriation act is sometimes 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.

### **Bankruptcy**

Enforcement for a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of federal bankruptcy law and to the provisions of other statutes, if any, hereinafter enacted by the Congress or the State Legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied.

### **OPINION OF BOND COUNSEL**

The legal opinion of the firm of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, will be dated and given on and will speak only as of the date of original delivery of the Bonds to the successful bidder. A proposed form of the legal opinion is included herein as Appendix B.

The scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for the accuracy or adequacy of any statements made in this Official Statement other than matters expressly set forth as their opinion and they make no representation that they have independently verified the same.

### **TAX EXEMPTION**

The opinion of Palmer & Dodge LLP, Bond Counsel, will state that under existing law the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

The Internal Revenue Code of 1986, as amended (the “Code”) establishes certain requirements that must be continuously satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to remain excluded from gross income for federal income tax purposes. These requirements include restrictions on the use, expenditure and investment of bond proceeds and also include the payment of rebates and penalties in lieu of rebates to the United States. Failure to comply with these requirements may cause inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date

of issuance of the Bonds. The City will covenant to take all lawful action necessary to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be or continue to be excluded from gross income for federal income tax purposes.

In addition to other requirements imposed by the Code, Section 148(f) of the Code requires an issuer of tax-exempt bonds to rebate to the United States certain excess earnings from investment of bond proceeds and other amounts, subject to certain exceptions. One of the exceptions applies when the gross proceeds of a bond issue are expended for the governmental purpose within certain specified periods after the date of issuance of the bonds. The City expects to expend all of the gross proceeds of the Bonds within the appropriate periods and, accordingly, expects the Bonds to qualify for this exception from the rebate requirement of the Code.

It should also be noted that the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, for that portion of the holder's interest expense allocated to interest on the Bonds. Interest on the Bonds earned by insurance companies or allocable to certain dividends received by such companies may increase taxable income of those companies as calculated under Subchapter L of the Code. In addition, interest on the Bonds earned by certain corporations could be subject to the foreign branch profits tax imposed by the Code, and may be included in passive investment income subject to federal income taxation under provisions of the Code applicable to certain S corporations. The Code also 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 and receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code.

The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Accordingly, in the opinion of Bond Counsel, no deduction will be allowed to a financial institution for any of its interest expense allocable to the Bonds.

The opinion of Bond Counsel will also state 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 should be aware, however, that the Bonds will be included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon will be included in the measure of Massachusetts corporate excise and franchise taxes.

No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

### **Original Issue Discount and Premium**

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. Owners 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.

To the extent the issue price of any maturity of the Bonds (as described in the preceding paragraph) is more than the stated principal amount of such Bonds, the difference constitutes "original issue premium." Original issue premium on any Bond is not deductible for federal income tax purposes, and owners of Bonds with original issue premium are required to reduce their basis in such Bonds from time to time as such original issue premium accrues with respect to such Bonds. Owners of Bonds with original issue premium (including owners who purchase such Bonds other than pursuant to the original public offering of such Bonds) should consult their own tax advisors as to the determination for federal income tax purposes of the amount of premium accruing each year with respect to such Bonds, the adjusted basis of such Bonds from time to time (including at the time of sale, redemption at maturity or other disposition of such Bonds), and as to other federal tax conse-

quences and state tax consequences of owning Bonds offered and sold with original issue premium.

### **Continuing Disclosure**

The City desires to assist the successful bidder in complying with the provisions of the Rule and has agreed to execute a continuing disclosure agreement to provide certain annual financial information and material event notices required by the Rule (collectively, "Continuing Disclosure"). As set forth in Appendix C, such undertaking requires the City to provide only limited information at specified times and does not require it to disclose all information that may affect the value of the Bonds. The City may choose to make additional information available from time to time, but has no obligation to do so. The City has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide certain annual financial information and material event notices.

The City is required to file its annual Continuing Disclosure with each nationally recognized municipal securities information repository ("NRMSIRs") and to any state information depository ("SID") created in Massachusetts. No SID has been created for Massachusetts. The City is required to file any material event notice with (1) each NRMSIR or the Municipal Securities Rulemaking Board and (2) any Massachusetts SID. As of the date of this Official Statement, the SEC has recognized the following entities as NRMSIRs:

#### **Bloomberg Municipal Repository**

100 Business Park Drive  
Skillman, New Jersey 08558  
Telephone: (609) 279-3225  
Facsimile: (609) 279-5962  
E-Mail: Munis@Bloomberg.com

#### **DPC Data Inc.**

One Executive Drive  
Fort Lee, New Jersey 07024  
Telephone: (201) 346-0701  
Facsimile: (201) 947-0107  
E-Mail: nrmsir@dpcdata.com

#### **Standard & Poor's J.J. Kenny Repository**

55 Water Street, 45th Floor  
New York, New York 10041  
Telephone: (212) 438-4595  
Facsimile: (212) 438-3975  
E-Mail: nrmsir\_repository@sandp.com

#### **FT Interactive Data**

Attn: NRMSIR  
100 William Street  
New York, New York 10038  
Telephone: (212) 771-6999  
Facsimile: (212) 771-7390  
(Secondary Market Information)  
Facsimile: (212) 771-7391  
(Primary Market Information)  
E-Mail: nrmsir@ftid.com

As described more fully in Appendix C, any Bondholder may take steps to enforce the obligation of the City to provide Continuing Disclosure, but any failure by the City under its obligation will not result in an event of default under the Bonds.

Investors and other interested parties may contact any NRMSIR for additional information concerning its services. The City makes no representation as to the scope of the services provided to the secondary market by any NRMSIR or as to the costs for the provision of such services by any NRMSIR.

# **PART III: THE CITY**

## **INTRODUCTION**

The City of Cambridge is located in southeast Middlesex County across the Charles River from the City of Boston. The City is bordered by the Towns of Watertown and Belmont on the west and the Town of Arlington and the City of Somerville on the north, and occupies a land area of 6.26 square miles. The City's population is 101,355 in 2000.

Cambridge, first settled in 1630 by a group from the Massachusetts Bay Company, was originally incorporated as a town in 1636 and became a city in 1846. Since 1940, the City has had a Council-Manager form of government.

Employers and developers find the City attractive due to its close proximity to Boston, extensive public transportation, an excellent network of roads, and the City's commitment to encouraging planned development. The location of two major universities, Harvard University and the Massachusetts Institute of Technology, within the City's borders contributes significantly to its vitality and growth.

## **CONSTITUTIONAL STATUS AND FORM OF GOVERNMENT**

Massachusetts cities and towns are subject to the plenary legislative power of the Commonwealth. As stated by the Supreme Judicial Court:

"A town is not an independent sovereignty. It is a creature of the Commonwealth, from which are derived all its powers and those of its voters and officers."

Cities and towns provide general governmental services at the local level. Municipalities were traditionally authorized to exercise only those powers granted by the State Legislature, but Massachusetts adopted a Home Rule Amendment to its Constitution in 1966. Under this amendment, a city or town may exercise, by ordinance or by-law, any power which the State Legislature could confer upon it, provided that the ordinance or by-law is consistent with the laws enacted by the State Legislature. Certain powers are excluded from home rule and may still be exercised only when authorized by State law. These powers include the power to levy taxes, the power to borrow money, and the power to enact private or civil law governing civil relationships except as an incident to the exercise of an independent municipal power. Under the Home Rule Amendment the State Legislature may enact general laws relating to a class of two or more municipalities, but (except in limited circumstances) may enact a special law relating to a particular city or town only on request of the city or town.

An amendment to the State Constitution provides that any law imposing additional costs on two or more cities or towns by regulating aspects of municipal employment will not be effective within a city or town until the city council or town meeting accepts the law. Local acceptance is not required if the State Legislature has either passed the law by a two-thirds vote or provided that the additional costs would be assumed by the State.

Cities and towns may change their form of government by adopting home rule charters or amending existing charters. The City of Cambridge is governed by a city council and an appointed city manager who has no power to veto council actions. Provision is made for a referendum on most types of council actions, and for initiation of measures, upon petition of a sufficient number of voters.

School affairs of the City are administered by an elected school committee. However, as a result of an initiative law adopted in 1980 (Proposition 2½), the School Committee is no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the total amount appropriated by the City Council, but the School Committee retains full power to allocate the funds appropriated.

## **CERTAIN ELECTED OFFICIALS AND ADMINISTRATIVE/FINANCIAL STAFF MEMBERS**

The City operates under the Council-Manager form of government. The legislature and policy making body of the City is the nine-member City Council whose members are elected at-large for two-year terms. The Council elects a Mayor and Vice-Mayor from among its members with the Mayor serving as Chairman of the School Committee.

The City Manager is the chief executive and administrative officer and carries out the policies of the City Council. With the assistance of the Deputy City Manager and three Assistant City Managers, he coordinates the functions of 41 municipal departments responsible for the delivery of service to residents. The City Manager is appointed by the City Council and serves at the pleasure of the Council. In 2000, the City Council approved a contract for the present City Manager, which expires August 31, 2006.

There is a School Committee which is comprised of six elected members, plus the Mayor, who are elected for two-year terms. The School Superintendent is responsible for the day-to-day activities of the School Department and serves at the pleasure of the School Committee.

The City Council also appoints members to certain boards and commissions as it deems necessary to the operation of the City.

### **Principal Elected Officials**

The following are the nine members of the City Council elected for two-year terms ending December 31, 2005:

Michael A. Sullivan, Mayor	
Marjorie C. Decker, Vice-Mayor	Brian Murphy
Henrietta Davis	Kenneth E. Reeves
Anthony D. Galluccio	E. Denise Simmons
David P. Maher	Timothy J. Toomey, Jr.

The following are the six members of the School Committee elected for two-year terms ending December 31, 2005 (the Mayor serves as Chairman of the School Committee):

Michael A. Sullivan, Chairman	
Alfred B. Fantini	Benjamin R. Lummis
Joseph G. Grassi	Marc McGovern
Richard Harding	Nancy Walser

### **Principal Executive Officers**

*Robert W. Healy, City Manager since July, 1981.*

Previously served the City as Deputy City Manager from 1980 to 1981 and Assistant City Manager from 1974 to 1980. Also served as Assistant City Manager for the City of Lowell, Massachusetts from 1970 to 1974. Bachelor of Arts degree in English from the University of Massachusetts and Masters degree in Educational Administration from the University of Lowell.

*Richard C. Rossi, Deputy City Manager since November, 1981.*

Previously served the City as Purchasing Agent from 1978 to 1981 and Assistant Superintendent of the Water Department from 1975 to 1978. Bachelor of Science degree in Business from Salem State University and a Masters degree in Public Administration from Northeastern University.

*Louis A. Depasquale, Assistant City Manager for Fiscal Affairs and Treasurer/Collector since September, 2002.*

Previously served the City as Budget Director from 1982 to 2002, Chief Budget Analyst from 1980 to 1982, Budget Analyst from 1977 to 1980 and Treasury Analyst from 1975 to 1977. Bachelor of Science degree in Criminal Justice from Boston State College and a Masters degree in Public Administration from Northeastern University.



*Beth Rubenstein, Assistant City Manager for Community Development since June, 1999.*

Previously served the City as Acting Assistant City Manager for Community Development and Deputy Director of Community Development. Also served as planner for the Cambridge Housing Authority, Commonwealth of Massachusetts, and Massachusetts Port Authority. Bachelor of Arts from the University of Wisconsin and Masters of Arts from Harvard University.

*Jill Herold, Assistant City Manager for Human Services since September, 1980.*

Previously served the City as Director of Human Services Planning, Community Development Department from 1978 to 1980. Executive Director of a non-profit organization from 1971 to 1978. Bachelor of Science degree from the University of Maryland, and Masters of Public Administration from Harvard University.

*Donald A. Drisdell, City Solicitor since December, 2002.*

Previously served the City as Deputy City Solicitor from 1987 to 2002 and Legal Counsel to the City from 1986 to 1987. Legal Counsel to State Department of Social Services from 1981 to 1986. Bachelor of Arts degree from the University of Massachusetts and a Doctor of Jurisprudence degree from Suffolk Law School.

*D. Margaret Drury, City Clerk since June, 1992.*

Previously served the City as General Counsel for Affordable Housing for the Community Development Department, 1989-1992; Executive Director of the Cambridge Rent Control Board, 1986-1989; Assistant Director and Assistant Counsel for the Cambridge Rent Control Board, 1982-1986. Bachelor of Arts degree from Syracuse University and Juris Doctor degree from Suffolk University Law School.

*James H. Monagle, City Auditor since January, 2001.*

Previously served as Assistant Finance Director for Cambridge, Massachusetts from 1997 to 2001. A career financial professional involved in virtually all aspects of financial management of both corporate and government entities. For over nine years focused in hotel financial, general and system management. Served in both corporate headquarters and hotels throughout New England. Bachelor of Arts in Political Science from Boston State and Masters in Business Administration from Suffolk University.

*Thomas Fowler-Finn, Superintendent of the Cambridge School System since August, 2003.*

Appointed by the Cambridge School Committee. Previously served as Superintendent of Schools for the Ft. Wayne Community Schools in Indiana, and Haverhill, Massachusetts. Prior to that, he held administrative leadership positions in Cincinnati, Ohio and New York. He holds a Masters in Education in Administration from the Massachusetts College of Liberal Arts and a Doctorate in Education in Instructional Leadership/Staff Development from the University of Massachusetts at Amherst as well as engaging in leadership course work at the John F. Kennedy School of Government at Harvard University.

## **GOVERNMENTAL SERVICES AND FACILITIES**

The City provides general governmental services for the territory within its boundaries, including police and fire protection, collection and disposal of garbage and rubbish, public education in grades kindergarten through twelve, water and sewer services, parks and recreation, health and social services, libraries/culture, and maintenance of streets and highways. The Massachusetts Bay Transportation Authority ("MBTA") provides rapid transit service and bus coverage throughout the City with connections to the Metropolitan Boston area. The Metropolitan District Commission maintains certain parks and highways and provides related police services. The Massachusetts Water Resources Authority ("MWRA") provides sewerage disposal services to the City. The Cambridge Housing Authority provides public housing for eligible low-income families, the elderly, and the handicapped.

Prior to July 1, 1997, Middlesex county provided space for courts, a jail, a house of correction, and a registry of deeds. Legislation was enacted in 1997 abolishing the county governments of Franklin and Middlesex counties as of July 1, 1997, with their assets, functions, debts and other obligations being assumed by the Commonwealth. The abolishment of the Middlesex County government was in part in response to a default by the county in the payment of general obligation notes of the county. The legislation also abolished the county governments of Hampden and Worcester counties as of July 1, 1998. Legislation enacted in 1998 abolished the county governments of Hampshire, Essex and Berkshire counties as of January 1, 1999, July 1, 1999, and July 1, 2000, respectively. The legislation also requires the state secretary for administration and finance to establish a plan to recover the Commonwealth's expenditures for the liabilities and other debts assumed and paid by the Commonwealth on behalf of an abolished county. Unless these provisions are changed by further legislation, the state treasurer shall assess upon each city and town within the jurisdiction of an abolished county an amount not exceeding or equal to the county tax paid by each such city and town for the fiscal year immediately prior to the abolishment of the county (or two years prior in the case of Essex County) until such expenditures by the Commonwealth are recovered. It is possible that similar legislation will be sought to provide for the abolishment of county government in all the remaining counties.

The City's main municipal buildings include a City Hall, three general administrative buildings, a school administrative building, a public works garage and headquarters building, and a water treatment facility located at the City's reservoir. There are one police headquarters building, nine fire stations, six area libraries, plus a main branch, over sixty-nine parks and playground areas, a high school, plus fifteen elementary schools, located throughout the City.

Other major recreational facilities provided by the City include a municipal golf course and club house, two community centers, outdoor and indoor swimming pools, tennis facilities, and a newly constructed field house located at the high school.

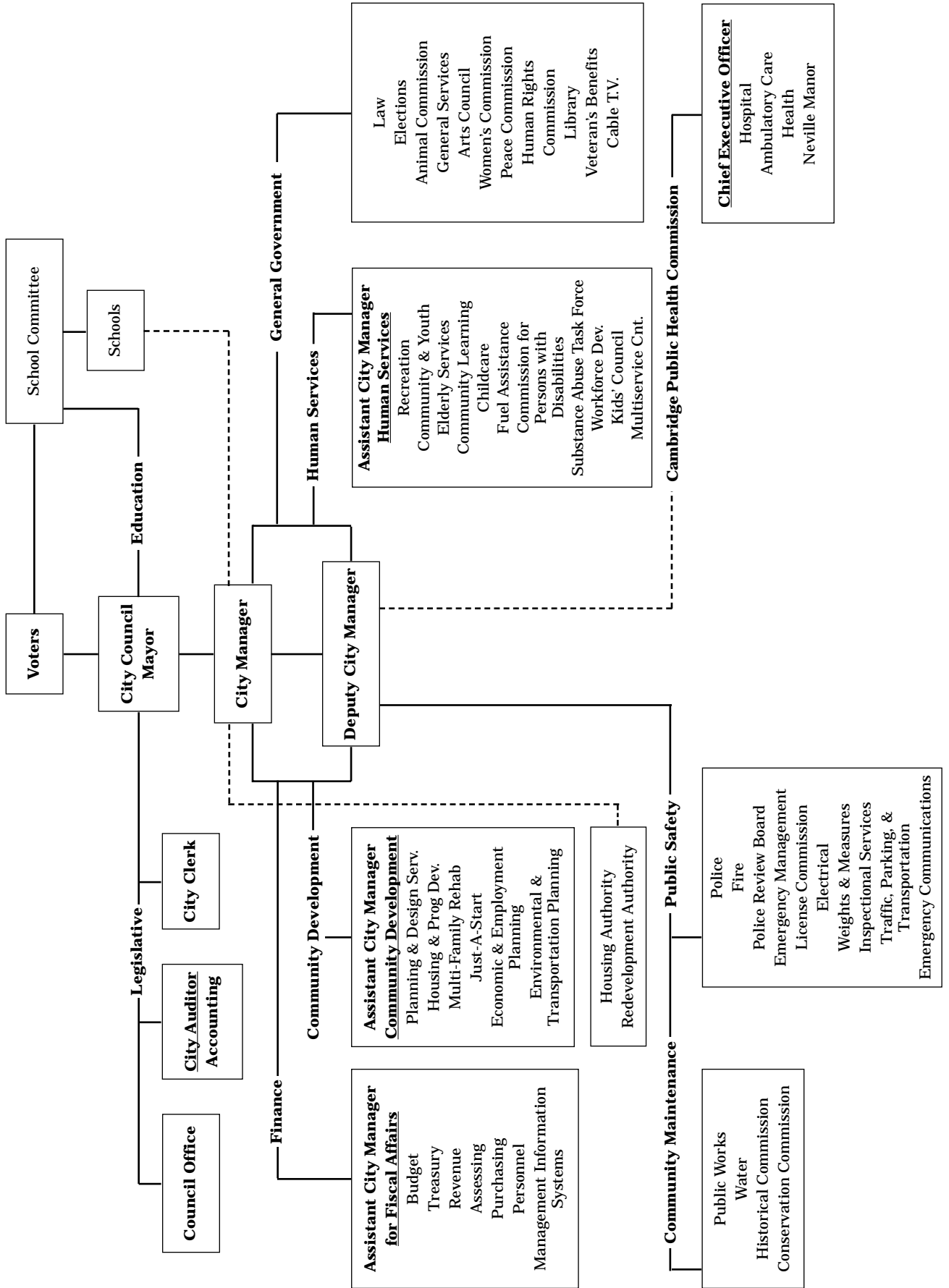
Federal buildings which are located in the City include offices for the Department of Transportation and the Social Security Administration. Also, in connection with Harvard University, the Smithsonian Astrophysical Observatory is located in the City.

The major State buildings located within the City are the Middlesex County Courthouse and the Registry of Deeds.

An organization chart for the City is presented on the following page.

# ORGANIZATIONAL CHART

## City of Cambridge, Massachusetts



## ECONOMIC AND DEMOGRAPHIC FACTORS

### Economic Development Activity

Despite the recession and slow recovery, Cambridge has experienced strong economic activity with little interruption. Vacancy rates for research and development space continue to be lower than either Boston or the surrounding suburbs, despite a sag in the commercial office market. Cultural amenities, proximity to world class institutions, a highly educated workforce, innovative reuse of existing structures and the construction of state-of-the-art new facilities have only added to the City's unique strength as both a business and residential community.

**Assessed Valuation.** The fiscal year 2004 total assessed valuation, including both real and personal property, is \$19.2 billion. Of the total, approximately \$7.1 billion consists of industrial, commercial, and personal property. New growth in the last year added approximately \$699.0 million to the taxable valuation base of the City.

The City's total assessed valuation increased by \$1.4 billion, or 7.9%, from fiscal year 2003. The increase is slightly more than the previous year's \$913.6 million increase.

**Employment.** Due to extensive development and proximity to both the Massachusetts Institute of Technology and Harvard University, Cambridge has experienced unemployment rates significantly lower than the national and Massachusetts averages over the last fifteen years. For August 2003 the Division of Employment and Training reported a seasonally unadjusted unemployment rate for Cambridge of 3.9%, for the State of 5.6% and a national rate of 6.0%.

For 2002 Cambridge reported average annual employment of 105,662. While major employers have witnessed a decline in employment, the drop has not proven significant, and Cambridge continues to consolidate its position as a leader in the biotechnology industry. With the coming completion of the global research headquarters for the Swiss pharmaceutical company Novartis, employment should begin to grow once again. The company has announced that, at full capacity, its research and development staff would approach 1,000 scientists, with technical and support staff adding to that total. In addition to new employment created by the growth of research and development and service industries, the City retains its traditional employers in the areas of education, medicine, and government, which promotes the City's overall economic diversity.

**Commercial Real Estate Market.** Since the beginning of 2000, Cambridge has added approximately 3.0 million square feet (SF) to its inventory of commercial real estate, with another approximately 1.7 million SF under construction and an additional 2.5 million SF currently in the permitting stage.

As with other cities, the recent economic slowdown has led to a rise in the overall commercial vacancy rate. However, demand from the life sciences industry remains strong, with many buildings suitable for biotech use leased prior to completion. Most notably, Novartis has leased approximately 760,000 SF and has begun to move the firm's global R&D headquarters to Cambridge. With the past year, Novartis moved into Tech Square as an initial base of operations, where they already utilize 250,000 SF. The former NECCO factory on Massachusetts Avenue will also be occupied by Novartis upon completion of adaptive rehabilitation in early 2004. Real estate brokers and market analysts are predicting a three- to five-year recovery period to reach a traditional vacancy rate equilibrium of 8 to 10% for the overall commercial real estate market. The absorption rate currently stands at approximately 8% as due to the overall economic slow down. Some commercial landlords continue to build biotech space in anticipation of an economic turnaround.

### Economic Development Districts

The City guides development through an orderly process, utilizing control over infrastructure, planned unit development, and zoning strategies. Presented below is a summary of the current economic activities and future potential of several major development areas, along with a short city-wide summary. Growth is expected to continue in the City's former industrial districts, which have been rezoned as mixed-use districts in response to the demands of the new economy.

**Alewife/Fresh Pond.** The Alewife area appeals to companies interested in a suburban setting within the City of Cambridge. Located in the western portion of the City, near Fresh Pond Reservoir, the MDC Alewife Reservation, and the Belmont and Arlington town lines, the district consists of approximately 370 acres. Alewife lies within a 30 minute drive to Logan International Airport and downtown Boston, and is in close proximity to residential suburbs and the Route 128 corridor. The MBTA serves the Alewife area via both surface bus lines and the Alewife Rapid Transit Station located at the north terminus of the Red Line. A 2,000-car parking garage is integral with the Station and provides direct access to Route 2.

Construction of a \$12 million project to improve Fresh Pond Parkway, which provides access from the Alewife area to other parts of the City and to Boston, is now complete. Associated improvements include complete reconstruction of the roadway, utilities and landscaping, as well as the addition of bicycle and pedestrian facilities. The project measurably improved both the roadway and the adjacent Fresh Pond Reservation. In recent years the City also replaced an aged water treatment facility located on Fresh Pond Parkway with a state-of-the-art facility that further enhances the built environment adjacent to Fresh Pond Parkway.

Alewife acts as both an office/R&D district and a lively retail center. The area serves as corporate headquarters for Wyeth Genetics Institute and Abt Associates. The shopping district houses a major grocery store, restaurants, a movie theater, a hotel, and a number of smaller independent and chain retailers. Since 1982, Alewife has seen the construction of over 2.3 million SF of prime office/R&D space. Most recently, technology companies completed both a 285,000 SF R&D facility and a 76,000 SF office building. A 311-unit housing development on Cambridge Park Drive, completed in 2002, is largely occupied.

**Harvard Square.** While densely developed and limited in further potential, the Harvard Square area continues to attract development interest. The past year has seen the completion of a new 50,000 SF office building hous-

ing the Harvard Square Post Office on the ground floor, as well as a rehabilitated and expanded 37,000 SF office and retail building at Quincy Square. Transportation amenities include the Harvard Square MBTA station that provides a subway stop and serves as a hub for numerous surface bus and trackless trolley lines.

**Central Square.** Served by a Red Line subway station and numerous bus lines, Central Square continues to benefit from a significant roadway, bicycle and pedestrian facilities project completed in 1997. A further \$5.3 million in roadway improvements scheduled to start in spring 2004 will upgrade the pedestrian environment and improve traffic flow through nearby Lafayette Square and along Massachusetts Avenue extending down to the MIT campus.

Completion of the Holmes Building and adjacent Carl Barron Plaza in 2000 added a new landmark to the City's traditional main shopping district. The building is a 128,000 SF mixed-use project, with 72 units of housing and 47,000 SF of retail space. In the past year, Transkaryotic Therapies occupied 182,000 square feet of office/R&D space near the MIT campus created through a combination of adaptive rehabilitation and new construction.

**University Park/Cambridgeport.** This area includes a mix of uses along the Charles River frontage, an established residential neighborhood, and a former industrial area redeveloped as a mixed-use center with office/R&D, residential uses, retail and light manufacturing. The eastern edge of Cambridgeport borders the MIT campus and is a 20 minute drive from Logan Airport. The MBTA rapid transit station in Central Square and surface bus routes, as well as private shuttle buses, serve the area. Over \$8 million in roadway improvements, including substantial underground utility work, now under construction in Cambridgeport will provide significant transportation benefits to the area.

The years 1997 through 2003 saw the completion of 3.4 million SF of new or renovated office/R&D space. Forest City Development, in conjunction with MIT, is nearing the end of construction of a long-term, \$600 million development. The complex includes 2.3 million SF located in 21 buildings, including over 1.4 million SF office/R&D space, 2 parking garages with 2,650 parking spaces, and nearly 600 units of housing. A major 221 room hotel, retail and shopping facility is complete and occupied.

Other projects in the area include headquarters for Millennium Pharmaceuticals, one of Cambridge's largest biotechnology employers (4 buildings with 700,000 SF in University Park), Modern Continental (79,000 SF) and Vertex (140,000 SF) as well as the historic Ford assembly plant (182,000 SF) and the old Polaroid building on Memorial Drive (64,000 SF). Associated with the Polaroid site redevelopment are two new office buildings, providing 103,000 SF of space with 235 parking spaces, and 120 units of new housing. Nearby, a new supermarket and drugstore provide 57,000 SF of retail space.

**East Cambridge/Riverfront.** This 60-acre area lies directly across the Charles River from Boston at the Museum of Science and the Charles River Dam area, between Kendall Square and North Point. The Riverfront project area lies approximately 15 minutes by car and public transit from Logan International Airport. The MBTA's Kendall Red Line and Lechmere Green Line rapid transit stations offer public transit access, with connections to the entire metropolitan Boston area. Both a free shuttle operated by the Galleria Mall and the public-private EZ-Ride Shuttle connect the MBTA rapid transit stations, providing access to the mall, businesses and residents in the area for 1,000,000 riders annually. The area is also well served by MBTA surface bus routes.

Starting in the early 1980s, \$50 million in public improvements stimulated the redevelopment of the East Cambridge riverfront, leading to the creation of public open space at Lechmere Canal Park, Centanni Way, Front Park, and Charles Park. In addition, the City constructed a 1,000-car public parking garage and implemented roadway improvements throughout the area. The total private development completed in East Cambridge over the last twenty years includes 4.1 million SF of new and renovated private office/R&D and retail space, 600 hotel rooms, and over 525 housing units. In early 2003 a 236-room hotel, adjacent to the Galleria Mall, opened on the last development parcel remaining in the Riverfront area.

Following on the successes in the Riverfront area, other portions of eastern Cambridge are developing as a center for the software, internet and biotechnology industries. Biopure, Merrimack Pharmaceuticals and Transgenomic Inc., in addition to several other biotech companies, have established research facilities in the area. Several development proposals, totaling 1.9 million SF, are under construction in East Cambridge. A major project under construction at a site formerly owned by Commonwealth Energy will include 738,000 of office/R&D, 22,000 SF of retail space, a 110,000 SF hotel, 352,000 SF of housing, and 2,800 parking spaces. Development at 300 Bent Street is adding 92,000 SF for telecommunications uses. Work at 301 Binney Street and 320 Bent Street is adding a total of 506,000 SF of mixed-use space, including 41 residential units. Other recent development activity includes construction of 128,000 SF of office space at 286 Third Street.

**Kendall Square/Cambridge Center.** This 50-acre tract lies across the Charles River from Boston at the base of the Longfellow Bridge, between the MIT campus and East Cambridge Riverfront areas. The MBTA's Kendall Station on the Red Line, surface bus routes, and the Galleria Mall bus shuttle service the area. A new EZ Ride shuttle brings commuters from as far away as North Station on the Green line. Enhancements around Kendall Square include an active commercial center, the Cambridge Center Marriott, a public plaza adjacent to the MBTA station, and a year-round fountain/steam sculpture.

The Kendall Square area includes over 5.4 million SF of first class office/R&D space. Buildings completed in the 1980s contributed over 3.0 million SF to this total. The 1990s saw the addition of another 1.7 million SF. Development completed during the late 1990s includes a 171,000 SF building at 12 Cambridge Center for Biogen, a 63,000 SF expansion of the Whitehead Institute for Biomedical Research, a 221-room extended-stay inn, a 187,000 building at 6 Cambridge Center and 251,000 SF of office space at 205-210 Broadway. The area houses the corporate headquarters of Akamai Technologies, Biogen, Forrester Research, Genzyme, Draper Labs and CDM.

The current decade has seen the completion of a 224,000 SF building for Biogen at 15 Cambridge Center and a 285,000 SF building for Amgen at 1 Kendall Square. Construction at Tech Square is adding approximately 600,000 SF of office/R&D. Office leasing at all of these locations is heavily influenced by close proximity to the biotechnology industry cluster found around MIT and the Whitehead Institute.

**North Point.** Situated on a prominent 60 acre site adjacent to the Charles River and across from the North Station commuter rail terminal in Boston, North Point historically served as an industrial and transportation service area. Recent years have seen North Point begin a transformation. In conjunction with Boston's Central Artery project, the state is constructing infrastructure improvements to provide roadway access through the North Point district and to create a new park along the Charles River. Given its proximity to major research centers at Massachusetts General Hospital, East Cambridge/Kendall Square, and the Massachusetts Institute of Technology, as well as to local and regional transit through the Lechmere MBTA station and North Station, North Point has attracted substantial interest from developers in recent years.

Both a 159,000 SF headquarters for EF International, an educational services company, and a 435-unit housing development were occupied in 1999. In 2002 the Cambridge Planning Board approved a proposal from Charles E. Smith Residential to construct a 767-unit housing community over the coming five years. In 2003 the Planning Board went on to approve a mixed-use development proposal from Spaulding & Slye, in partnership with the Boston & Maine Railroad and the Massachusetts Bay Transportation Authority. The 4.5 million SF development includes up to 1.9 million SF of commercial space, including retail, and at least 2,400 housing units. The Spaulding & Slye project also includes redevelopment in Lechmere Square and replacement of the Lechmere Green Line station. When complete, North Point will be home to the largest mixed-use development project in the City's history.

## **Housing Preservation and Development**

Citywide, there is a clear, continued interest in the construction of new market-rate housing. Recent rezoning initiatives have helped create the economic framework for this activity. Approximately 2,400 units have been constructed from 1996 to present. Over 4,300 additional units are in various stages of permitting.

Since the end of rent control, the City, in collaboration with local non-profit agencies, has developed affordable units with Affordable Housing Trust, CDBG and HOME funds. These funds, in turn, help leverage other public and private funds. Over 16% of the housing stock in the City of Cambridge now qualifies as affordable, including public housing. The City's efforts have had a significant impact on preserving and improving an aging inventory of privately owned structures while providing additional units of decent, affordable housing in existing buildings and, in some cases, new structures.

**City Funding.** Since the end of rent control the City has allocated over \$40 million to the City-sponsored Affordable Housing Trust from local tax and Community Preservation Act funds, developing or preserving over 2,000 units of housing. City affordable housing programs include the following:

- **Non-Profit Acquisition and Development of Multifamily Properties** Through this program, non-profit corporations in Cambridge and the Cambridge Housing Authority acquire and rehabilitate existing buildings and/or develop new housing. The buildings become permanently affordable through the City's Affordable Housing Covenant, a long-term deed restriction.

- **First-time Homebuyer Program** City housing staff provide first-time homebuyer education ten times annually and offer one-on-one counseling. Over 500 residents participate annually.

- **Preservation of Expiring Use Restriction Properties** This program provides technical and financial assistance to tenants and landlords of privately-owned federally-assisted properties in danger of conversion to market rate housing. To date, over 1,200 units have been preserved as affordable.

- **Home Improvement Programs** In collaboration with the Cambridge Neighborhood Apartment Housing Services, Inc. (CNAHS), the City offers a multifamily rehabilitation program, providing low-interest financing to private owners of multifamily properties in return for a set-aside of units for low and moderate-income tenants. Offered in collaboration with Homeowners Rehab, Inc. and Just A Start, the Home Improvement Program (HIP) is a low-interest rehabilitation loan program for low and moderate-income owner-occupants of one- to four-unit buildings. Owners can use the funds to improve their buildings to meet HUD and City building code requirements and are required to keep rents affordable.

- **Inclusionary and Incentive Zoning** Through these innovative zoning policies, the City provides new affordable housing opportunities in mixed-income developments and leverages funds from non-residential developers in Cambridge.

*Inclusionary Zoning:* The Inclusionary Zoning Ordinance requires developers of any new or converted residential development with 10 or more units to provide 15% of the total number of units as affordable housing. To date, 131 affordable Inclusionary units have been created.

*Incentive Zoning:* The Incentive Zoning Ordinance requires that non-residential developers seeking a special permit that authorizes an increase in the permissible density or intensity of a particular use, mitigate the impact of their development through a contribution to the Affordable Housing Trust. To date, over \$1.5 million has been raised through Incentive Zoning.

**Federal Funding.** Cambridge has been designated a participating jurisdiction under the federal HOME program and receives an annual allocation of over \$1 million from HUD for the provision of new and rehabilitated affordable housing units. The City receives approximately \$4 million annually through the CDBG program, 50% of which is allocated to housing related activities. In addition, in 2003 the City received a \$2.0 million federal grant from HUD to assist property owners with deleading their units, supplementing \$8.5 million received since 1994.

**Public Housing.** The focus of the Cambridge Housing Authority is currently on the planning and construction of large-scale capital improvements to its federally-assisted elderly housing stock. With the completion of these upgrades in the coming years, the Housing Authority will have greatly improved conditions in 748 units of elderly/disabled housing. Additionally, the Housing Authority has prioritized modernization of its state-assisted housing stock, upgrading building systems and implementing energy-saving measures at three sites and planning the comprehensive modernization of two large family developments.

The Housing Authority's Planning and Development staff currently manages active federally-funded design and construction projects totalling \$32,316,832. These contracts use resources from HUD's Capital Fund and

HOPE VI programs and commit the bulk of available funds to capital improvements. The Authority also manages \$1,047,742 in active state-funded modernization contracts.

**Employment by Sector**

The following table presents the number of employees for the calendar year 2002, as compiled by the Massachusetts Division of Employment and Training. The annual payroll for the almost 4,000 businesses and government agencies conducting business in Cambridge during 2002 totaled approximately \$6.0 billion.

**CITY OF CAMBRIDGE  
EMPLOYMENT BY SECTOR - CALENDAR YEAR 2002**

	<b>2002 Average Employees</b>	<b>Percent of Total Employment</b>
<b>Private Sector:</b>		
Construction.....	4,216	4.0%
Manufacturing .....	5,008	4.7
Trade, Transportation and Utilities .....	10,440	9.9
Information.....	5,120	4.8
Financial Activities .....	2,706	2.6
Professional and Business Services.....	24,419	23.1
Education and Health Services .....	34,165	32.3
Leisure and Hospitality.....	8,948	8.5
Other Services.....	2,219	2.1
Unspecified .....	35	0.0
<b>Total Private Sector .....</b>	<b>97,276</b>	<b>92.1</b>
<b>Total Public Sector:.....</b>	<b>8,386</b>	<b>7.9</b>
<b>TOTAL .....</b>	<b>105,662</b>	<b>100.0%</b>

Source: Massachusetts Division of Employment and Training.

**CITY OF CAMBRIDGE  
TOP TWENTY-FIVE EMPLOYERS - OCTOBER 2003**

<b>2003 Rank</b>	<b>Name of Employer</b>	<b>Nature of Business</b>	<b>2003 Employees(1)</b>	<b>2002 Rank(4)</b>
1	Harvard University.....	Higher Education	8,727	1
2	MIT .....	Higher Education	8,569	2
3	City of Cambridge(3) .....	Government	3,226	3
4	Cambridge Public Health Commission.....	Medical	1,746	5
5	Federal Government.....	Government	1,690	6
6	Biogen Inc. ....	Biotechnology	1,467	8
7	Mt. Auburn Hospital .....	Medical	1,449	7
8	Millennium Pharmaceuticals.....	Biotechnology	1,412	4
9	Genzyme Corporation .....	Biotechnology	1,005	9
10	Draper Laboratory Inc.....	Research & Development	923	10
11	Wyeth/Genetics Institute.....	Biotechnology	724	11
12	Whitehead Institute .....	Research & Development	690	16
13	Commonwealth of Massachusetts.....	Government	678	12
14	Camp, Dresser & McKee .....	Engineering Consultants	630	13
15	Lesley University .....	Higher Education	608	17
16	Quest Diagnostics.....	Clinical Testing Services	593	15
17	Grace Construction .....	Construction Products	554	20
18	Vertex Pharmaceuticals Inc.....	Biotechnology	486	19
19	Whole Foods/Bread & Circus .....	Retail Supermarket	476	14
20	Shaws Supermarkets/Star Market .....	Retail Supermarket	435	24
21	EF International .....	Travel & Exchange Programs	422	21
22	ABT Associates.....	Management Consulting	408	23
23	Youville Hospital(2).....	Medical	403	28
24	Monitor Group.....	Management Consulting	395	22
25	Cambridge Marriott Hotels(2).....	Hotel	353	31
<b>TOTAL</b>			<b>38,069</b>	

(1) All figures collected between 7/03 and 9/03. All figures reflect employment within the City of Cambridge only. Whenever possible, totals are based on Full Time Equivalents (FTEs). Part time workers were counted as 0.5 FTEs, unless otherwise indicated by employer response.

(2) Not on 2002 list. Each of these two companies belonged to the Top 25 Employers at various times in the past.

(3) City of Cambridge figures include School Department employees.

(4) Employers dropped from list since 2002 include Transkaryotic Therapies Inc. and Akamai Technologies Inc.

Source: Cambridge Community Development Department and cited employers, 2003.

As illustrated in the table below, the unemployment rate for the City of Cambridge has been consistently lower than the rates for the State of Massachusetts and the United States.

**UNEMPLOYMENT RATE  
AVERAGE ANNUAL RATES 1992 TO 2003(1)**

	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>Massachusetts</u>	<u>United States</u>
2003 (August) .....	3.9%	5.2%	5.6%	6.0%
2002 .....	3.8	4.8	5.3	5.8
2001 .....	2.5	3.2	3.7	4.9
2000 .....	1.6	2.1	2.4	4.1
1999 .....	1.9	2.7	3.2	4.2
1998 .....	1.9	2.8	3.3	4.5
1997 .....	2.4	3.4	4.0	4.9
1996 .....	2.5	3.7	4.3	5.4
1995 .....	3.3	4.7	5.6	5.6
1994 .....	4.0	5.2	6.0	6.1
1993 .....	4.6	6.0	6.9	6.8
1992 .....	5.6	7.5	8.5	7.4

(1) Unadjusted Monthly Average

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

**Retail and Services Industry**

A variety of retail and service employers are located within the City of Cambridge. The following two tables present information on retail establishments and sales, and service establishments and sales for the 1997 calendar year, the most recent data available.

**CITY OF CAMBRIDGE  
RETAIL ESTABLISHMENTS AND SALES  
CALENDAR YEAR 1997 (1)**

	<u>Cambridge</u>			<u>Boston PMSA</u>		
	<u># of Firms With Payroll</u>	<u>Sales (000)</u>	<u>% of Total</u>	<u># of Firms With Payroll</u>	<u>Sales (000)</u>	<u>% of Total</u>
Motor Vehicle & Parts Dealers .....	12	\$ 69,616	6.6%	1,027	\$ 8,031,960	23.9%
Furniture and Home Furnishings Stores .....	35	49,286	4.7	809	1,082,517	3.2
Electronics and Appliances Stores .....	36	128,745	12.2	559	1,121,507	3.3
Buildings Materials & Garden Equipment & Supplies Dealers .....	16	52,633	5.0	912	2,772,417	8.2
Food & Beverages Stores ..	76	206,943	19.6	2,320	6,197,881	18.4
Health & Personal Care Stores .....	43	74,896	7.1	1,025	2,060,316	6.1
Gasoline Stations .....	29	38,722	3.7	1,263	1,825,062	5.4
Clothing & Clothing Accessories Stores .....	121	156,607	14.7	2,271	2,884,458	8.6
Sporting Goods, Hobby, Book & Music Stores ...	64	136,762	12.9	1,019	1,279,262	3.8
General Merchandise Stores (1) .....	10	39,895	3.8	331	3,282,299	9.8
Miscellaneous Stores (1) ..	70	47,525	4.5	1,581	1,076,938	3.2
Nonstore Retailers .....	18	55,628	5.3	795	2,043,912	6.1
Total .....	530	\$1,056,237	100.0%	13,912	\$33,638,629	100.0%

(1) Most recent data available.

Source: Massachusetts 1997 Economic Census, Retail Trade, Geographic Series.



**CITY OF CAMBRIDGE  
SERVICE ESTABLISHMENTS AND SALES  
CALENDAR YEAR 1997(1)**

	Cambridge			Boston PMSA		
	Firms With Payrolls	Sales (000)	% of Total	Firms With Payrolls	Sales (000)	% of Total
Information Related .....	175	\$1,547,814	28.9%	1,856	\$12,203,349	21.3%
Professional, Scientific & Technical .....	738	2,751,929	51.3	12,711	19,390,881	33.8
Administrative, Support & Waste Management & Remediation.....	174	237,107	4.4	4,481	6,360,479	11.1
Educational Services .....	38	66,209	1.2	661	463,765	3.8
Health Care & Social Assistance (1) ...	201	219,343	4.1	6,980	6,712,725	11.7
Arts, Entertainment & Recreation.....	40	46,229	0.9	981	1,096,700	1.9
Accommodation & Food Services .....	413	404,274	7.5	12,766	8,294,645	14.5
Other Services.....	148	91,002	1.7	6,068	2,767,975	4.8
Total.....	1,927	\$5,363,907	100.0%	46,504	\$57,290,519	100.0%

(1) Sales figures reflect taxable establishments only.

Source: Massachusetts 1997 Economic Census, Geographic Series.

**Housing and Construction Activity**

The data in the tables on the following page are presented to illustrate various housing characteristics for the City of Cambridge. The figures for the number of buildings shown are for taxable property only and do not include units under the Cambridge Housing Authority or other subsidized units and university dormitories. The number of buildings by type are as of January 1, 2003.

**CITY OF CAMBRIDGE  
PARCEL COUNT BY TYPE  
As of January, 2003**

<u>Type of Housing</u>	<u>Number of Parcels</u>
One-Family	3,591
Two-Family	3,011
Three-Family	1,537
Four to Eight Family	730
Nine or More Units	266
Condominiums	9,360 (1)
Mixed Res./Comm. Bldgs.	350
Rooming Houses	30
<b>Total</b>	<b>18,875</b>

(1) The figure for condominiums represents the number of units.  
Source: City Department of Finance.

**CITY OF CAMBRIDGE  
VALUE OF NEW CONSTRUCTION (1) AND DISTRIBUTION BY TYPE  
FISCAL YEARS 1997 TO 2003**

<u>Fiscal Year</u>	<u>Est. Value of Construction</u>	<u>% Distribution</u>	
		<u>Residential</u>	<u>Commercial</u>
2003	\$844,862,605	33%	67%
2002	462,909,241	31	69
2001	825,695,634	28	72
2000	720,646,992	29	71
1999	321,834,613	31	69
1998	457,469,219	34	66
1997	388,057,114	25	75

(1) Includes improvements to existing properties.  
Source: Cambridge Inspectional Services Department.

**Population and Income Characteristics**

According to figures provided by the U.S. Department of Commerce, Bureau of the Census, as of 2000, the City of Cambridge had a population of 101,355. This figure represents a 5.8 percent increase from the 1990 population. The following table represents population figures for selected years.

**CITY OF CAMBRIDGE  
POPULATION AND RATES OF CHANGE**

<u>Year</u>	<u>Population</u>	<u>Rate of Change</u>
2000	101,355	5.8%
1990	95,802	0.5
1980	95,322	-5.0
1970	100,361	-6.8
1960	107,716	-10.8
1950	120,740	—

Source: The 1950, 1960, 1970, 1980, 1990, and 2000 figures are from the U.S. Decennial Census which is provided by the U.S. Department of Commerce, Bureau of the Census.

The 2000 U.S. Census reported the City's median age to be approximately 30 years with a much greater representation of residents in the 25–34 year old age group than the national average. In addition, the City has a very high percentage of individuals who have graduated from high school and who have attended four or more years of college in comparison to the Massachusetts averages.

### SELECTED POPULATION CHARACTERISTICS

Characteristic	Cambridge	Boston PMSA	Massachusetts	United States
Population (2000) .....	101,355	3,398,051	6,349,097	281,421,906
Median Age				
2000.....	30.4	36.2	36.5	35.3
1990.....	31.1	33.4	33.6	32.9
1980.....	28.6	31.3	31.2	30.0
1970.....	26.8	29.1	28.0	28.0
1960.....	29.6	32.0	32.1	29.5
Age Group (2000 data)				
0-4.....	4.1%	6.2%	6.3%	6.8%
5-17 .....	9.2	16.3	17.4	18.9
25-44.....	38.5	32.8	31.3	30.2
45-64.....	39.0	31.6	31.5	31.7
65 and over.....	9.2	13.1	13.5	12.4
65 and over.....	100.0	100.0	100.0	100.0
Four or more years of college education				
25 years or older.....	65.1%	39.5%	33.2%	24.4
High school graduates				
25 years or older.....	89.4%	87.1%	84.8%	80.4

Source: U.S. Department of Commerce, Bureau of the Census, Decennial Census, 1960, 1970, 1980, 1990, 2000

### Income

Presented below are tables of median family income and per capita income for the most recent years available.

#### MEDIAN FAMILY INCOME

Year	Cambridge	Boston PMSA	Massachusetts	United States
1999	\$59,423	\$64,427	\$61,664	\$50,046
1989	39,990	49,266	44,367	37,919
1979	17,845	22,848	21,166	19,917

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

**PER CAPITA INCOME**

<u>Year</u>	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>Massachusetts</u>	<u>United States</u>
1999	\$31,156	\$29,246	\$25,952	\$21,587
1989	19,879	23,746	22,236	17,592
1979	7,957	9,880	10,096	9,494

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

**EDUCATION**

**Elementary and Secondary Schools**

The City of Cambridge public school enrollment totalled 6,756 for the school year. It is projected that the figures will show a slight decrease over the next four years. In addition to the public school system, there are approximately eleven private and parochial schools as well as two charter schools in the City. In 2003-04, there were approximately 1,368 students enrolled in the private and parochial schools, and 225 in the charter schools.

Summarized below are selected items of information concerning the number and type of public facilities and the total annual school enrollments (actual and projected).

**CITY OF CAMBRIDGE  
PUBLIC EDUCATION FACILITIES  
2003-2004 SCHOOL YEAR**

- 13 Elementary Schools
- 1 High School
- 1 Administrative Building
- 3 Miscellaneous Buildings

Source: Cambridge School Department.

**SCHOOL ENROLLMENT ACTUAL AND PROJECTIONS  
SCHOOL YEARS 2004-2008 (1)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Elementary	4,472	4,383	4,389	4,316	4,726
Secondary	1,987	1,916	1,853	1,792	1,699
Ungraded	297	301	306	311	315
Total	6,756	6,600	6,548	6,419	6,340

(1) Enrollments are as of October 1 for the school years shown. The figures shown for 2004 are actual with the following years as projections.

**CITY OF CAMBRIDGE  
PUBLIC SCHOOL ENROLLMENTS HISTORY (1)**

<b>Fiscal Year</b>	<b>K-8</b>	<b>9-12</b>	<b>Special</b>	<b>Total</b>	<b>Percentage Change</b>
2003	4,888	1,889	334	7,111	-2.54%
2002	5,073	1,904	319	7,296	-0.16
2001	5,109	1,951	248	7,308	-2.44
2000	5,119	1,930	442	7,491	-1.92
1999	5,271	1,910	457	7,638	-2.90
1998	5,497	1,910	459	7,866	-2.32
1997	5,539	1,983	531	8,053	-1.41
1996	5,528	1,989	651	8,168	-1.48
1995	5,521	2,047	670	8,291	+1.39
1994	5,513	2,018	646	8,177	+1.92
1993	5,297	2,038	688	8,023	+1.92
1992	5,097	2,102	673	7,872	+1.48

(1) Enrollments are as of October 1, for the fiscal years shown.  
Source: Cambridge School Department.

### **Higher Education**

The major institutions of higher education located in the City are Harvard University and the Massachusetts Institute of Technology (M.I.T.).

Harvard University, the nation's oldest institution of higher learning, was established by the Great and General Court of the Massachusetts Bay Colony in 1636, just 16 years after the Pilgrims landed at Plymouth Rock. Harvard has grown from a school of 12 students and a single master to a university with an enrollment of approximately 18,700 degree candidates.

Harvard University is located primarily in Harvard Square. The various schools and colleges include facilities of Harvard College (the undergraduate portion of the University) as well as the Graduate School of Arts and Sciences, Radcliffe College, the Graduate School of Education, the John F. Kennedy School of Government, the Harvard Law School, the Harvard Divinity School, the Graduate School of Design, the Widener Library and the Loeb Drama Center (home of the American Repertory Theater).

Additional facilities include many of Harvard's famous museums, including the Fogg Museum, The Busch Reisinger Museum, the Sackler Museum, the Museum of Comparative Zoology, the Peabody Museum, and the Botanical Museum. In addition to serving as teaching and research facilities, these museums are open to the public. Public exhibitions also are conducted at the Harvard College Observatory and the Harvard Smithsonian Observatory.

While the Massachusetts Institute of Technology began its life across the Charles River, in Boston, the University moved to Cambridge in the early part of this century.

The facilities of the undergraduate and graduate schools for M.I.T., with an enrollment of over 9,700 degree candidates, are located in the Kendall Square area of the City. These include the Graduate School for Architecture and Planning, the Graduate School of Management, the Graduate School of Science, and the Graduate School of Humanities and Social Science.

Additional M.I.T. facilities include the Interdenominational Chapel, Kresge Auditorium, the Hayden Art Gallery, the Margaret Hutchinson Compton Gallery, the Hart Nautical Galleries, the Albert and Vera List Visual Arts Center, and the M.I.T. Museum and Historical Collections, as well as the famous laboratory of Professor Harold Edgerton for Stroboscopic Light Display and Photographs.

## **The Cambridge Public Health Commission**

In June, 1996, the Massachusetts legislature enacted home rule legislation submitted by the City of Cambridge which created the Cambridge Public Health Commission. Under the enacted legislation, the City's Department of Health and Hospitals, which includes the Cambridge Hospital, Neville Manor Nursing Home, and the Department of Public Health, were transferred to the Commission. The primary objective of the legislation was to give the Commission the flexibility to respond to the major changes in the health care industry resulting from the consolidation and mergers of health care providers. The Commission now operates as an independent public authority, governed by a board of seventeen members who are appointed by the City Manager. Day to day administration of the Commission is overseen by a chief executive officer who is appointed by the Commission board.

In accordance with the home rule legislation, on July 1, 1996, all employees, assets and liabilities of the former City Department of Health and Hospitals were transferred from the City to the Commission, with the exception of existing pensions and general obligation debt liabilities. While the City will continue to carry these long-term obligations on its financial statements, the Commission will annually reimburse the City for the associated costs. The Department's real property was transferred from the City to the Commission via a fifty year lease agreement.

As stated previously, the primary aim of the home rule legislation was to allow the Cambridge Hospital the flexibility to affiliate with or acquire other area health care providers, and in particular allowed the Commission to acquire neighboring Somerville Hospital. In 1995, the Commission acquired Somerville Hospital's neighborhood health centers, and in July, 1996, the Commission acquired Somerville Hospital. The Commission will evaluate other affiliation opportunities as they arise.

The Commission has completed a \$60 million renovation and expansion of the Cambridge Hospital. The project includes the construction of a three story 70,000 square foot ambulatory care center, a 200 space underground parking facility, and major renovations of existing facilities. The ambulatory care center is expected to meet substantial existing and projected demand for outpatient services in the Commission's service area. Financing for the project consists of \$30 million in City general obligation bonds (issued in February, 1998), and a \$30 million equity contribution by the Commission. Construction commenced in February, 1997 and has been completed. While the bonds issued for the project were issued by the City and will remain on the City's financial statements, in practice debt service will be paid by the Commission.

The City has historically provided tax support to the Cambridge Hospital and Neville Manor and has continued to do so for the Cambridge Public Health Commission. The level of future property tax support and the services to be provided by the Commission on behalf of the City is outlined in a seven year contract executed by the City and the Commission in December, 2003. Under the terms of the new contract, the City will provide the Commission with \$6.5 million in net property tax support in fiscal years 2004 and 2005, \$6.25 million on fiscal year 2006, and \$6.0 million for the remainder of the contract. The total amount provided by the City to the Commission under the new contract is significantly less than the amount provided under the contract that was in effect from fiscal year 1997 through fiscal year 2003.

The Commission selected Neville Communities, Inc., a consortium headed by the Cambridge Housing Authority to redevelop the existing nursing home building for affordable assisted living and to build a new nursing home alongside. The building which formerly housed Neville Manor has been thoroughly renovated and opened in the spring of 2002 as Neville Place, a mixed income assisted living facility. Construction of a new 112 bed nursing home on the site began in the spring of 2003 and is expected to be completed in the fall of 2004.

# **PART IV: CITY INDEBTEDNESS AND CAPITAL PLAN**

## **AUTHORIZATION OF GENERAL OBLIGATION BONDS AND NOTES**

Serial bonds and notes are authorized by vote of two-thirds of all members of the City Council. Provision is made for a referendum on the borrowing authorization if there is a timely filing of a petition bearing the requisite number of signatures. Refunding bonds and notes are authorized by the City Council. Borrowings for some purposes require State administrative approval.

When serial bonds (or notes) have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds (or notes). Temporary loans in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be made by the Treasurer with the approval of the City Manager.

## **DEBT LIMITS**

### **General Debt Limit**

Under Massachusetts statutes, the General Debt Limit of the City of Cambridge consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit of the City is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The City of Cambridge can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the Double Debt Limit) with the approval of a state board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes, emergency loans, loans exempted by special laws, certain school bonds, sewer bonds, solid waste disposal facility bonds, and economic development bonds supported by tax increment financing and, subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems and telecommunications systems (subject to a separate limit equal to the General Debt Limit, including the same doubling provision). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

### **Revenue Anticipation Notes**

The amount borrowed in each fiscal year through the issuance of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The City's fiscal year ends on June 30. Notes issued at the end of the fiscal year may mature in the following fiscal year, and notes may be refunded into the following fiscal year, to the extent of the uncollected unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgements and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding revenue deficits arising from a failure to collect taxes of earlier years (see *Taxation to Meet Deficits* below). In any event, the period from an original borrowing to its final maturity cannot exceed one year.

## **TYPES OF OBLIGATIONS**

### **General Obligations**

Under Massachusetts statutes, the City of Cambridge is authorized to issue general obligation indebtedness of these types:

### **Serial Bonds and Notes**

These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. Level debt service is permitted for bonds or notes issued for certain pur-

poses, including self-supporting enterprise purposes, certain state-aided school projects, and certain community preservation and open space projects, as well as for those projects for which debt service has been exempted from property tax limitations. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. Most of the purposes are capital projects. Bonds and notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum term measured from the date of the original bonds or notes. Serial bonds may be issued as “qualified bonds” with the approval of a state board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on “qualified” bonds and thereafter to withhold the amount of the debt service from state aid or other state payments; administrative costs and any loss of interest income to the Commonwealth are to be assessed upon the City.

### **Bond Anticipation Notes**

These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

### **Revenue Anticipation Notes**

Revenue Anticipation Notes are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

### **Grant Anticipation Notes**

Grant Anticipation Notes are issued for temporary financing in anticipation of federal grants and state and county reimbursements. They must generally mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

### **Revenue Bonds**

Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth’s water pollution abatement or drinking water revolving loan programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns having electric departments may issue revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy. The City of Cambridge does not have an electric department. The legislation creating the Cambridge Public Health Commission authorizes the Commission to issue revenue bonds. No such bonds have been authorized. (see *The Cambridge Public Health Commission*).



**CITY OF CAMBRIDGE  
STATEMENT OF INDEBTEDNESS  
LONG-TERM BONDS AND TEMPORARY LOANS (1)  
AS OF JUNE 30, 2003**

**Bonds:**

	<u>Outstanding Bonds Prior To This Issue</u>	<u>Authorized Unissued Prior To This Issue</u>	<u>Outstanding After This Issue</u>	<u>Authorized Unissued After This Issue</u>
Within General				
Debt Limit: (2) .....	\$123,970,663	\$148,484,850	\$159,135,663	\$113,319,850
Outside General				
Debt Limit:				
School (3) .....	25,251,000	—	25,251,000	—
Water .....	66,789,295	—	66,789,295	—
Sub Total .....	<u>92,040,295</u>	<u>—</u>	<u>92,040,295</u>	<u>—</u>
Total Bonds .....	<u>\$216,010,958</u>	<u>\$148,484,850</u>	<u>\$251,175,958</u>	<u>\$113,319,850</u>

**Temporary Loans:**

	<u>Outstanding Notes</u>
Bond Anticipation .....	\$0
Grant Anticipation .....	0
Revenue Anticipation: (4)	
For Current Year .....	0
For Prior Year .....	<u>0</u>
	\$0

- 
- (1) Excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability.
  - (2) Based upon the 2002 equalized valuation of the City, the Normal General Debt Limit is \$912,162,295 and the Double General Debt Limit (see "Debt Limit" above) is \$1,824,324,590.
  - (3) The unpaid balance of state school construction grants payable over the life of outstanding school bonds for both principal and interest (interest is partially or wholly included in eligible costs of projects approved after January 1, 1971) was estimated at approximately \$23,316,109 on June 30, 2003. This amount is subject to annual appropriation by the State Legislature. Source: School Building Assistance Bureau.
  - (4) The City has not borrowed in anticipation of revenues since fiscal year 1987.

Source: City Department of Finance.

## **CONTRACTS AND MUNICIPAL LEASES**

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies. The City is currently not a party to any such long-term service contracts.

Municipal contracts relating to solid waste disposal facilities may contain provisions requiring the delivery of minimum amounts of waste and payments based thereon and requiring payments in certain circumstances without regard to the operational status of the facilities.

Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facility.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution (see “Constitutional Status and Form of Government” below), cities and towns may also be empowered to make other contracts and leases.

The City has not entered into any substantial financing lease or installment purchase contracts, but does lease certain real estate at an annual aggregate rental cost of approximately \$497,000.

**CITY OF CAMBRIDGE  
GROSS AND NET DIRECT DEBT  
as of June 30, 2003 (1)**

General Obligation Bonds (before current issue) .....	\$178,210,000
MWPAT and MWRA Loans .....	37,800,958
	<hr/>
Gross Direct Debt.....	216,010,958
Current Issue .....	35,165,000
	<hr/>
TOTAL GROSS DIRECT DEBT .....	251,175,958
Less:	
Self-Supporting GO Water Bonds.....	47,704,000
Self-Supporting GO Sewer Bonds .....	35,975,000
Self-Supporting MWPAT and MWRA Loans .....	22,398,431
Self-Supporting HUD Section 108 Loan .....	405,000
Self-Supporting Current Issue for Sewer .....	9,420,000
Self-Supporting Current Issue for Water .....	3,000,000
	<hr/>
SUBTOTAL SELF-SUPPORTING .....	118,902,431
Less:	
Commonwealth Subsidy of MWPAT Loans (2).....	15,402,527
Commonwealth Subsidy of School Debt Service (3) .....	20,448,228
	<hr/>
TOTAL NET DIRECT DEBT .....	<u>\$96,422,772</u>

- 
- (1) Includes current issue, the "Bonds".
  - (2) This figure represents the subsidies to be applied to the balance of the principal on sewer loans by the Massachusetts Water Pollution Abatement Trust (MWPAT).
  - (3) This figure represents the amount outstanding in principal reimbursements from the state for school construction projects as of June 30, 2003. Interest costs have been excluded from this figure in order to show only that portion of the State reimbursements which may be applied against the outstanding debt. These reimbursements are subject to annual appropriation by the State Legislature. Source: School Building Assistance Bureau.

Source: City Department of Finance.

**OVERLAPPING DEBT**

**Massachusetts Water Resources Authority**

The Massachusetts Water Resources Authority (the "Authority"), is an independent public authority of the Commonwealth. In 1985, the Authority assumed possession and control from the Metropolitan District Commission of a water distribution system and a sewer system (the "Systems") which provide wholesale services to 61 cities and towns located primarily in eastern Massachusetts, including most of the metropolitan Boston area. In addition to its operating responsibilities, the Authority is responsible for rehabilitating and repairing the systems to bring them into compliance with applicable environmental laws.

The MWRA is empowered by the Act to operate, maintain and improve the Systems, to utilize on an exclusive basis all such quantities of water as may be safely yielded from the MDC's watershed system, to establish and collect rates and charges for the services and commodities furnished or supplied by the Systems without supervision or regulation by any office, department, board or other agency of the Commonwealth or any of its political subdivisions and to issue its bonds and notes and pledge its revenues therefor to carry out its corporate purposes.

The aggregate principal amount of bonds and notes of the MWRA that may be issued and outstanding at any time is currently limited by the Act to \$5.4 billion. The cost of the MWRA's capital program is such that the MWRA expects to obtain increases in its debt limit in order to finance its capital programs.

**Massachusetts Bay Transportation Authority**

The Massachusetts Bay Transportation Authority (the "MBTA") was created in 1964 to finance and operate mass transportation facilities within the greater Boston metropolitan area. Under its enabling act, the MBTA is authorized to issue bonds for capital purposes, other than refunding bonds, and for certain specified purposes to an outstanding amount, which does not exceed the aggregate principal amount of \$3,556,300,000. In addition, pursuant to certain of the Commonwealth's transportation bond bills, the MBTA is authorized to issue additional bonds for particular capital projects. The MBTA also is authorized to issue bonds of the purpose of refunding bonds. Under the MBTA's enabling act, debt service, as well as other operating expenses of the MBTA, are to be financed by a dedicated revenue stream consisting of the amounts assessed on the cities and towns of the MBTA and a dedicated portion of the statewide sales tax. The amount assessed to each city and town is based on its weighted percentage of the total population of the cities and towns in the MBTA as provided in the enabling act. The aggregate amount of such assessments is not permitted to increase by more than 2.5 percent per year.

The following table sets forth the portion of overlapping debt assessed to the City (1):

<b>CITY OF CAMBRIDGE OVERLAPPING DEBT</b>				
	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Estimated City Share</u>	<u>Overlapping Debt</u>
Massachusetts Water Resources Authority (2)				
Sewer.....	\$3,453,511,000	(see above)	4.86%	<u>\$167,757,372</u>
Total.....				<u><u>\$167,757,372</u></u>

(1) Excludes temporary loans and lease payments. Omits debt of the Commonwealth and of the MBTA.

(2) Source: MWRA. Debt as of June 30, 2003.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
KEY DEBT RATIOS  
as of June 30, 2003**

	<u>Amount (1)</u>	<u>Per Capita (2)</u>	<u>Ratio to Assessed Valuation (3)</u>
Gross Direct Debt .....	\$251,175,958	\$2,478	1.3%
Net Direct Debt (4) .....	96,422,772	951	0.5
Gross Direct and Gross Overlapping Debt .....	418,933,330	4,133	2.2
Net Direct and Net Overlapping Debt .....	264,180,144	2,606	1.4

(1) Includes current bond issue.

(2) Based on 2000 population of 101,355.

(3) Based on January 1, 2003 value of \$19,226,572,680.

(4) Excludes general obligation bonds that are in practice repaid from user fees and thus are self-supporting. This includes GO bonds issued for water and sewer purposes. Also excludes portion of principal of school bonds expected to be paid with state grants and loans from the Massachusetts Water Pollution Abatement Trust (MWPAT) to be paid from state assistance.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
FIVE-YEAR DEBT SUMMARY  
OUTSTANDING GENERAL OBLIGATION DEBT  
FISCAL YEARS 1999 TO 2003 (1)  
(\$ in 000s)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Inside .....	\$ 61,638	\$ 56,913	\$ 93,712	\$109,734	\$123,971
Outside:					
School .....	25,452	37,007	36,992	31,119	25,251
Water .....	46,413	63,913	71,485	72,702	66,789
Sub Total .....	71,865	100,920	108,477	103,821	92,040
Total .....	<u>\$133,503</u>	<u>\$157,833</u>	<u>\$202,189</u>	<u>\$213,555</u>	<u>\$216,011</u>

(1) Outstanding principal on general obligation bonds. Excludes temporary notes, lease and installment purchase obligations, overlapping debt, and unfunded pension liability. As of June 30 of each fiscal year.

(2) Does not include current issue.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
GENERAL OBLIGATION BONDS  
SCHEDULE OF PRINCIPAL AND INTEREST  
PAYMENTS BY FISCAL YEAR  
As of June 30, 2003 (1)**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal This Issue</b>	<b>Interest This Issue</b>	<b>Total</b>
2004	\$ 28,039,796	\$ 9,223,497	\$ —	\$ —	\$ 37,263,293
2005	26,275,751	8,064,088	3,090,000	953,751	38,383,590
2006	23,119,018	6,998,300	3,090,000	915,093	34,122,411
2007	22,194,719	6,033,215	3,090,000	837,843	32,155,777
2008	20,609,303	5,063,445	3,090,000	760,593	29,523,341
2009	19,444,465	4,154,934	3,085,000	683,343	27,367,742
2010	19,487,537	3,258,201	3,085,000	606,218	26,436,956
2011	16,585,369	2,408,521	3,085,000	529,093	22,607,983
2012	10,155,000	1,777,336	3,085,000	451,968	15,469,304
2013	6,895,000	1,389,810	3,085,000	359,418	11,729,228
2014	4,035,000	1,093,549	3,080,000	266,868	8,475,417
2015	4,170,000	880,052	430,000	165,228	5,645,280
2016	4,000,000	678,563	430,000	151,038	5,259,601
2017	4,000,000	483,438	430,000	135,988	5,049,426
2018	4,000,000	287,813	430,000	120,938	4,838,751
2019	2,500,000	92,188	430,000	104,813	3,127,001
2020	500,000	14,063	430,000	87,613	1,031,678
2021	—	—	430,000	70,413	500,413
2022	—	—	430,000	53,213	483,213
2023	—	—	430,000	35,013	466,013
2024	—	—	430,000	18,275	448,275
	<u>\$216,010,958</u>	<u>\$51,901,013</u>	<u>\$35,165,000</u>	<u>\$ 7,307,711*</u>	<u>\$310,384,662</u>

\*May not add due to rounding.

(1) Excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability. Includes full principal and interest on Commonwealth sewer loans.

Source: City Department of Finance.

**RAPIDITY OF PRINCIPAL RETIREMENT  
ALL GENERAL OBLIGATION BONDS**

The following table shows the rate at which the City's principal amount of debt will be retired based on the amount outstanding on June 30, 2003 including these Bonds.

<b>Maturing Within</b>	<b>Amount to be Retired</b>	<b>Cumulative % Principal Retired</b>
5 years	\$132,598,587	52.79%
10 years	220,590,958	87.82
20 years	251,175,958	100.00

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
RATIO OF GROSS DIRECT DEBT TO  
ASSESSED VALUE AND GROSS DIRECT DEBT  
PER CAPITA  
FISCAL YEARS 1999 TO 2003**

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Assessed Value (2)</b>	<b>Gross Direct Debt (3)</b>	<b>Ratio of Gross Direct Debt to Assessed Value</b>	<b>Gross Direct Debt Per Capita</b>
1999	99,394	\$ 9,542,836,815	\$133,502,560	1.7%	\$1,721
2000	101,355	11,037,942,030	190,642,807	1.7	1,865
2001	101,355	12,703,137,530	234,819,166	1.8	2,317
2002	101,355	16,837,087,126	242,229,858	1.4	2,390
2003	101,355	17,750,735,596	251,175,958 (4)	1.4	2,478

(1) Population estimates are from the Massachusetts Institute for Social and Economic Research (MISER) for 1999 and from the U.S. Department of Commerce, Bureau of the Census for 2000 through 2003.

(2) All of the assessed values shown reflect full market value.

(3) As of June 30 of that fiscal year.

(4) Includes current issue, the "Bonds".

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT  
TO TOTAL EXPENDITURES  
FISCAL YEARS 1999 TO 2003**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>	<b>Total Expenditures (1)</b>	<b>Ratio of Debt Service to Total Expenditures</b>
1999	\$15,165,156	\$6,099,273	\$21,264,429	\$262,601,496	8.1%
2000	16,064,380	7,100,178	23,164,558	281,538,817	8.2
2001	17,829,926	8,399,329	26,229,255	289,962,340	9.0
2002	22,510,723	9,281,559	31,792,282	312,014,726	10.2
2003	25,825,664	9,550,789	35,376,453	328,943,844	10.8

(1) Includes all categories of the City's operating budget.

**PUBLIC INVESTMENT PROGRAM**

The City's Public Investment Program provides for improvements to the City's public facilities for the ensuing fiscal year and four years thereafter, along with a means of financing these improvements. The first year of the program constitutes the capital budget for the current fiscal year; the remaining four years serve as a planning guide. The plan is reviewed periodically and is completely revised each year during the City's annual budget process. The approved Public Investment Program is the result of a process that balances the need for public facilities against the fiscal capability of the City to provide for these needs.

Since fiscal year 1985 the City has formally funded a portion of its Public Investment Program on a "pay-as-we-go" basis out of current general fund revenues. This financing source shows a substantial decrease from \$6,085,000 in fiscal year 2003 to \$3,725,000 in fiscal year 2004. The five year plan calls for a total of \$15,725,000 in general fund revenues or free cash to be allocated to the Public Investment Fund. Revenues from the Community Preservation Act (CPA), which are used to fund certain capital projects, are appropriated separately and are not included in this plan.

The present plan, which was approved by the City Council on June 9, 2003, is a program of capital spending for the five-year period beginning July 1, 2003 and ending June 30, 2008. The projects in the plan, however, are considered for planning purposes and may be deleted, altered, or rescheduled in any manner, at any time, by the City Council. The estimated cost of the five-year program is \$246,064,390. The uses by project categories and major funding sources for the total program as noted in the Public Investment Program are projected as follows:

**PUBLIC INVESTMENT PROGRAM  
SUMMARY OF EXPENDITURES BY CATEGORY  
FISCAL YEARS 2004 TO 2008**

<u>Expenditure Category</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Total</u>
General						
Government ...	\$ 840,000	\$ 500,000	\$ 500,000	\$ 400,000	\$ 500,000	\$ 2,740,000
Public Safety .....	450,000	5,400,000	40,450,000	725,000	550,000	47,575,000
Community						
Maintenance & Development...	24,915,020	24,550,700	20,849,485	20,528,205	16,405,530	107,248,940
Human Resource						
Development	5,970,000	37,700,090	7,500,090	385,090	625,090	52,180,450
Education.....	34,320,000	500,000	500,000	500,000	500,000	36,320,000
<b>Total .....</b>	<b>\$66,495,110</b>	<b>\$68,650,790</b>	<b>\$69,799,575</b>	<b>\$22,538,295</b>	<b>\$18,580,620</b>	<b>\$246,064,390</b>

Source: "Public Investment Plan, Fiscal Year 2004 to Fiscal Year 2008."  
Annual Budget Fiscal Year 2004, as adopted.

**PUBLIC INVESTMENT PROGRAM  
USES AND SOURCES OF FUNDS  
FISCAL YEARS 2004 TO 2008**

<u>Uses</u>	<u>Total Amount</u>	<u>Percent of Total</u>
General Government .....	\$ 2,740,000	1.11%
Public Safety.....	47,575,000	19.33
Community Maintenance and Development		
Housing Development .....	8,414,400	3.42
Economic Development.....	2,650,000	1.08
Streets, Highways & Transportation ....	23,013,555	9.35
Water & Sewer.....	70,775,985	28.76
Other.....	2,395,000	0.97
Human Resource Development.....	52,180,450	21.21
Education .....	36,320,000	14.76
<b>Total .....</b>	<b>\$246,064,390</b>	<b>100.00%</b>
<u>Sources</u>	<u>Total Amount</u>	<u>Percent of Total</u>
Free Cash .....	\$ 14,225,000	5.78%
Property Taxes .....	1,500,000	0.61
Block Grant .....	10,889,850	4.43
Parking Fund .....	2,500,000	1.02
Sewer Service Charge .....	6,000,000	2.44
Water Service Charge .....	5,200,000	2.11
Bond Proceeds .....	194,091,500	78.88
Chapter 90 Grant .....	6,614,100	2.69
Street Preservation Offset Fund .....	1,039,455	0.42
MWCA Grant .....	3,804,485	1.55
Golf Course Fees .....	200,000	0.08
<b>Total .....</b>	<b>\$246,064,390</b>	<b>100.00%</b>

Source: "Public Investment Plan, Fiscal Year 2004 to Fiscal Year 2008."  
Annual Budget Fiscal Year 2004, as adopted.



**PUBLIC INVESTMENT PROGRAM  
SOURCES OF FINANCING  
FISCAL YEARS 2004 TO 2008**

<b>Financing Category</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>Total</b>
<b>General Government:</b>						
Property Taxes	\$ 840,000	\$ —	\$ —	\$ —	\$ —	\$ 840,000
Free Cash	—	500,000	500,000	400,000	500,000	1,900,000
<b>Subtotal</b>	<b>\$ 840,000</b>	<b>\$ 500,000</b>	<b>\$ 500,000</b>	<b>\$ 400,000</b>	<b>\$ 500,000</b>	<b>\$ 2,740,000</b>
<b>Public Safety:</b>						
Property Taxes	\$ 450,000	\$ —	\$ —	\$ —	\$ —	\$ 450,000
Free Cash	—	400,000	450,000	7,250,000	550,000	2,125,000
Bond Proceeds	—	5,000,000	40,000,000	—	—	45,000,000
<b>Subtotal</b>	<b>\$ 450,000</b>	<b>\$ 5,400,000</b>	<b>\$40,450,000</b>	<b>\$ 7,250,000</b>	<b>\$ 550,000</b>	<b>\$ 47,575,000</b>
<b>Community Maintenance &amp; Development:</b>						
Property Taxes	\$ 210,000	\$ —	\$ —	\$ —	\$ —	\$ 210,000
Free Cash	940,000	1,235,000	1,185,000	1,125,000	960,000	5,445,000
Parking Fund	500,000	500,000	500,000	500,000	500,000	2,500,000
Sewer Service Charge	1,100,000	1,150,000	1,250,000	1,250,000	1,250,000	6,000,000
Water Service Charge	1,100,000	800,000	1,000,000	1,100,000	1,200,000	5,200,000
Street Preservation Offset Fund	1,039,455	—	—	—	—	1,039,455
Block Grant	2,082,880	2,082,880	2,082,880	2,082,880	2,082,880	10,414,400
Chapter 90	1,322,820	1,322,820	1,322,820	1,322,820	1,322,820	6,614,100
MWRA Grant	136,160	460,000	—	3,208,325	—	3,804,485
Bond Proceeds	16,483,705	17,000,000	13,508,785	9,939,180	9,089,830	66,021,500
<b>Subtotal</b>	<b>\$24,915,020</b>	<b>\$24,550,700</b>	<b>\$20,849,485</b>	<b>\$20,528,205</b>	<b>\$16,405,530</b>	<b>\$107,248,940</b>
<b>Human Resource Development:</b>						
Free Cash	\$ 585,000	\$ 365,000	\$ 365,000	\$ 250,000	\$ 490,000	\$ 2,055,000
Block Grant	95,090	95,090	95,090	95,090	95,090	475,450
Bond Proceeds	5,250,000	37,200,000	7,000,000	—	—	49,450,000
Golf Course Fees	40,000	40,000	40,000	40,000	40,000	200,000
<b>Subtotal</b>	<b>\$ 5,970,090</b>	<b>\$37,700,090</b>	<b>\$ 7,500,090</b>	<b>\$ 385,090</b>	<b>\$ 625,090</b>	<b>\$ 52,180,450</b>
<b>Education:</b>						
Free Cash	\$ 700,000	500,000	500,000	500,000	500,000	\$ 2,700,000
Bond Proceeds	33,620,000	—	—	—	—	33,620,000
<b>Subtotal</b>	<b>\$34,320,000</b>	<b>\$ 500,000</b>	<b>\$ 500,000</b>	<b>\$ 500,000</b>	<b>\$ 500,000</b>	<b>\$ 36,320,000</b>
<b>Grand Total</b>	<b>\$66,495,110</b>	<b>\$68,650,790</b>	<b>\$69,799,575</b>	<b>\$22,538,295</b>	<b>\$18,580,620</b>	<b>\$246,064,390</b>

Source: "Public Investment Plan, Fiscal Year 2004 to Fiscal Year 2008."  
Annual Budget Fiscal Year 2004, as adopted.

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## **PART V: CITY FINANCIAL INFORMATION**

### **BASIS OF ACCOUNTING AND REPORTING STRUCTURE**

All of the City's Governmental Funds and Expendable Trust Funds are reported under the modified accrual basis of accounting. Accordingly, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City recognizes funds received 60 days after the close of its fiscal year as revenue of that reporting period. All other amounts not received during that period are deferred and recognized in future accounting periods. Expenditures, other than interest on long-term debt, are recorded when the liability is incurred.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however, essentially two types of these revenues. In one, moneys 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 expenditures recorded. In the other, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable 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 is met.

The accrual basis of accounting is followed by proprietary and fiduciary fund types.

#### **Reporting Entity**

The combined financial statements present information on organizations and activities of the City of Cambridge for which the City Council has oversight responsibility. These entities include the City's Water Department and the Cambridge Retirement System. The financial statements for the Retirement System are presented for the year ending December 31, 2002, which is the system's fiscal period for reporting to the Commissioner of the Retirement of the Commonwealth of Massachusetts. The operations of the Cambridge Housing Authority and the Cambridge Redevelopment Authority are not defined as part of the reporting entities as they are not subject to the financial controls of the City Manager or the City Council.

#### **Fund Accounting**

The activities of the City are accounted for through the use of several funds and a long-term debt group of accounts, each of which is a separate accounting entity. The operations of each fund are accounted for through a separate set of self-balancing accounts which are summarized by type in the financial statements. The following fund types and account groups are used by the City:

##### *Governmental Funds*

*General Fund*—This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

*Special Revenue Funds*—These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

*Public Investments Fund*—This fund is used to account for the financial resources and expenditures for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

### *Proprietary Funds*

*Enterprise Funds*—These funds are used to account for the City's operations: (1) that are financed and operated in a manner similar to private business enterprises—where the intent is that the costs (expenses, including depreciation) of providing services to the public be financed or recovered primarily through user charges; or (2) where a periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

*Internal Service Funds*—These funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

### *Fiduciary Funds*

*Trust and Agency Funds*—These funds are used to account for assets being held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Expendable trust and agency funds are accounted for and reported as governmental funds.

### *Account Group*

*General Long-Term Debt*—This group of accounts is used to account for all long-term debt of the City except for debt issued for hospital improvements.

## **BUDGET AND APPROPRIATION PROCESS**

Under Massachusetts statutes and the City Charter, the City Manager is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1 within 170 days after the annual organization of the City government (which is ordinarily in early January). The City Council may make appropriations for the recommended purposes and may reduce or reject any item. Without a recommendation of the City Manager, the Council may not make any appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in the case of the failure of the City Manager to recommend an appropriation for such a purpose within 7 days after a request from the Council). The Council may not increase any item without the recommendation of the City Manager (except as provided by legislation, subject to local acceptance, under which the school budget can be increased upon recommendation of the school committee and by two-thirds vote of the Council, provided that such increase does not cause the total annual budget to exceed the property tax limitations). If the City Council fails to act on any item of the proposed budget within 45 days, that item takes effect.

City department heads are generally required to submit their budget requests to the city manager between November 1 and December 1. This does not apply to the school department, which must submit its requests in time for the manager to include them in his submission to the council.

If the City Manager does not make a timely budget submission, provision is made for preparation of a budget by the Council. Provision is also made for supplementary appropriations upon recommendation of the City Manager.

Water Department expenditures are included in the budgets adopted by the City Council. Under legislation enacted in 1981 any city or town which accepts the legislation may provide that the appropriation for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department.

As a result of the Proposition 2½ legislation adopted in November of 1980, the Cambridge School Committee is no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the total amount appropriated by the City Council, but the School Committee retains full power to allocate the funds appropriated. State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors.

Under recent legislation, the city council of a city on the recommendation of the manager may transfer within the last 2 months of fiscal years 2004 and 2005 any amount appropriated for the use of any department to the appropriation for any other department, provided that no such transfer may be made from any appropriation for a school department, regional school district, or municipal light department.

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for, and final judgements are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy.

### **Budget Comparison**

The following table shows a comparison of the budgeted operating revenues and expenditures of the City for fiscal years 2000 through 2004. Health insurance, retirement and certain other employee benefit costs are included in departmental budgets. Debt service on school projects is included in the School budget. Debt service on the Cambridge Hospital project is included in the Debt Service budget.

The fiscal year 2004 budget of \$350,130,908 includes all appropriations made to operating budgets prior to the calculation of the fiscal year 2004 tax rate. This figure includes overlay deficits from the prior year as well as the overlay reserve and offsets for the current fiscal year. The fiscal year 2004 operating budget represents an increase of \$10,974,716, or 3.2%, over the fiscal year 2003 budget. Increases in the fiscal year 2003 budget include salary adjustments for employees which are spread over most City departments, debt service costs, health and retirement costs, and additional school expenditures of \$1,310,157.

The largest source of funding for the operating budget is property taxes. This revenue increased from a fiscal year 2003 level of \$197,720,546 (including an allocation of \$2,985,000 to the Public Investment Fund) to a fiscal year 2004 level of \$209,599,396 including \$1,500,000 allocated to the Public Investment Fund. An additional \$9,641,405 from other current revenue sources has been combined with bond authorizations of \$55,353,705 for a total capital budget of \$66,495,110.

**CITY OF CAMBRIDGE**  
**BUDGETED REVENUES AND EXPENDITURES**  
**FISCAL YEARS 2000 THROUGH 2004**  
**(\$ in 000s)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Revenues:</b>					
Real & Personal Property Taxes(1)	\$159,690.9	\$169,995.9	\$184,430.6	\$194,735.5	\$207,099.4
<b>Local Estimated Receipts:</b>					
Motor Vehicle Excise .....	4,581.9	4,673.3	4,893.0	5,619.6	5,613.5
Water .....	11,042.3	13,683.9	14,014.0	14,586.7	14,415.9
Sewer .....	16,706.6	14,249.8	21,073.1	24,058.9	25,850.6
Interest Income .....	1,600.0	2,200.0	2,550.0	2,000.0	1,290.0
Other Local Receipts .....	40,218.0	41,273.5	40,552.7	40,974.8	41,522.1
Subtotal .....	<u>74,148.8</u>	<u>76,080.5</u>	<u>83,082.8</u>	<u>87,240.0</u>	<u>88,692.1</u>
State Aid .....	44,061.0	45,621.8	43,956.5	43,225.0	38,568.5
Other Available Funds .....	17,287.5	11,785.2	14,993.5	15,242.7	15,770.9
Total Revenues .....	<u>\$295,188.2</u>	<u>\$303,483.4</u>	<u>\$326,463.4</u>	<u>\$340,443.2</u>	<u>\$350,130.9</u>
<b>Expenditures:</b>					
<b>Deficits to be Raised:</b>					
Overlay .....	\$ 178.3	\$ 20.6	\$ 30.9	\$ 3.2	\$ 0.4
Other .....	2,753.7	2,649.6	3,754.7	2,820.8	132.8
Subtotal Deficits .....	<u>2,932.0</u>	<u>2,670.2</u>	<u>3,785.6</u>	<u>2,823.3</u>	<u>133.2</u>
Overlay Reserve .....	4,250.0	4,290.5	4,250.0	4,145.3	4,499.4
<b>Fixed Expenses:</b>					
<b>State &amp; County</b>					
Assessments .....	826.7	606.3	584.4	583.2	4,639.7
<b>Mass. Water Resources</b>					
Authority .....	14,093.7	14,353.9	14,248.5	15,718.8	16,143.1
Debt Service(2) .....	11,493.1	11,504.1	17,447.5	19,484.3	21,462.8
Retirement System(3) .....	11,728.6	11,461.2	11,299.8	10,845.4	14,410.6
MBTA .....	7,056.9	6,788.4	6,954.1	7,081.4	7,269.2
<b>Cambridge Public Health</b>					
Commission .....	8,598.0	7,598.0	6,598.0	6,598.0	6,500.0
Other Fixed Costs(4) .....	1,430.0	1,473.0	1,579.2	1,634.4	1,805.8
Subtotal Fixed .....	<u>\$ 55,227.0</u>	<u>\$ 53,784.9</u>	<u>\$ 58,711.5</u>	<u>\$61,945.5</u>	<u>\$ 72,231.2</u>
<b>Variable Expense (Budget):</b>					
Schools .....	102,226.0	106,021.5	112,952.3	116,562.3	117,872.5
Police .....	24,884.2	26,872.4	27,558.1	29,768.4	29,966.0
Fire .....	24,566.3	24,634.2	26,298.5	27,188.1	27,793.1
<b>Public Works:</b>					
Water .....	11,691.4	14,744.6	16,339.1	17,114.2	16,759.7
Sewer .....	1,230.4	1,392.6	1,591.9	1,743.7	1,806.3
Highway .....	2,317.2	2,486.3	2,579.0	2,795.6	2,817.5
Other .....	13,961.8	14,295.3	16,314.3	17,079.8	16,953.1
General Government .....	17,924.6	16,636.6	16,336.5	16,766.0	15,679.0
Other Variable .....	33,977.3	35,654.3	39,746.6	42,511.0	43,619.9
Subtotal Variable .....	<u>\$232,779.2</u>	<u>\$242,737.8</u>	<u>\$259,716.3</u>	<u>\$271,529.1</u>	<u>\$278,267.1</u>
Total Expenditures .....	<u>\$295,188.2</u>	<u>\$303,483.4</u>	<u>\$326,463.4</u>	<u>\$340,443.2</u>	<u>\$350,130.9</u>

(1) Before tax abatements.

(2) School costs for this category are included in the School Budget and Water costs are included in the Water Budget.

(3) Contributory Retirement System costs are included in departmental budgets.

(4) Most of the components of the Other Fixed Costs category, including health insurance costs, are included in the departmental budgets.

Source: City Department of Finance.

## PROPERTY TAXATION

### Tax Rate and Valuation-General

Property is classified for the purpose of taxation according to its use. The State Legislature has in substance created three classes of taxable property: (1) residential real property; (2) open space land; and (3) all other (commercial, industrial, and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share to be borne by residential real property must be at least 50 percent of its share of the total taxable valuation. The effective rate for open space must be at least 75 percent of the effective rate for residential real property. The share of commercial, industrial, and personal property must not exceed 175 percent of their share of the total valuation. A city or town may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10% of the valuation of commercial real property occupied by certain small businesses. Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land under an act adopted by the State Legislature in 1981 is valued for this purpose at five percent of fair cash value, but not less than ten dollars per acre.

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value." The last date that the Commissioner of Revenue made his redetermination of "equalized value" for the City of Cambridge was an amount as of January 1, 2002.

The following tables show assessed and equalized valuations for the current and past four fiscal years and total assessed valuation by property classification for the fiscal years 2002, 2003, and 2004.

**CITY OF CAMBRIDGE  
ASSESSED AND EQUALIZED VALUATIONS  
FISCAL YEARS 2000 TO 2004**

Fiscal Year	Assessed Value(1)			Equalized Valuation(2)	% of Total Assessed Valuation to Equalized
	Real Property	Personal Property	Total		
2004	\$18,782,704,000	\$443,868,680	\$19,226,572,680	\$18,243,245,900	105.4%
2003	17,382,808,566	367,927,030	17,750,785,596	18,243,245,900	97.3
2002	16,531,950,616	305,136,510	16,837,087,126	12,564,293,200	134.0
2001	12,410,137,200	293,000,330	12,703,137,530	12,564,293,200	101.1
2000	10,763,157,000	274,785,030	11,037,942,030	8,569,361,200	128.8

(1) As of January 1, 2003, 2002, 2001, 2000, and 1999, respectively.

(2) As of January 1, 2002, 2000, and 1998, respectively. Equalized valuations are determined biennially by the Commissioner of Revenue.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
TOTAL ASSESSED VALUATION BY CLASSIFICATION  
FISCAL YEARS 2002, 2003, AND 2004**

Class	2002 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential .....	\$10,316,878,911	61.28%	34.56%
Commercial .....	4,994,072,105	29.66	50.13
Industrial.....	1,220,999,600	7.25	12.25
Personal Property .....	305,136,510	1.81	3.06
	<u>\$16,837,087,126</u>	<u>100.0%</u>	<u>100.0%</u>

Class	2003 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential .....	\$10,819,610,842	60.96%	34.56%
Commercial .....	5,098,026,024	28.72	48.13
Industrial.....	1,465,171,700	8.25	13.83
Personal Property .....	367,927,030	2.07	3.48
	<u>\$17,750,735,596</u>	<u>100.0%</u>	<u>100.0%</u>

Class	2004 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential .....	\$12,157,499,831	63.23%	35.66%
Commercial .....	4,817,575,569	25.06	43.85
Industrial.....	1,807,628,600	9.40	16.45
Personal Property .....	443,868,680	2.31	4.04
	<u>\$19,226,572,680</u>	<u>100.0%</u>	<u>100.0%</u>

Source: City Department of Finance.



The following table shows the actual tax rates per \$1,000 of assessed valuation for fiscal years 2000-2004 and the estimated full value rate based on the equalized valuations for the latest fiscal years:

**CITY OF CAMBRIDGE  
PROPERTY TAX RATE  
FISCAL YEARS 2000 to 2004**

<u>Fiscal Year</u>	<u>Actual Tax Rate</u>	<u>Category</u>	<u>Estimated Full Value Tax Rate(1)</u>	<u>Average Rate(2)</u>
2004	\$ 7.63	Residential	\$11.49	\$10.90
	19.08	Commercial/Industrial		
2003	\$ 7.26	Residential	\$10.84	\$11.14
	18.67	Commercial/Industrial		
2002	\$ 8.97	Residential	\$17.47	\$13.04
	20.30	Commercial/Industrial		
2001	\$ 9.21	Residential	\$14.21	\$14.05
	23.39	Commercial/Industrial		
2000	\$ 9.64	Residential	\$19.14	\$14.86
	25.16	Commercial/Industrial		

(1) Based on an equalized valuation for that fiscal year as determined by the State Department of Revenue.

(2) The average rate is determined by dividing the total tax levy by the total assessed valuation.

Source: City Department of Finance.

The following table sets forth the City's 10 largest taxpayers of real estate and personal property taxes and the assessed value of property owned by each such taxpayer. The aggregate assessed value of the 10 largest taxpayers represents 16.5 percent of the City's total assessable base for fiscal year 2004.

**CITY OF CAMBRIDGE  
10 LARGEST TAXPAYERS  
Fiscal Year 2004 (1)**

<u>Owner</u>	<u>Nature of Business</u>	<u>Assessed Valuation</u>	<u>Amount of Taxes</u>	<u>% of Total Tax Levy</u>
Mass. Institute of Technology .....	Educational	\$1,221,886,000	\$22,209,847(1)	10.60%
Boston Properties.....	Commercial	374,520,900	7,145,859	3.41
Lyme Properties .....	Commercial	303,850,700	5,703,775	2.72
Equity Partners.....	Commercial	221,228,500	4,221,040	2.01
One Kendall LLC. ....	Commercial	198,930,100	3,768,474	1.80
Riverfront LLC. ....	Commercial	191,337,400	3,665,718	1.75
Presidents & Fellows of Harvard College.....	Educational	260,220,900	3,127,956(2)	1.49
The Bulfinch Company.....	Commercial	149,250,600	2,847,701	1.36
New England Development .....	Commercial	142,429,600	2,717,557	1.30
G.E. Capital Investment Advisors ....	Commercial	114,271,000	2,180,291	1.04
Totals.....		<u>\$3,177,925,700</u>	<u>\$57,588,218</u>	<u>27.48%</u>

(1) As of January 1, 2003.

(2) Excludes in lieu payments on exempt property.

Source: City Department of Finance.

**TAX LEVIES**

**Levy-General**

The principal tax of Massachusetts cities and towns is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from funds on hand. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see *Tax Limitations* below. As to the inclusion of debt service and final judgements, see "Security and Remedies" above.

The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds, the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years.

Although an allowance is made in the tax levy for abatements (see *Abatements and Overlay* below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see *Taxation to Meet Deficits* below).

**Taxation to Meet Deficits**

As noted elsewhere (see *Abatements and Overlay* below), overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits resulting from non-property tax revenues being less than anticipated are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to

be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

In the opinion of Bond Counsel, cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

### **Tax Limitations**

Chapter 580 of the Acts of 1980, which was proposed by an initiative petition known as "Proposition 2½", was adopted at the November 4, 1980 general election and took effect on December 4, 1980. The law is subject to amendment or repeal by the State Legislature. The Legislation, as subsequently amended, imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent (subject to exceptions for property added to the tax rolls, or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation). This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters. But an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitations, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the "growth" limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of the city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit "to counterbalance the effect of extraordinary, non-recurring events which occurred during the base year."

The statute further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy: (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributed to such obligations. Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures. In addition, the city council may vote to exclude from Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, the statute limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the Massachusetts Water Resources Authority and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option." Under the statute any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax

exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

### **Pledged Taxes**

Taxes on the increased value of certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefor be unavailable for other municipal purposes.

### **Initiative Petitions**

Various proposals have been made in recent years for legislative amendments to the Massachusetts Constitution to impose limits on state and local taxes. To be adopted such amendments must be approved by two successive legislatures and then by the voters at a state election.

### **Tax Limitations: Effect on the City**

#### *Property Tax Levy*

Cambridge, like most municipalities in Massachusetts, was severely impacted by the initial implementation of Proposition 2 1/2 in fiscal year 1981. Due to the extensive amount of tax-exempt properties located in the City and the City's dependence on property taxes as a funding source, Cambridge was initially forced to reduce its tax levy in order to comply with the new tax limitation. As the Northeast began to participate in the economic boom of the 1980's, the City also experienced unprecedented levels of new construction activity. This new qualified construction growth translated into record increases in the assessed valuation of real and personal property, allowing the City's secondary levy limit to increase by over 57 percent between fiscal years 1984-1990, while actual tax levy and total City expenditure growth over the same period was significantly less. In 1991, new construction activity declined by almost sixty percent as an economic recession hit the Northeast. The loss of new growth caused the City's levy limit growth to decline, forcing a significant reduction in the gap between the levy limit and the City's actual tax levy. In fiscal year 1995, the margin between the actual tax levy and the levy limit was \$489,000, the lowest point in many years. However, by stabilizing the tax levy at \$144.4 million in fiscal year 1996, the City was able to increase the gap between the actual levy and the levy limit to \$6.2 million by taking advantage of moderate growth in the tax base as well as new growth of \$74.3 million. In the following years, the gap between the levy limit and the actual levy grew from \$6.2 million in FY96 to \$41.4 million in FY04.

#### *Motor Vehicle Excise Tax*

Other revenue sources available to the City were also significantly impacted due to the passage of Proposition 2 1/2. The motor vehicle excise tax rate was reduced from \$66 per \$1000 to \$25 per \$1000 in 1980, causing a substantial reduction in receipts. However, in recent years, the City has been able to record substantial increases from this revenue source due mainly to the significant improvement in the local economy, implementation of an in-house tracking and collector system, and an agreement with the State not to renew drivers' licenses and automobile registrations if there are delinquent excise taxes.

#### *State Aid*

In order to partially offset the reduction in local tax revenues caused by Proposition 2 1/2, the Massachusetts Legislature appropriated increasing amounts of local aid throughout the 1980's. However, after reaching a peak of \$44,426,564 in fiscal year 1988, state aid declined to \$32,135,332 in fiscal year 1992. In the ensuing years, this trend was reversed and aid to the City from the Commonwealth moved steadily upward to its fiscal year 2002 level of \$42,380,561. However, due to reductions in state aid in fiscal year 2003, the amount that the City received in that fiscal year decreased to \$37,776,619. The City's fiscal year 2004 budget is based on the City receiving state aid in the amount of \$38,568,497.

### **Tax Limitations: Five-Year Projections**

Fiscal year 2004 valuations have been updated based on a sales ratio analysis for all sales during 2002 and \$19,226,572,680 in real and personal property valuations were certified by the Massachusetts Department of Revenue. This figure represents a \$1,475,837,084, or 8.3%, increase over fiscal year 2003 valuations. As can be seen from the chart on the following page, it is anticipated that total assessed values will increase by an average of 7.3% annually over the fiscal year 2004 to fiscal year 2008 period due to a substantial increase in the value of existing properties and new construction. The chart on the following page illustrates the impact the anticipated increase in property values will have on the City's levy and levy limits through fiscal year 2008.

**CITY OF CAMBRIDGE  
PROJECTED GROWTH IN PROPERTY VALUATION  
FISCAL YEARS 2004 TO 2008**

<b>Fiscal Year</b>	<b>Projected Assessments(1)</b>	<b>Projected Levy</b>	<b>Primary Levy Limit(2)</b>	<b>Secondary Levy Limit(3)</b>
2004	\$19,226,572,680	\$209,599,396	\$480,664,317	\$251,018,443
2005	20,527,207,880	224,443,265	513,180,197	264,000,354
2006	21,571,042,344	242,994,046	539,276,059	275,796,743
2007	23,350,865,407	261,562,127	583,771,635	288,249,001
2008	25,474,731,865	279,370,567	636,868,297	301,673,277

- (1) The figures for fiscal year 2004 are those which have been certified by the Massachusetts Department of Revenue and the figures for 2005-2008 are estimates.
- (2) The primary levy limit is calculated at 2.5 percent of the projected assessment.
- (3) The secondary levy limit is the previous fiscal year's maximum allowable limit times 102.5 percent plus qualified new construction.

Source: City Department of Finance.

**The Revaluation Process: A Review and Update**

Massachusetts state law requires that real and personal property assessments be maintained at 100 percent of full market value. Every three years, values must be certified by the Massachusetts Department of Revenue (DOR) as meeting this standard. In the intervening years, values are updated based on sales ratio analysis. In 1983, the first complete revaluation of real and personal property in over sixty years was completed and certified at \$2.9 billion for fiscal year 1984. The most recent full revaluation was performed in fiscal year 2002 and yielded \$16.84 billion in real and personal property values. Fiscal year 2004 values have been updated based on a sales ratio analysis for all sales during 2002 and real and personal property values have increased to \$19.23 billion.

The City has several general policies with respect to property assessments. First, values should be maintained at approximately 100 percent. Thus, Cambridge is among very few jurisdictions in the state which adjust values annually and thereby avoid the disrupting shifts in value (and taxes) which might otherwise occur every third year, when values must be certified by the state.

Secondly, the City's valuation program is almost exclusively an "in-house" operation. Assessing Department personnel include appraisal and analysis professionals as well as permanent, full time staff members dedicated to data collection and maintenance. Also, the Department has full service data management, analysis and valuation software systems on its computers. All residential and commercial real estate valuations, with the exception of some hotels, hospitals and nursing homes, are currently handled by the Assessing Department permanent staff.

The City is currently upgrading its assessing computer system in concert with the implementation of the city-wide Geographic Information System (GIS). As a component of the GIS, the assessing database will be readily available to most City departments.

The following table shows the calculation of the tax levies for fiscal years 2000 to 2004.

**CITY OF CAMBRIDGE  
CALCULATION OF PROPERTY TAX LEVIES  
FISCAL YEARS 2000 TO 2004  
(\$ in 000s)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>Gross Amount to be Raised:</b>					
Total Appropriations.....	\$313,941	\$336,616	\$343,917	\$356,135	\$370,631
Overlay Deficits from Prior Years.....	178	20	31	3	0
Other Local Expenditures.....	2,753	2,649	3,755	2,820	132
State and County Assessments.....	7,581	7,395	7,491	7,700	11,909
Overlay for Current Year.....	4,271	4,291	4,250	4,145	4,500
Total to be Raised .....	<u>\$328,724</u>	<u>\$350,971</u>	<u>\$359,444</u>	<u>\$372,803</u>	<u>\$387,172</u>
<b>Offsets:</b>					
Estimated Receipts from State .....	43,779	45,566	47,376	43,222	38,568
Prior Year's Overestimates					
of State & County Assessments ....	282	56	0	3	0
Local Estimated Receipts .....	79,876	80,045	83,887	88,655	102,842
Other Available Funds .....	40,766	46,819	40,736	41,202	36,162
Total Offsets .....	<u>\$164,703</u>	<u>\$172,486</u>	<u>\$171,999</u>	<u>\$173,082</u>	<u>\$177,572</u>
Tax Levy.....	<u>\$164,021</u>	<u>\$178,485</u>	<u>\$187,445</u>	<u>\$197,721</u>	<u>\$209,600</u>

Source: City Department of Finance.

**TAX COLLECTIONS AND ABATEMENTS**

**Payment Dates**

The taxes for each fiscal year are due in two installments on November 1 subject to deferral if tax bills are sent out late and May 1. (A city or town may accept a statute providing for quarterly tax payments. The City has chosen not to accept this statute.) Interest accrues on delinquent taxes at the rate of 14 percent per annum. Under recent legislation, cities and towns are authorized to establish a municipal tax amnesty program through June 30, 2004 permitting the payment of delinquent property taxes without interest or with reduced interest during the period of the program.

**Lien**

Real property (land and buildings) is subject to a lien for the taxes assessed upon it, (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien when it could not be enforced because of a legal impediment.

**Personal Liability**

The persons against whom real and personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described in *Taking and Sale* below.

**Abatements and Overlay**

The City of Cambridge is authorized to increase each tax levy by up to five percent (or a larger amount approved by the State Commissioner of Revenue) as an “overlay” to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy.

Abatements are granted where exempt real or personal property has been assessed or where taxable real and personal property has been overvalued or disproportionately valued. The City Assessor may also abate uncollectible personal property taxes. The Assessor may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue. But uncollected real property taxes are ordinarily not written off until they become municipal “tax titles” by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of the tax and charging surplus.

The following table shows the total tax levy, the reserve for abatements, the net levy, and the amounts collected during each fiscal year for each of the last five fiscal years:

**CITY OF CAMBRIDGE  
TOTAL TAX LEVY, OVERLAY RESERVE, AND TAX COLLECTIONS  
FISCAL YEARS 1999 TO 2003**

Fiscal Year	Tax Levy	Overlay Reserve for Abatements	Net Tax Levy(1)	Collections During Fiscal Year Payable (2)		Collections as of 6/30/03(3)	
				Amount	% of Net Levy	Amount	% of Net Levy
2003	\$197,720,546	\$4,145,298	\$193,575,248	\$192,373,785	99.4%	\$192,373,785	99.4%
2002	187,444,551	4,261,178	183,183,373	182,954,775	99.9	183,420,955	100.1
2001	178,484,966	4,290,541	174,194,425	173,621,733	99.7	175,807,963	100.9
2000	164,020,845	4,270,815	159,750,000	161,042,071	100.8	161,473,913	101.1
1999	159,000,005	4,250,006	154,749,999	155,715,163	100.6	155,636,114	100.6

- (1) Tax levy less overlay reserve for abatements.
- (2) Actual collection of levy less refunds and amounts refundable including proceeds of tax titles and tax possessions but not including abatements or other credits.
- (3) All figures shown are from KPMG audited financial statements.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
OVERLAY RESERVES AND ABATEMENTS  
FISCAL YEARS 1999 TO 2003**

<b>Fiscal Year</b>	<b>Overlay Reserve</b>		<b>Abatements</b>	
	<b>Amount</b>	<b>% of Total Levy</b>	<b>During Fiscal Year of Each Tax Levy</b>	<b>Since Fiscal Year Ended (through 6/30/03)(1)</b>
2003	\$4,145,298	2.1%	\$1,779,074	\$1,779,074
2002	4,261,178	2.3	807,011	2,115,321
2001	4,290,541	2.4	862,698	1,084,599
2000	4,270,845	2.6	1,133,600	1,535,111
1999	4,250,006	2.7	1,463,755	1,807,747

(1) All figures shown are from KPMG audited statements.

Source: City Department of Finance.

**TAXES OUTSTANDING**

**Taking and Sale**

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for non-payment of taxes. In either case, the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments), it can be foreclosed by petition to the Land Court. Upon foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of in the same manner as other land held for municipal purposes.

Legislation enacted in 1996 authorizes public sales by cities and towns of delinquent property tax receivables, either individually or in bulk.

**OVERDUE PROPERTY TAXES  
FISCAL YEARS 1999 TO 2003**

<b>Fiscal Year</b>	<b>Aggregate(1)(2)</b>	<b>For Current Year(1)(2)</b>	<b>Tax Title and Tax Possessions(2)</b>
2003	\$ 4,816,887	\$ 3,328,489	\$ 4,972,580
2002	6,095,610	4,624,227	2,659,463
2001	5,403,720	4,045,619	4,322,324
2000	4,424,002	2,342,474	3,880,654
1999	3,799,562	1,685,872	4,957,203

(1) Excludes tax titles, tax possessions, and abated taxes. Includes taxes in litigation, if any.

(2) All figures shown are from KPMG audited financial statements.

Source: City Department of Finance.

**FEDERAL AND STATE AID**

**Federal**

Although the major source of federal aid to the City, Community Development Block Grant funds, has been reduced in recent years, programs funded through this source have not been affected. Current revenues have been used, in most cases, to fund programs previously supported by Block Grant funds. In addition, bond proceeds have been utilized to offset reductions in funding of capital projects.

The following table shows federal moneys received over the last five years.



**CITY OF CAMBRIDGE  
PRINCIPAL FEDERAL AID BY SOURCE  
FISCAL YEARS 1999 TO 2003**

<u>Fiscal Year</u>	<u>Community Development Block Grant</u>	<u>Other</u>	<u>Total From Federal Government</u>
2003	\$3,821,370	\$7,706,804	\$11,528,174
2002	3,863,126	7,854,648	11,717,774
2001	3,420,303	7,454,084	10,874,387
2000	4,322,809	6,914,383	11,237,192
1999	3,702,019	6,568,582	10,270,601

Source: City Department of Finance.

**State**

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

In the fall of 1986, both the State Legislature (by statute repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, the remaining law could restrict the amount of state revenues available for state aid to local communities.

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities may defer budgeting for teacher's summer compensation payable by the end of the fiscal years 1992 and 1993. Municipalities choosing to defer such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2011, or in accordance with a more rapid amortization schedule. The City did not choose to defer payment of teachers' summer compensation.

Chapter 645 of the Acts of 1948 as amended ("Chapter 645") created a statewide school building assistance program. Pursuant to this program, cities and towns issued bonds for eligible school building projects and were reimbursed over a period of years by the Commonwealth according to a statutory percentage for such city or town. Legislation enacted as part of the Commonwealth's Fiscal Year 2001 budget repealed Chapter 645 and created a new school building assistance program codified as Chapter 70B of the General Laws. Among other changes, the new program includes grants for alternatives to construction and calculates grants for each project based on a number of factors. The new legislation does not affect the reimbursement percentages for bonds previously issued under Chapter 645, and the grants for certain "grandfathered" projects will be based on the statutory percentages provided for in Chapter 645.

After applying for a grant pursuant to the school building assistance program, an eligible project is placed on a list with other eligible school projects for which grant applications have been submitted and ranked in order of priority. Project on the priority list are approved for grants by the State Board of Education in order of priority based on the aggregate amount of state funds appropriated and available therefor. Projects may be on the priority list for several years before being approved for funding. Projects on the priority list have no legal right to or guarantee of approval by the State Board of Education for a grant. The state legislature recently imposed a moratorium on new applications for grants under the school building assistance program until after July 1, 2007. In addition, various proposals for changing or restructuring the school building assistance program have been and continue to be made for the purpose of containing the cost of the program to the State. The enactment of any such proposal could affect a project's eligibility for approval of a grant or the amount or manner of payment of any such grant.

The following table sets forth the actual State aid received by the City in each of the last five fiscal years:

**CITY OF CAMBRIDGE  
MAJOR STATE ASSISTANCE BY SOURCE  
FISCAL YEARS 1999 TO 2003**

<u>Fiscal Year</u>	<u>School Construction</u>	<u>School Operations</u>	<u>Other</u>	<u>Total From State</u>
2003	\$3,466,786	\$6,339,999	\$27,969,834	\$37,776,619
2002	2,700,338	7,860,440	31,819,783	42,380,561
2001	2,700,338	4,755,168	32,741,263	40,196,769
2000	4,913,624	3,948,887	28,878,293	37,740,804
1999	4,975,133	4,028,944	31,390,974	40,395,051

Source: City Department of Finance. See also *Tax Limitations: Effect on the City*, above.

**MOTOR VEHICLE EXCISE TAX**

An excise tax is imposed on the registration of motor vehicles (subject to exemptions) at the rate of \$25 per \$1,000 of valuation. Valuations are determined by a statutory formula based on a manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 percent from the due date. Provision is also made for suspension of registration by the Registrar of Motor Vehicles, who may also after a hearing suspend the owner's operating license.

During fiscal year 1984, the City purchased a computerized "in-house" excise tax billing system, allowing the City to discontinue a contractual agreement with an outside service bureau. As a result of this new system, the excise billing and enforcement process is both more timely and efficient.

Between fiscal year 1985 and fiscal year 2003, motor vehicle excise tax revenue increased from \$2.0 million to approximately \$6.0 million, an increase of approximately 200 percent. This increase has been due to several factors, including the economic recovery that occurred during the 1990's, increased automobile sales, and the City's implementation of an in-house tracking and collection system.

The valuations of motor vehicles are in addition to the real and personal property valuations.

The following table shows the actual motor vehicle excise tax receipts in each of the last five fiscal years:

**RECEIPTS FROM MOTOR VEHICLE EXCISE TAX  
FISCAL YEARS 1999 TO 2003**

<u>Fiscal Year</u>	<u>Receipts(1)(2)</u>
2003	\$5,891,170
2002	5,873,897
2001	5,786,890
2000	5,858,041
1999	5,002,473

(1) Net after refunds, includes receipts from prior years.

(2) All figures shown are from KPMG audited financial statements.

Source: City Department of Finance.

## ROOM OCCUPANCY EXCISE

Since fiscal year 1986 the City has imposed a room occupancy excise tax at a rate of four percent on hotel, motel, lodging house, and bed and breakfast rooms. The tax is paid by the operator of each establishment to the State Commissioner of Revenue, who in turn pays the tax back to the City.

### RECEIPTS FROM ROOM OCCUPANCY EXCISE FISCAL YEARS 1999 to 2003

<u>Fiscal Year</u>	<u>Receipts(1)</u>
2003	\$4,401,259
2002	4,907,532
2001	5,651,401
2000	5,696,567
1999	4,955,494

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(1) All figures shown are from KPMG audited financial statements.

Source: City Department of Finance.

Legislation relating to the Massachusetts Convention Center imposed a “convention center financing fee” in an amount equal to 2.75% of the total room rent paid in any hotel, motel or other lodging establishment in the City (as well as the cities of Springfield and Worcester) for the purpose of financing the construction of the facilities authorized by such legislation.

## COMMUNITY PRESERVATION ACT

The Massachusetts Community Preservation Act (the “CPA”), enacted in September, 2000, permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see “Tax Limitations” under “PROPERTY TAX” above). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge on the real property tax levy. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge based on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on real property taxes and received in state matching funds are

required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

The City has accepted the provisions of the CPA.

### **PUBLISHED FINANCIAL INFORMATION**

The City annually contracts with a Certified Public Accounting firm to conduct an independent audit of its financial operations for each fiscal year. Since fiscal year 1979, the City's independent auditor has been KPMG Peat Marwick, Certified Public Accountants, Boston, Massachusetts. Copies of the annual audit are available to the public upon request from the Department of Finance, City Hall, 795 Massachusetts Avenue, Cambridge, Massachusetts 02139.

In addition to the annual independent audit, the City annually publishes a Comprehensive Operating Budget, which includes a five-year Public Investment Program. This document is available through the City Manager's Office, City Hall, 795 Massachusetts Avenue, Cambridge, Massachusetts 02139.

The first table shows general fund balance sheets for fiscal years 1999 through 2003, while the second table compares City revenues, expenditures, and changes in fund balance for fiscal years 1999 through 2003.

**CITY OF CAMBRIDGE**  
**GENERAL FUND BALANCE SHEETS**  
**FISCAL YEARS 1999 TO 2003(1)**  
**(as of June 30)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>ASSETS</b>					
Cash.....	\$ 71,132,435	\$ 63,837,512	\$ 78,235,106	\$105,531,056	\$111,601,721
Receivables(2)					
Taxes .....	3,799,562	4,424,002	5,403,720	6,095,610	3,357,627
Tax Title and Possessions.....	4,957,203	3,880,654	4,322,324	2,659,463	—
Motor Vehicle Excise .....	2,548,845	2,719,721	2,787,847	3,353,382	530,800
Intergovernmental.....	—	—	—	—	—
Departmental .....	756,105	1,273,708	1,694,381	6,217,887	2,278,061
Due From Other Funds .....	721,598	7,083,532	—	—	—
Due From Component					
Unit.....	29,785,000	27,300,000	25,650,000	24,000,000	22,500,000
Other Assets.....	659,925	101,286	—	—	—
Total Assets .....	<u>\$114,360,673</u>	<u>\$110,620,415</u>	<u>\$118,093,378</u>	<u>\$147,857,398</u>	<u>\$145,240,789</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Warrants Payable.....	\$ —	\$ 64,492	\$ —	\$ 967,542	\$ 765,063
Accrued Liabilities:.....					
Guarantee Deposits and Amounts Due to Other					
Taxing Authorities.....	1,921,939	—	—	—	—
Tax Abatement Refunds .....	11,479,105	13,879,127	16,578,406	5,154,476	2,500,000
Other .....	16,337,308	14,254,771	16,550,243	17,566,062	15,987,520
Deferred Revenue.....	41,506,040	38,917,605	38,413,070	41,191,233	34,604,125
Total Liabilities .....	<u>\$ 71,244,392</u>	<u>\$ 67,115,995</u>	<u>\$ 71,541,719</u>	<u>\$ 64,879,313</u>	<u>\$ 53,856,698</u>
<b>Fund Equity:</b>					
Fund Balances					
Reserved for Encumbrances ..	8,306,925	11,440,747	9,121,873	7,997,671	6,048,103
Reserved for Specific Purposes..	11,585,700	6,909,597	5,550,000	5,393,075	49,369
Undesignated.....	23,223,656	25,154,076	31,879,786	69,586,789	85,286,619
Total Fund Equity .....	<u>43,116,281</u>	<u>43,504,420</u>	<u>46,551,659</u>	<u>82,977,485</u>	<u>91,384,091</u>
Total Liabilities & Fund Equity ...	<u>\$114,360,673</u>	<u>\$110,620,415</u>	<u>\$118,093,378</u>	<u>\$147,857,398</u>	<u>\$145,240,789</u>

(1) See Appendix A for complete financial report for 2003. Copies of the financial reports for 1999, 2000, 2001, and 2002 are available upon request.

(2) The amounts shown for receivables are the total receivables with an allowance for uncollectible receivables shown on a separate line.

Source: Audit Reports of KPMG Peat Marwick for the fiscal years ended June 30, 1999, 2000, 2001, 2002, and 2003.

**CITY OF CAMBRIDGE**  
**GENERAL FUND—COMPARATIVE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**ACTUAL FOR FISCAL YEARS 1999 TO 2003 (1)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Revenues:					
Property Taxes.....	\$151,056,435	\$162,189,559	\$174,681,244	\$198,805,559	\$198,783,571
In Lieu of Tax Receipts .....	4,544,599	3,692,279	4,807,067	5,316,254	4,644,373
Hotel/Motel Tax.....	4,955,494	5,696,567	5,651,401	4,907,532	4,401,259
Intergovernmental Revenue .....	42,923,901	39,820,586	47,022,550	46,822,454	42,690,497
Sewer Use .....	19,460,697	20,716,194	20,563,466	23,836,866	27,061,324
Motor Vehicle Excise .....	4,824,980	5,848,595	5,921,137	5,838,407	6,031,393
Interest .....	1,623,836	2,484,517	3,208,418	2,344,360	1,512,730
Other.....	19,605,412	24,402,917	23,498,390	20,273,302	23,720,244
Total Revenues.....	<u>248,995,354</u>	<u>264,851,214</u>	<u>285,353,673</u>	<u>308,144,734</u>	<u>308,845,391</u>
Expenditures:					
General Government.....	21,751,991	18,032,236	22,544,458	26,804,656	20,820,149
Public Safety .....	61,995,385	66,443,117	66,775,542	70,386,768	72,870,295
Community Maintenance and Development .....	19,379,487	21,581,775	24,591,714	24,171,500	26,956,635
Human Resource Development .....	12,602,091	14,698,981	15,970,240	17,581,399	19,055,556
Education.....	93,371,120	100,200,273	105,323,655	112,961,033	117,721,213
Judgements and Claims .....	1,000,000	2,479,013	708,847	205,418	155,696
State Assessments.....	21,222,529	21,407,431	21,106,942	28,018,935	29,698,511
Debt Service:					
Principal .....	9,222,443	8,231,201	7,089,430	11,579,352	14,050,350
Interest .....	3,461,047	3,261,272	3,679,415	5,008,120	5,018,720
Total Expenditures .....	<u>244,006,093</u>	<u>256,335,299</u>	<u>268,390,243</u>	<u>296,467,181</u>	<u>306,347,125</u>
Transfers from (to) Other Funds: (Net).	<u>(10,182,509)</u>	<u>(8,127,776)</u>	<u>(13,916,191)</u>	<u>1,820,125</u>	<u>5,908,340</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....					
	(5,193,248)	388,139	3,047,239	13,497,678	8,406,606
Fund Equity at beginning of year ....	<u>48,309,529</u>	<u>43,116,281</u>	<u>43,504,420</u>	<u>69,479,807(2)</u>	<u>82,977,485</u>
Fund Equity at end of year.....	<u>\$ 43,116,281</u>	<u>\$ 43,504,420</u>	<u>\$ 46,551,659</u>	<u>\$ 82,977,485</u>	<u>\$ 91,384,091</u>

(1) Does not include water revenues and expenditures.

(2) The fund equity at the beginning of fiscal year 2002 was recast to conform with the requirements of GASB. Several trust funds were reclassified to the General Fund.

Source: Audit Reports of KPMG Peat Marwick for the fiscal years ended June 30, 1999, 2000, 2001, 2002, and 2003.

## SURPLUS REVENUE AND FREE CASH

Under Massachusetts law an amount known as “free cash” is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations for available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years.

The following table sets forth the surplus revenue and certified free cash for the most recent fiscal years:

### CITY OF CAMBRIDGE SURPLUS REVENUE AND CERTIFIED FREE CASH FISCAL YEARS 1999 TO 2003

<u>July 1</u>	<u>Surplus Revenue or (Deficit)(1)(2)</u>	<u>Free Cash</u>
2003	\$74,576,940	\$45,049,838
2002	62,058,818	28,706,934
2001	48,996,299	24,995,755
2000	43,041,453	26,166,059
1999	42,863,383	30,320,541

- (1) Surplus revenue is not reduced by revenue deficits from tax abatements in excess of overlay or revenue deficits resulting from non-property tax receipts being less than estimates, both of which are added to the next tax levy. It also does not include special funds, such as water.
- (2) The calculation of Free Cash by the Department of Revenue is based on financial statements prepared by the City's Finance Department in accordance with Uniform Municipal Accounting System (UMAS) principles. This method differs in certain areas from Generally Accepted Accounting Principles (GAAP), which causes a difference between the figures shown here as Surplus Revenue or (Deficit), or Undesignated Fund Balance, and those shown on the KPMG Peat Marwick audited financial statements on page A-19 of Appendix A.

Source: City Department of Finance.

## INVESTMENTS

Investments of funds of cities and towns, except for trust funds, are generally restricted by Massachusetts General Laws Chapter 44, §55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposits of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust (“MMDT”), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with §54 of Chapter 44, which permits a broader range of investments than §55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by §§54 and 55 do not apply to city and town retirement systems.

## **TAX INCREMENT FINANCING FOR DEVELOPMENT DISTRICTS**

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2<sup>1/2</sup> (see "Property Tax Limitations" under 'PROPERTY TAXATION' above.)

## **RETIREMENT PLAN**

The Massachusetts General Laws (Chapter 32, Sections 1-28) provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city, and town employees other than teachers. Teachers are assigned to a separate statewide teacher's system and not to the City system. Substantially all employees of the City are covered.

In addition to the contributory systems, the City provides non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents.

The obligations of the City of Cambridge under the Contributory Pension Law are contractual legal obligations and are required to be included in the annual tax levy.

The amount required to pay the pensions over and above employee contributions and investment income was originally provided on an essentially pay-as-you-go basis, but legislation enacted since 1981 has provided for changes in the funding of both state and local retirement systems.

In 1983 legislation was enacted establishing the Pension Reserves Investment Trust ("PRIT") Fund to receive and manage funds to offset future pension costs of state and local systems to the extent of their participation in the assets of the PRIT Fund. The law now provides that annual appropriations by the Commonwealth for unfunded pension liabilities will be deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of December 31, 1989. The law calls for annual State appropriations amounting to at least 1.3% of State payroll.

Under recent legislation, cities and towns that accept its provisions and that obtain certain state approvals therefor may, within limits, reduce the amount of their scheduled appropriations for fiscal year 2004 and fiscal year 2005 for the unfunded portion of their pension liability to offset recent reductions in state aid. Cities and towns that reduce such appropriations are required to revise their funding schedule for eliminating their unfunded pension liability and may extend such schedule by one year, provided that in no event may such funding schedule extend beyond June 30, 2028.

"Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate are set aside for future, not current, pension liabilities. (Under prior law, local systems had been allowed to use excess earnings to reduce their annual appropriations for benefits paid to retirees.) Each system not joining PRIT is required to establish a pension reserve fund to receive excess earnings. Cities and towns may voluntarily appropriate to the pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

Legislation enacted in 1987 provided for the funding of the Commonwealth's unfunded pension liability over a period not greater than 40 years. In addition, that legislation contains financial incentives for each local governmental unit to establish its own state-approved funding schedule to eliminate its unfunded actuarial liability by June 30, 2028. Annual state pension funding grants are to be provided for the first fifteen years of an approved funding schedule, beginning with the fiscal year ended June 30, 1990; the grants are to be funded from designated percentages of increases in state revenues. The funding provisions for local systems are subject to local acceptance.

Cost-of-living increases for the City retirement system would be granted and funded by the retirement system. Those statutory provisions are subject to acceptance by the Retirement Board with the approval of the City Council, which acceptance may not be revoked. The City Council approved this legislation on June 1, 1998 and it took effect on July 1, 1998.



In addition to pension benefits, cities and towns may provide retired employees with payments for a portion of their health care and life insurance benefits. These benefit payments are generally provided on a pay-as-you-go basis.

The annual contributions of the City to the contributory and non-contributory retirement system for the 2000 to 2004 fiscal years are set forth below:

**CITY OF CAMBRIDGE  
CONTRIBUTIONS TO CITY PENSION FUNDS  
FISCAL YEARS 2000 TO 2004**

<b>Fiscal Year</b>	<b>Contributory (1)</b>	<b>Non-contributory</b>	<b>Total</b>
2004	\$22,049,645	\$1,350,000	\$23,399,645
2003	21,398,751	1,400,000	22,798,751
2002	22,030,450	1,450,000	23,480,450
2001	21,561,108	1,500,000	23,061,108
2000	20,200,840	1,600,000	21,800,840

(1) Contributory figure indicated has been determined by the Commonwealth.

Source: City Department of Finance.

An actuarial study conducted by an independent audit firm determined that the unfunded pension liability of the Cambridge Retirement System was \$61,102,609 as of December 31, 2001. In January, 1991, the City established a state-approved funding schedule that will eliminate the City's unfunded actuarial liabilities by June 30, 2009.

For additional information relating to the City's pension system as well as certain life insurance and health care benefits for retirees, see footnotes 8 and 9 of the City's audited financial statements in Appendix A.

**EMPLOYEE RELATIONS AND COLLECTIVE BARGAINING**

City employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours, and other terms and conditions of employment.

The City has approximately 3,500 employees, of whom approximately 66.3 percent belong to unions or other collective bargaining groups.

**CITY OF CAMBRIDGE  
CITY UNIONS AND COLLECTIVE BARGAINING GROUPS**

<u>Groups</u>	<u>Department</u>	<u>Number of Employees Represented</u>	<u>Contract Expires</u>
Teamsters Local 25	City-Wide	323	6/30/05
Teachers and Administrators (Mass. Teachers Assoc.)	School	780	8/31/03
Clerical	School	74	6/30/03
Custodians (Local 1611 AFL-CIO)	School	75	6/30/03
Food Service	School	55	6/30/03
Safety Specialist	School	13	6/30/03
Paraprofessionals (affiliated with Mass. Teachers Assoc.)	School	190	8/31/04
Substitute Teachers	School	70	8/31/04
Family Resource Liaison (AFSNE)	School	20	6/31/03
International Assoc. of Firefighters	Fire	263	6/30/06
Patrol Officers	Police	199	6/30/06
Superior Officers	Police	48	6/30/06
Traffic Supervisors	Police	48	6/30/05
Independent Water Workers Association	Water	30	6/30/05
Professional Librarians	Library	67	6/30/06
Inspectional Services (Building, Trades)	Inspectional	17	New Unit
Childcare Workers	Human Services	34	6/30/05
Supervisors	Public Works	13	6/30/06
		<u>2,319</u>	

The City is currently in negotiations with both the newly formed unit and those units whose contracts have expired. These negotiations are progressing in a satisfactory manner.

Source: City Personnel Department.

/s/ Louis A. Depasquale  
City Treasurer

January 20, 2004

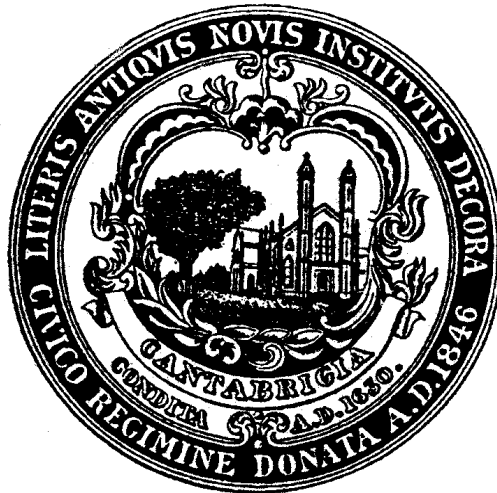


**CITY OF CAMBRIDGE, MASSACHUSETTS**

**Basic Financial Statements, Required Supplementary Information  
and Supplemental Schedules**

June 30, 2003

(With Independent Auditors' Report Thereon)





## CITY OF CAMBRIDGE, MASSACHUSETTS

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts, as of and for the year ended June 30, 2003, 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 Cambridge's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 provides a reasonable basis for our opinions.

In our opinion, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages A - 5 through A - 16, the schedules of funding progress and employers' contributions on pages A - 49 and A - 50, and the schedule of revenues and expenditures – budgetary basis on pages A - 51 and A - 52 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cambridge's basic financial statements. The supplemental statements and schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supplemental statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.





In accordance with *Government Auditing Standards*, we have also issued a separate report dated December 3, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

December 3, 2003

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

Management of the City of Cambridge (City) provides this Management's Discussion and Analysis as part of the City's Comprehensive Annual Financial Report (CAFR) to assist readers of the basic financial statements in understanding the financial activities of the City for the fiscal year ended June 30, 2003. We encourage readers to consider this information in conjunction with the transmittal letters at the front of this report and the City's basic financial statements, which follow this section.

#### **Overview of the Financial Statements**

The City's financial statements present two types of statements each with a different view of the City's finances. This approach focuses on both the City as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the City as whole. The fund financial statements focus on the individual parts of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government. An additional part of the basic financial statements are the notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

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

The government-wide statements report information about the City as a whole, with the exception of Fiduciary activities, and use accounting methods similar to those used by the private-sector companies. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic position at the end of the fiscal year. The statements are prepared using the flow of economic resources measurement focus and the full accrual basis of accounting. All revenues and expenses connected with the fiscal year are reported even if cash involved has not been received or disbursed. The government-wide financial statements include two statements:

***Statement of Net Assets*** – Presents all of the government's assets and liabilities, with the difference being reported as "net assets". The amount of net assets is widely considered a good measure of the City's financial health as increases and decreases in the City's net assets serves as a useful indicator of whether the financial position is improving or deteriorating. The reader should consider other nonfinancial factors, such as the condition of the City's infrastructure and changes to the property tax base, to assess the overall health of the City.

***Statement of Activities*** – Presents information showing how the government's net assets changed during the most recent fiscal year. Revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods, i.e., uncollected taxes or earned but unused sick and vacation time. This statement also presents a comparison between direct expenses and program revenues for each function of the City.

In the government-wide statements, financial information is presented in three columns in order to summarize the City's programs or activities. The types of activities presented are as follows:

**Governmental Activities** – Taxes and intergovernmental revenues primarily support the functions of the government and are reported in this section. Most of the City's basic services are reported here including general government, public safety, public works, parks and recreation, library, schools, human services, public health programs, state and district assessments, debt service and other employee benefits.

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

**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. The Water Fund operation is considered a business-type activity.

**Discretely Presented Component Unit** – Include a separate legal entity in which the City has financial accountability and provides operating subsidies. This entity, The Cambridge Public Health Commission, (CPHC) operates similar to a private sector business and the business-type activity described above.

Complete financial statements for the CPHC can be obtained from their administrative offices located at 10 Presidents Way, 5<sup>th</sup> Floor, Medford, Massachusetts, 02155.

### Fund Financial Statements

Traditional users of government financial statements will find the fund financial statement presentation to be most familiar. A fund is a grouping of related accounts that is used to keep control over resources that have been allocated to specific projects or activities. The City uses fund accounting to ensure and demonstrate compliance with several finance-related legal requirements.

All of the funds of the City can be divided into three categories as follows:

**Governmental Funds** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near-term inflows and outflows of resources to be spent. The focus is also on the balances left at the end of the fiscal year available for spending. This information is useful in evaluating the City's near-term financing requirements. This approach is the modified accrual basis of accounting, which uses the flow of current financial resources measurement focus. Such statements provide a detailed short-term view of the City's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

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. This comparison will assist the reader in understanding the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide reconciliations to facilitate the comparison. The reconciliation is presented on the page immediately following the governmental funds financial statements.

The City has several governmental funds; two are considered major funds for presentation purposes. Each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The remaining governmental funds are aggregated and shown as other governmental funds.

**Proprietary Fund** – Provides services for which the City charges customers a fee and operate like a commercial business. The proprietary fund provides the same type of information as in the government-wide financial statements, only in more detail. Like the government-wide financial statements,



## CITY OF CAMBRIDGE, MASSACHUSETTS

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

proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

**Fiduciary Funds** – Such 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 full accrual basis of accounting is used for fiduciary funds and is much like that used for proprietary funds.

The City's fiduciary funds are the Employee Retirement System and the Agency Funds, which are used to account for assets held in agency capacity.

#### **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 fund financial statements.

#### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes a budgetary comparison schedule for the City's general fund – the only fund for which an annual budget is legally adopted. The budgetary comparison also includes a reconciliation of revenues and expenditures reported on the City's budgetary basis of accounting and the revenues and expenditures reported on a GAAP basis. Also included are the retirement system on historical trend information for the Cambridge Retirement System which includes the schedule of funding progress, schedule of employee contributions and related notes.

#### ***Government – Wide Financial Analysis***

##### **Statement of Net Assets**

The following table reflects the condensed Statement of Net Assets based on the statements of Net Assets found on page A - 17 of the financial statements.

The City's combined net assets (government and business-type activities) exceeded its liabilities at fiscal year ending June 30, 2003 by \$470.5 million (presented as "Net Assets"). Of this amount, \$176.1 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.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructures (roads, sewer pipes, dams, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is \$291.2 million indicating the amount of capital debt does not exceed the net book value of the City's fixed assets. Since most of the City's debt has a ten-year life, a considerable amount of our capital asset lives extend beyond the life of the debt. The City uses these capital assets to service the community; therefore, they are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

Included within the governmental activities current and other assets are cash and investments of \$175.8 million up 18.2% over prior year; receivables net of allowance \$24.9 million consistent with prior year; and prepaid bond issuance fees of \$0.3 million that is amortized over the life of the ten-year bonds.

Governmental activities long term liabilities included \$157.2 million in general obligation bonds and notes payable; \$20.1 million in compensated absence liabilities for unused sick and vacation; \$4.5 million in future year workers compensation benefits. The major increase in the long-term liabilities is the increase in general obligation bonds of \$8.8 million which will be used for street reconstruction, sewer projects, fire house remodeling and other large capital projects. Also, there was an increase of \$1.9 million in compensated absence liabilities and a slight increase of approximately \$0.2 million in accrued interest that relates to the increase in general obligation bonds. Other liabilities balance of \$27.3 million includes Tax abatement refunds, Accrued Payroll, Other liabilities, and Deferred revenues and remains consistent with prior year.

Business type activity long-term liabilities include \$66.8 million in general obligation bonds and \$0.4 million in compensated absence costs. The reduction of \$5.9 million in general obligation bonds compared to prior year is attributable to no new debt issues and an aggressive ten-year repayment schedule for most debt.

**Condensed Schedule of Net Assets**

As of June 30, 2003 and 2002

(In millions)

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total primary government</b>	
	<b>6/30/2003</b>	<b>6/30/2002</b>	<b>6/30/2003</b>	<b>6/30/2002</b>	<b>6/30/2003</b>	<b>6/30/2002</b>
Current and other assets	\$ 224.7	198.4	10.0	12.2	234.7	210.6
Capital assets	376.6	356.1	138.6	140.3	515.2	496.4
<b>Total assets</b>	<b>\$ 601.3</b>	<b>554.5</b>	<b>148.6</b>	<b>152.5</b>	<b>749.9</b>	<b>707.0</b>
Long-term liabilities	\$ 183.6	174.6	68.2	74.8	251.8	249.4
Other liabilities	27.3	26.0	0.3	0.1	27.6	26.1
<b>Total liabilities</b>	<b>\$ 210.9</b>	<b>200.6</b>	<b>68.5</b>	<b>74.9</b>	<b>279.4</b>	<b>275.5</b>
Net assets:						
Invested in capital assets, net of debt	\$ 219.3	255.2	71.8	67.7	291.1	322.9
Restricted for:						
Other purposes	3.2	3.1	—	—	3.2	3.1
Unrestricted	167.9	95.6	8.3	9.9	176.2	105.5
<b>Total net assets</b>	<b>\$ 390.4</b>	<b>353.9</b>	<b>80.1</b>	<b>77.6</b>	<b>470.5</b>	<b>431.5</b>

**Statement of Changes in Net Assets**

The City's total net assets increased by \$39.0 million in fiscal year 2003 of which the governmental activities net assets increased \$36.5 million and the business-type activities increased \$2.5 million.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

This summary statement of net changes is based upon the statement found on page A - 18 of the financial statements.

Condensed Schedule of Changes in Net Assets

June 30, 2003

(In millions)

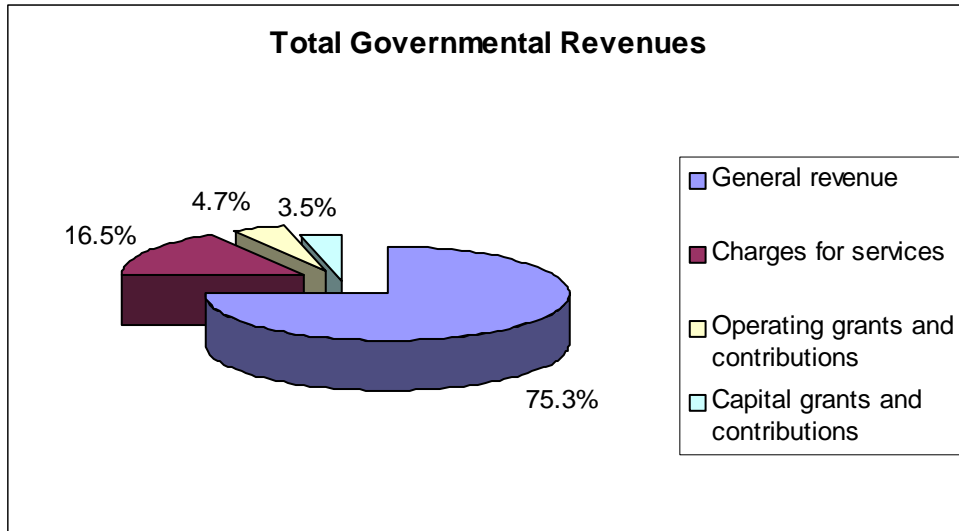
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total primary government</u>	
	<u>6/30/2003</u>	<u>6/30/2002</u>	<u>6/30/2003</u>	<u>6/30/2002</u>	<u>6/30/2003</u>	<u>6/30/2002</u>
Revenues:						
Program revenues:						
Charges for services	\$ 61.4	50.5	16.9	15.5	78.3	66.0
Operating grants and contributions	17.5	22.7	—	—	17.5	22.7
Capital grants and contributions	12.9	3.5	—	—	12.9	3.5
General revenues:						
Taxes:						
Property taxes levied	198.1	200.0	—	—	198.1	200.0
Excises	10.2	10.8	—	—	10.2	10.8
Payment in lieu of taxes	4.6	5.3	—	—	4.6	5.3
Grants and contributions not restricted	42.3	46.8	—	—	42.3	46.8
Investment income	2.5	3.3	0.1	0.1	2.6	3.4
Miscellaneous	21.9	15.5	—	—	21.9	15.5
Transfers	0.4	0.4	(0.4)	(0.4)	—	—
Total revenues	<u>371.8</u>	<u>358.8</u>	<u>16.6</u>	<u>15.2</u>	<u>388.4</u>	<u>374.0</u>
Expenses:						
General government	23.2	28.3	—	—	23.2	28.3
Public safety	77.6	73.2	—	—	77.6	73.2
Community maintenance and development	48.1	37.4	—	—	48.1	37.4
Human resource development	25.5	23.5	—	—	25.5	23.5
Education	127.3	122.7	—	—	127.3	122.7
State and district assessments	28.9	28.0	—	—	28.9	28.0
Water department	—	—	14.1	15.1	14.1	15.1
Debt service	4.7	5.0	—	—	4.7	5.0
Total expenses	<u>335.3</u>	<u>318.1</u>	<u>14.1</u>	<u>15.1</u>	<u>349.4</u>	<u>333.2</u>
Change in net assets	36.5	40.7	2.5	0.1	39.0	40.8
Net assets – beginning	<u>353.9</u>	<u>313.2</u>	<u>77.6</u>	<u>77.5</u>	<u>431.5</u>	<u>390.7</u>
Net assets – ending	<u>390.4</u>	<u>353.9</u>	<u>80.1</u>	<u>77.6</u>	<u>470.5</u>	<u>431.5</u>

**Total Revenues**

Total governmental activities revenues for the City are comprised of General Revenue \$280.0 million, Charges for Services \$61.4 million, Operating Grants and Contributions \$17.5 million and Capital Grants and Contributions of \$12.9 million.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis



**General**

Real Estate Tax Revenues are the City's largest revenue source at \$198.1 million representing 70.8 of general revenues. The assessed tax valuation base is \$17.8 billion up from \$16.8 billion assessed in the prior year showing a 5.95% increase mainly due to new construction.

Grants and contributions not restricted to specific programs is \$42.3 million representing 15.1% of general revenues and includes State Cherry Sheet Revenues of \$36.9 million, State Police Career Incentive of \$1.0 million, and other unrestricted contributions. The Cherry Sheet Revenues are down 7.8% in the current year due to fiscal cut backs in State Aid.

**Program**

Charges for services are \$61.4 million represents a variety of department revenues. Charges for services increased in the current year by \$10.9 million or 21.6%. The public safety portion of \$27.8 million includes several types of permit revenues, traffic and moving violation revenues, and City garage revenues. Public safety revenues increased \$5.1 million due to a rise in building permit revenues attributable to the build up of Kendall Square area. The community maintenance and development portion of \$30.8 million includes sewer service revenues, community cable revenues, as well as, other public works type fees. This category also increased by \$5.5 million due to a 11.6% increase in sewer rates and a 13.3% increase in water consumption.

Operating Grants and Contributions of \$17.5 million represents several federal and state grants restricted to specific grant conditions. This amount accounts for approximately 4.7% of the Total City Revenues. There is a decrease of \$5.2 million over prior year due to a decrease in intergovernmental revenues resulting from State budget cuts and a sluggish economy.

Capital Grants and Contributions of \$12.9 million include Community Development Capital Grants, State Revolving grants, and other capital restricted revenues. There is an increase of \$9.3 million, which is the result of a one time MIT reimbursement of \$3 million, an increase in Block Grant reimbursements, and a rise in the amount of MWRA grants received this year.

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

#### **Expenses**

For fiscal year ended June 30, 2003, expenses for governmental activities totaled \$335.3 million, which cover a range of services. On the whole, the City's expenditures increased \$17.2 million or 5.4% over prior year.

Education continues to be one of the City's highest priorities and commitments representing \$127.3 million or 38.0% of the total primary government expenses. This balance includes both grant and general operating expenses. Education expenditures increased 4% this year due to salary increases.

Another important issue to the City is affordable housing and the preservation of open space. This is the second year of the Community Preservation Act (CPA). This program fosters the investment into permanent affordable housing projects, preservation of historic locations and the protection of open space. Expenditures related to these initiatives are recorded in the Community Maintenance and Development category that increased \$10.7 million over fiscal year 2002. Approximately \$4.0 million was attributable to the rise in spending by the Affordable Housing Trust to subsidize housing projects. Normal budgeted increases for salaries, judgments and claims, trash/recycling costs, and snow and ice removal accounted for \$2.2 million of the increase. The remainder of the increase is attributable to Capital expenditures for housing projects that do not meet the criteria of a fixed asset.

General Governmental expenditures have decreased approximately \$5.1 million compared to fiscal year 2002. A reduction in dental plan costs of \$0.5 million, unemployment compensation of \$0.1 million, and retiree benefit costs of \$0.8 million contribute to the decrease. Also, there was a reduction in the IBNR health care costs.

#### ***Business-type Activities***

Business-type activities increased net assets by \$2.5 million, accounting for 7% of the total growth in the City's net assets.

A portion of the increase is attributable to a \$1.4 million or 8.3% increase in charges for services for business-type activities. The increase is a direct affect of a 7.1% increase in water rates and a 13.3% increase in water consumption. The decrease in interest expense costs by \$0.8 million is another aspect of the increased net assets. The decrease is attributable to lower interest bond series.

#### ***Financial Analysis of the Government's Funds***

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

#### **Governmental Funds**

As of the end of the current fiscal year, the City of Cambridge's governmental funds reported a combined ending fund balance of \$159.4 million. Of this amount, \$3.3 million is reserved for other purposes and \$40.0 million reserved for encumbrances. This leaves an unreserved balance of \$116.1 million.

The General Fund is the chief operating fund of the City of Cambridge. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$85.2 million, while the total fund balance was \$91.4 million. As a measure of the General Funds liquidity, it may be useful to compare both unreserved and total fund balances to total fund expenditures. Unreserved fund balance represents 27.8% of total General Fund expenditures, while the total balance represents 29.8% of that same amount.

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

#### **Proprietary Funds**

City of Cambridge's proprietary fund provides the same type of information found in the government-wide statements, but in more detail.

Unrestricted net assets of the Water fund at the end of the year was \$80.1 million and an investment in capital assets, net of related debt of \$71.8 million. The major capital investment representing this restricted fund balance is the new water treatment plant.

#### ***General Fund Budgetary Highlights***

The City of Cambridge submits its budget to the City Council in April and six months later sets the tax rate at the Massachusetts Department of Revenue. During this process, the City reviews and revises its revenue and expenditure plan for final adoption before setting the tax rate. The following are some of the major changes:

1. Cherry sheet revenues and expenditures are estimated in the original budget based upon previous year's cherry sheet revenues and adjusted, if needed, for the final budget.
2. Due to the favorable change in the business climate, corporate excise estimates were increased \$250 thousand.
3. Certain other revenues were adjusted based upon the previous year's actual and slightly increased estimates this year.

The following information pertains to the revenues and expenditures of the General Fund. This data is included in the Statement of Revenues and Expenditures-Budgetary Basis-Budget and Actual, which presents financial information on the budgetary basis of accounting.

#### ***Revenues and other Financing Sources***

Fiscal year 2003 actual revenues on a budgetary basis totaled \$301.8 million. This represents an increase of \$12.8 million or 4.4% from fiscal year 2002. Property taxes are the single largest revenue source, representing approximately 64.2% of General Fund revenues, net of abatements. Real and personal property tax revenues, net of abatements, increased by \$10.4 million, or 5.7%. Intergovernmental receipts comprise the City's next largest revenue source, representing 14.1%. These revenues decreased 8.8% to \$42.7 million, due to a decrease in state aid. Sewer receipts increased 13.5% to \$27.1 million due to significant increases in the sewer rate.

Decrease of 10.3% in the Hotel/Motel Excise reflect the sluggish local economy during fiscal year 2003. The Hotel/Motel industry was particularly hit hard by the aftermath of September 11th.

The 22.9% decrease in investment income from \$1.7 million to \$1.3 million was the result of lower interest rates earned on its cash and investment balances.

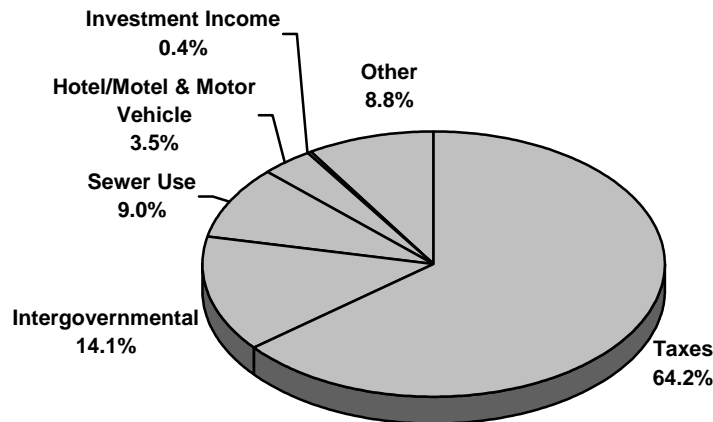
**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

The following table and graph display the dollar amounts received from various sources of revenue for fiscal year 2003 and compares these amounts to those received in fiscal year 2002.

**Fiscal Year 2003 General Fund Revenues  
Budgetary Basis  
(Dollars in thousands)**

Revenue source	2003		2002		Increase (decrease) from fiscal year 2002	
	Amount	Percent	Amount	Percent	Amount	Percent
Taxes, net of abatements	\$ 193,576	64.2%	\$ 183,183	63.4%	\$ 10,393	5.7%
Intergovernmental	42,690	14.1	46,822	16.2	(4,132)	(8.8)%
Sewer use	27,061	9.0	23,837	8.2	3,224	13.5%
Excise taxes:						
Hotel/motel	4,401	1.5	4,908	1.7	(507)	(10.3)%
Motor vehicle	6,032	2.0	5,838	2.0	194	3.3%
Investment income	1,295	0.4	1,679	0.6	(384)	(22.9)%
Other	26,696	8.8	22,679	7.9	4,017	17.7%
<b>Total</b>	<b>301,751</b>	<b>100.0%</b>	<b>288,946</b>	<b>100.0%</b>	<b>12,805</b>	<b>4.4%</b>
Net transfers in (out)	9,268		7,752		1,516	
<b>Total, net of transfers</b>	<b>\$ 311,019</b>		<b>\$ 296,698</b>		<b>\$ 14,321</b>	



**Expenditures**

During fiscal year 2003, total expenditures increased on a budgetary basis by 4.6% from \$299.4 million to \$313.3 million.

Every expenditure function, except general government, experienced increases in fiscal year 2003.

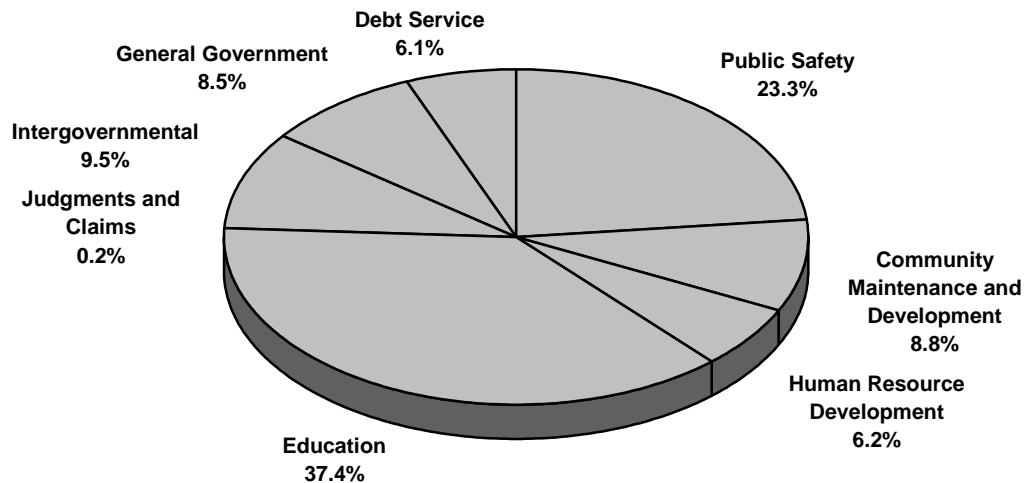
**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

As part of the agreement between the City and the Cambridge Public Health Commission (CPHC), the City will continue to subsidize the operations of the CPHC for the year ended June 30, 2003. The City's intergovernmental expenditures include \$6.6 million of subsidy to CPHC. This amount is consistent with previous years.

**Fiscal Year 2003 General Fund Expenditures  
Budgetary Basis  
(Dollars in thousands)**

Expenditure function	2003		2002		Increase (decrease) from fiscal year 2002	
	Amount	Percent	Amount	Percent	Amount	Percent
General government	\$ 26,589	8.5%	\$ 27,521	9.2%	\$ (932)	(3.4)%
Public safety	72,909	23.3	70,409	23.5	2,500	3.6
Community maintenance and development	27,626	8.8	26,040	8.7	1,586	6.1
Human resource development	19,519	6.2	18,258	6.1	1,261	6.9
Education	117,137	37.4	112,573	37.6	4,564	4.1
Judgments and claims	756	0.2	205	0.1	551	268.8
Intergovernmental	29,699	9.5	28,019	9.4	1,680	6.0
Debt service	19,071	6.1	16,389	5.5	2,682	16.4
<b>Grand Total</b>	<b>\$ 313,306</b>	<b>100.0%</b>	<b>\$ 299,414</b>	<b>100.0%</b>	<b>\$ 13,892</b>	<b>4.6%</b>



**Capital Asset and Debt Administration**

**Capital Assets**

As of June 30, 2003, the City of Cambridge's investment in capital assets for its governmental and business-type activities amounted to \$515.2 million (net of depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, open space, road and highways. The total gross increase in



**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

the City's investment in capital assets for the current fiscal year was \$34.7 million in the governmental activities and \$1.0 million in the business-type activities.

Some of the major capital asset events during the current fiscal year included several ongoing sewer separation projects scattered throughout the City, which are funded through Bonds and State Grants, completion of Danehy Park land improvements, Taylor Fire Station building improvements and completion of a Fiber Optic Network.

	Governmental activities		Business-type activities		Totals	
	2003	2002	2003	2002	2003	2002
	(In millions)					
Land	\$ 162.3	162.3	39.3	39.3	201.6	201.6
Buildings and improvements	150.7	144.8	80.2	77.4	230.9	222.2
Improvements-nonbuilding	24.9	19.6	—	—	24.9	19.6
Furniture and equipment	23.3	22.2	1.0	0.9	24.3	23.1
Infrastructure	127.4	127.9	30.3	30.0	157.7	157.9
Construction in progress	55.4	32.7	0.6	2.8	56.0	35.5
Totals	\$ 544.0	509.5	151.4	150.4	695.4	659.9

Additional information on the City of Cambridge's capital assets can be found in note 5 beginning on page A - 37.

**Debt**

At year-end, the City had \$224.0 million in outstanding bonds and notes compared to \$221.9 million last year. That is an increase of \$2.1 million or 0.9%.

	Governmental activities		Business-type activities		Totals	
	2003	2002	2003	2002	2003	2002
	(In millions)					
General obligation bonds and notes payable	\$ 157.2	149.2	66.8	72.7	224.0	221.9

The City of Cambridge maintains bond ratings with Fitch IBCA of AAA, Moody's Investors Service Inc. of Aaa, and Standard & Poor's Corporation of AAA. The true interest rate for the current years bond sale was 3.1% to 4.00% is over the next ten years.

The Commonwealth of Massachusetts statutorily limits the amount of general obligation debt a governmental entity may issue to 2.5% of the City's equalized assessed valuation. The current debt limitation is \$456.0 million.

Additional information on the City of Cambridge's debt can be found in note 7 beginning on page A - 40.

***Economic Factors and Next Years Budgets and Rates***

With an uncertainty as to the state aid cuts, the City has increased the property tax levy by 6.1% to \$209.6 million in fiscal year 2004. Despite this increase, the City's excess tax levy capacity, an extremely important indication of the City's financial health is \$41.4 million for FY 04.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

The operating budget increased 2.4% over FY 03 budget. The increase is attributable to a 1% salary increase for all employees; a 10% increase in employee health insurance; a 1.8% increase in employee pension costs; 1.1% in school spending and a debt service increase of 10.2%. The capital budget of \$66.5 million is an increase of approximately \$37.1 million from prior year. This significant increase is largely due to recommended appropriation of \$33.6 million for improvements to the Cambridge Rindge and Latin School, which are eligible for School Building Assistance reimbursement.

***Contacting the City's Financial Management***

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning the information provided in this report or requests for additional information should be addressed to: City of Cambridge, Attn: City Auditor, 795 Massachusetts Avenue, Cambridge, MA 02139-3219.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Net Assets

June 30, 2003

Assets	Primary government			Component unit
	Governmental activities	Business-type activities	Total	
Cash and investments	\$ 175,215,436	7,343,813	182,559,249	37,096,062
Cash and investments held by trustees	600,000	—	600,000	23,868,674
Receivables, net:				
Property taxes	3,357,627	—	3,357,627	—
Motor vehicle excise	530,800	—	530,800	—
Intergovernmental	9,635,221	—	9,635,221	—
Other	11,376,442	3,804,083	15,180,525	31,752,016
Other assets	337,254	—	337,254	28,269,523
Internal balances	1,181,986	(1,181,986)	—	—
Due from component unit	22,500,000	—	22,500,000	—
Capital assets:				
Nondepreciable	217,694,708	39,837,223	257,531,931	13,548,915
Depreciable, net	158,869,290	98,784,900	257,654,190	210,311,176
Total assets	<u>601,298,764</u>	<u>148,588,033</u>	<u>749,886,797</u>	<u>344,846,366</u>
<b>Liabilities</b>				
Warrants and accounts payable	1,713,996	198,268	1,912,264	40,433,750
Accrued liabilities:				
Tax abatement refunds	2,500,000	—	2,500,000	—
Accrued payroll	11,225,051	85,474	11,310,525	—
Other	8,519,127	—	8,519,127	—
Deferred revenue	3,384,936	—	3,384,936	36,446,416
Due to primary government	—	—	—	22,500,000
Long-term liabilities:				
Due within one year:				
Bonds and notes payable	22,405,970	5,969,782	28,375,752	—
Capital leases	—	—	—	4,254,482
Due to third parties	—	—	—	6,154,657
Compensated absences	8,281,513	193,608	8,475,121	22,921,743
Landfill	25,000	—	25,000	—
Claims	2,429,089	82,151	2,511,240	—
Accrued interest	1,275,855	811,448	2,087,303	—
Due in more than one year:				
Bonds and notes payable	134,816,209	60,819,513	195,635,722	—
Capital leases	—	—	—	21,950,963
Due to third parties	—	—	—	29,326,019
Compensated absences	11,813,136	167,844	11,980,980	—
Landfill	425,000	—	425,000	—
Claims	2,080,445	164,303	2,244,748	—
Total liabilities	<u>210,895,327</u>	<u>68,492,391</u>	<u>279,387,718</u>	<u>183,988,030</u>
<b>Net Assets</b>				
Investment in capital assets, net of related debt	219,341,820	71,832,828	291,174,648	175,154,646
Restricted for:				
Other purposes	3,213,124	—	3,213,124	4,352,200
Unrestricted	167,848,493	8,262,814	176,111,307	(18,648,510)
Total net assets	<u>\$ 390,403,437</u>	<u>80,095,642</u>	<u>470,499,079</u>	<u>160,858,336</u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Activities

Year ended June 30, 2003

Functions/Programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets		Component unit
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government Governmental activities	Business-type activities	
Primary government:							
Governmental activities:							
General government	\$ 23,235,936	373,838	—	—	(22,862,098)		(22,862,098)
Public safety	77,556,200	27,772,926	—	—	(49,783,274)		(49,783,274)
Community maintenance and development	48,106,254	30,821,353	3,413,881	12,925,487	(945,533)		(945,533)
Human resource development	25,470,147	2,461,592	4,472,849	—	(18,535,706)		(18,535,706)
Education	127,313,849	—	9,568,640	—	(117,745,209)		(117,745,209)
Intergovernmental	28,926,710	—	—	—	(28,926,710)		(28,926,710)
Interest on long term debt	4,720,322	—	—	—	(4,720,322)		(4,720,322)
Total governmental activities	<u>335,329,418</u>	<u>61,429,709</u>	<u>17,455,370</u>	<u>12,925,487</u>	<u>(243,518,852)</u>		<u>(243,518,852)</u>
Business-type activities:							
Water	14,199,144	16,979,446	—	—	—	2,780,302	2,780,302
Total business-type activities	<u>14,199,144</u>	<u>16,979,446</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,780,302</u>	<u>2,780,302</u>
Total primary government	<u>\$ 349,528,562</u>	<u>78,409,155</u>	<u>17,455,370</u>	<u>12,925,487</u>	<u>(243,518,852)</u>	<u>2,780,302</u>	<u>(240,738,550)</u>
Component unit:							
Cambridge Public Health Commission	\$ 496,205,865	177,685,795	294,978,756	7,303,647			(16,237,667)
Total component units	<u>\$ 496,205,865</u>	<u>177,685,795</u>	<u>294,978,756</u>	<u>7,303,647</u>			<u>(16,237,667)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					\$ 198,116,572	—	198,116,572
Excises					10,204,545	—	10,204,545
Payments in lieu of taxes					4,644,373	—	4,644,373
Grants and contributions not restricted					42,311,932	—	42,311,932
Investment income					2,546,628	131,852	2,678,480
Miscellaneous					21,822,564	—	21,822,564
Transfers					376,870	(376,870)	—
Total general revenues and transfers					<u>280,023,484</u>	<u>(245,018)</u>	<u>279,778,466</u>
Change in net assets					36,504,632	2,535,284	39,039,916
Net assets – beginning					<u>353,898,805</u>	<u>77,560,358</u>	<u>431,459,163</u>
Net assets – ending					<u>\$ 390,403,437</u>	<u>80,095,642</u>	<u>470,499,079</u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Balance Sheet – Governmental Funds

June 30, 2003

	<u>General</u>	<u>Capital fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>Assets</b>				
Cash and investments	\$ 111,601,721	27,505,440	36,108,275	175,215,436
Cash and investments held by trustees	—	—	600,000	600,000
Receivables, net:				
Property taxes	3,357,627	—	—	3,357,627
Motor vehicle excise	530,800	—	—	530,800
Intergovernmental	4,972,580	3,820,997	841,644	9,635,221
Departmental and other	2,278,061	—	3,404,201	5,682,262
Total receivables	11,139,068	3,820,997	4,245,845	19,205,910
Due from other funds	—	3,364,075	—	3,364,075
Due from component unit	22,500,000	—	—	22,500,000
Total assets	\$ <u>145,240,789</u>	<u>34,690,512</u>	<u>40,954,120</u>	<u>220,885,421</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Warrants and accounts payable	\$ 765,053	—	948,943	1,713,996
Accrued liabilities:				
Tax abatements	2,500,000	—	—	2,500,000
Claims	2,429,089	—	—	2,429,089
Accrued payroll	11,215,349	—	9,702	11,225,051
Other	2,343,082	3,892,848	521,213	6,757,143
Deferred revenue	34,604,125	—	66,486	34,670,611
Due to other funds	—	—	2,182,089	2,182,089
Total liabilities	53,856,698	3,892,848	3,728,433	61,477,979
Fund balances:				
Reserved for:				
Encumbrances	6,048,103	32,251,595	1,657,279	39,956,977
Reserved for specific purposes	49,369	—	600,000	649,369
Nonexpendable permanent funds	—	—	6,606,644	6,606,644
Unreserved (deficit), reported in:				
General fund	85,286,619	—	—	85,286,619
Capital fund	—	(1,453,931)	—	(1,453,931)
Special revenue funds	—	—	28,361,764	28,361,764
Total fund balance	91,384,091	30,797,664	37,225,687	159,407,442
Total liabilities and fund balances	\$ <u>145,240,789</u>	<u>34,690,512</u>	<u>40,954,120</u>	<u>220,885,421</u>

See accompanying notes to basic financial statements.

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 2003

Total fund balance – Governmental Funds	\$ 159,407,442
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	162,314,121
Buildings and improvements	150,697,912
Improvements nonbuilding	24,934,589
Furniture and equipment	23,347,136
Infrastructure	127,361,834
Construction in progress	55,380,587
Less accumulated depreciation	<u>(167,472,181)</u>
	376,563,998
Adjust deferred revenues to record tax revenues on an accrual basis	<u>36,979,855</u>
Bond issuance costs are capitalized in the government wide statements	<u>337,254</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	(157,222,179)
Accrued interest on bonds	(1,275,855)
Compensated absences	(20,094,649)
Landfill	(450,000)
Judgments and claims	<u>(3,842,429)</u>
	<u>(182,885,112)</u>
Net assets of governmental activities	\$ <u><u>390,403,437</u></u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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

Year ended June 30, 2003

	<u>General</u>	<u>Capital fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:				
Real and personal property taxes	\$ 198,783,571	—	—	198,783,571
Excises:				
Hotel/motel	4,401,259	—	—	4,401,259
Motor vehicles	6,031,393	—	—	6,031,393
Payments in lieu of taxes	4,644,373	—	—	4,644,373
Intergovernmental	42,690,497	12,546,922	17,455,370	72,692,789
Investment income	1,512,730	59,070	974,828	2,546,628
Sewer use charges	27,061,324	—	—	27,061,324
Departmental and other	23,720,244	2,212,108	27,855,727	53,788,079
Total revenues	<u>308,845,391</u>	<u>14,818,100</u>	<u>46,285,925</u>	<u>369,949,416</u>
Expenditures:				
Current:				
General government	20,820,149	—	114,339	20,934,488
Public safety	72,870,295	—	770,106	73,640,401
Community maintenance and development	26,956,635	—	8,045,894	35,002,529
Human resource development	19,055,556	—	6,033,471	25,089,027
Education	117,721,213	—	12,542,839	130,264,052
Judgments and claims	155,696	—	—	155,696
State and district assessments	29,698,511	—	—	29,698,511
Capital outlays	—	40,323,991	—	40,323,991
Debt service	19,069,070	—	—	19,069,070
Total expenditures	<u>306,347,125</u>	<u>40,323,991</u>	<u>27,506,649</u>	<u>374,177,765</u>
Excess (deficiency) of revenues over expenditures	<u>2,498,266</u>	<u>(25,505,891)</u>	<u>18,779,276</u>	<u>(4,228,349)</u>
Other financing sources (uses):				
Bond proceeds	—	29,053,565	—	29,053,565
Transfers in	18,743,340	10,424,578	—	29,167,918
Transfers out	(12,835,000)	—	(15,956,048)	(28,791,048)
Total other financing (uses) sources	<u>5,908,340</u>	<u>39,478,143</u>	<u>(15,956,048)</u>	<u>29,430,435</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	8,406,606	13,972,252	2,823,228	25,202,086
Fund balance – beginning	<u>82,977,485</u>	<u>16,825,412</u>	<u>34,402,459</u>	<u>134,205,356</u>
Fund balance – ending	\$ <u>91,384,091</u>	<u>30,797,664</u>	<u>37,225,687</u>	<u>159,407,442</u>

See accompanying notes to basic financial statements.

## CITY OF CAMBRIDGE, 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, 2003

Net change in fund balances – total governmental funds	\$ 25,202,086
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, applicable to capital assets, (\$34,705,969) exceeded depreciation expense (\$14,234,577).	<u>20,471,392</u>
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.	<u>1,382,375</u>
Proceeds of long-term debt (\$29,053,565) 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 (\$20,999,287) 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.	<u>(8,054,278)</u>
Bond issuance costs (\$188,259) are expenditures in the governmental funds, but are deferred assets in the statement of net assets.	<u>188,259</u>
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 decrease in landfill liabilities (\$25,000) and accrued interest of (\$110,475) offset by the increase in compensated absences (\$1,909,639), and judgment and claims (\$991,038).	<u>(2,685,202)</u>
Change in net assets of governmental activities	<u>\$ 36,504,632</u>

See accompanying notes to basic financial statements.



**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Net Assets – Proprietary Fund

June 30, 2003

	<b>Enterprise fund</b>
	<b>Water fund</b>
	<hr/>
Assets:	
Current assets:	
Cash and investments	\$ 7,343,813
Receivables, net	3,804,083
Total current assets	<hr/> 11,147,896
Noncurrent assets:	
Capital assets:	
Nondepreciable	39,837,223
Depreciable, net	98,784,900
Total noncurrent assets	<hr/> 138,622,123
Total assets	<hr/> 149,770,019
Liabilities:	
Current liabilities:	
Warrants and accounts payable	198,268
Accrued liabilities:	
Claims	82,151
Compensated absences	193,608
Accrued payroll	85,474
Interest	811,448
Current portion of long-term debt	5,969,782
Due to other funds	1,181,986
Total current liabilities	<hr/> 8,522,717
Noncurrent liabilities:	
Bonds payable	60,819,513
Accrued liabilities:	
Compensated absences	167,844
Other	164,303
Total noncurrent liabilities	<hr/> 61,151,660
Total liabilities	<hr/> 69,674,377
Net assets:	
Investment in capital assets, net of related debt	71,832,828
Unrestricted	8,262,814
Total net assets	\$ <hr/> <hr/> 80,095,642

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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

Year ended June 30, 2003

	<b>Enterprise fund Water fund</b>
	<u>                    </u>
Operating revenues:	
Charges for services	\$ 15,098,724
Other	<u>1,880,722</u>
Total operating revenues	<u>16,979,446</u>
Operating expenses:	
Administration	1,953,046
Service and support programs	6,105,336
Other general services	42,000
Depreciation	<u>2,698,134</u>
Total operating expenses	<u>10,798,516</u>
Operating income	<u>6,180,930</u>
Nonoperating revenue (expense):	
Investment earnings – other	131,852
Interest expense	<u>(3,400,628)</u>
Nonoperating expense	<u>(3,268,776)</u>
Income before transfers	2,912,154
Transfers to other funds	<u>(376,870)</u>
Change in net assets	2,535,284
Total net assets – beginning	<u>77,560,358</u>
Total net assets – ending	\$ <u><u>80,095,642</u></u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Cash Flows – Proprietary Fund

Year ended June 30, 2003

	<b>Enterprise fund</b>
	<b>Water fund</b>
	<hr/>
Cash flows from operating activities:	
Cash received from customers	\$ 17,888,274
Cash paid to vendors	(3,415,333)
Cash paid to employees	(3,420,530)
	<hr/>
Net cash provided in operating activities	11,052,411
	<hr/>
Cash flows from noncapital financing activities:	
Transfers	(376,870)
	<hr/>
Net cash used by noncapital financing activities	(376,870)
	<hr/>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(1,608,994)
Interest paid on debt	(3,325,171)
Repayment of long-term debt	(5,912,314)
	<hr/>
Net cash used by capital and related financing activities	(10,846,479)
	<hr/>
Cash flows from investing activities:	
Investment income	131,852
	<hr/>
Net cash provided by investing activities	131,852
	<hr/>
Decrease in cash and cash equivalents	(39,086)
	<hr/>
Cash and investments, beginning of year	7,382,899
	<hr/>
Total cash and investments, end of year	\$ 7,343,813
	<hr/> <hr/>
Reconciliation of operating income to cash provided by operating activities:	
Operating income	\$ 6,180,930
Reconciliation of operating income to net cash provided by operating activities:	
Depreciation and amortization	2,698,134
Provision for bad debts	577,592
Changes in operating assets and liabilities:	
Accounts receivable	854,893
Due from other funds	320,483
Other accrued liabilities	420,379
	<hr/>
Net cash provided by operating activities	\$ 11,052,411
	<hr/> <hr/>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Fiduciary Net Assets

June 30, 2003

<b>Assets</b>	<b>Employee retirement plan (as of December 31, 2002)</b>	<b>Agency funds</b>
Cash and cash equivalents	\$ 21,645,799	3,971,957
Accounts receivable	8,306,080	—
Investments, at fair value:		
Fixed income securities	170,525,485	—
Equities	112,528,172	—
Pooled investments:		
Fixed income	4,873,473	—
Real estate	15,355,181	—
Domestic equities	75,463,701	—
International equities	38,359,400	—
Other	8,579,271	—
Total investments	425,684,683	—
Other assets	2,495,688	—
Cash collateral on security lending	17,773,632	—
Total assets	<u>\$ 475,905,882</u>	<u>3,971,957</u>
<b>Liabilities</b>		
Accrued liabilities	\$ 455,308	—
Guarantee deposits	—	3,971,957
Due to brokers for securities purchased	13,931,646	—
Cash collateral on security lending	17,773,632	—
Total liabilities	<u>32,160,586</u>	<u>3,971,957</u>
<b>Net Assets</b>		
Held in trust for pension benefits	<u>\$ 443,745,296</u>	

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Changes in Fiduciary Net Assets

June 30, 2003

	<b>Employee retirement plan (as of December 31, 2002)</b>
Additions:	
Contributions:	
Employers	\$ 21,398,751
Plan members	16,568,358
Commonwealth of Massachusetts	408,100
Total contributions	<u>38,375,209</u>
Investment earnings (loss):	
Interest and dividends	15,808,634
Securities lending income	554,603
Net depreciation in the fair value of investments	(52,948,599)
Less management fees	(2,398,253)
Less borrower rebates and fees under securities lending program	(474,555)
Net investment earnings	<u>(39,458,170)</u>
Total additions	<u>(1,082,961)</u>
Deductions:	
Benefits	31,086,083
Refunds of contributions	2,270,307
Administrative expenses	572,725
Total deductions	<u>33,929,115</u>
Change in net assets	(35,012,076)
Net assets, beginning of year	<u>478,757,372</u>
Net assets, end of year	<u><u>\$ 443,745,296</u></u>

See accompanying notes to basic financial statements.

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2003

### (1) The Financial Reporting Entity

#### (a) *Primary Government*

Settled in 1630 by a group from the Massachusetts Bay Company, the City of Cambridge (the City) was incorporated as a town in 1636 and became a city in 1846. Since 1940, the City has operated under a Council Manager form of government. The legislative body of the City is the City Council, consisting of nine members elected at large every two years; the Mayor and Vice-Mayor are elected by the Council from among its members for a two-year term. Executive authority resides with the City Manager, who is appointed by the Council and is responsible for the delivery of services to City residents.

The Mayor also serves as Chair of the School Committee. The School Committee, whose members are elected, have full authority for operations of the school system and appoint a superintendent to administer the system's day-to-day operations.

The accompanying basic financial statements present the City of Cambridge 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*

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.

The Cambridge Retirement System (the System) 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 as ex officio; two individuals elected by participants in the System; a fourth member appointed by the City Manager and a fifth member chosen by the other members of the Board. The System provides pension benefits to retired City, Cambridge Housing Authority, Cambridge Redevelopment Authority and Cambridge Public Health Commission employees. Although legally separate, the System provides services entirely or almost entirely to the City and thus has been reported as if it were part of the primary government; a method of inclusion known as blending.

The System is on a calendar fiscal year. As a result, the financial information of the System is as of and for the year ending December 31, 2002. The System does not issue stand-alone financial statements.

#### (c) *Discretely Presented Component Unit*

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

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2003

The Cambridge Public Health Commission (CPHC) is a body politic and corporate and public instrumentality of the Commonwealth established by Chapter 147 of the Acts of 1996. CPHC is governed by a nineteen-member board, all of whom are appointed by the City Manager. CPHC is responsible for the implementation of public health programs in the City.

Complete financial statements for the CPHC for its fiscal year ended June 30, 2003 are available from its offices on 10 Presidents Way, 5<sup>th</sup> Floor, Medford, Massachusetts 02155.

**(d) Related Organizations**

The Manager is also responsible for appointing four of five board members to the Cambridge Housing Authority, subject to confirmation by the Council. However, the City's accountability for this organization does not extend beyond making these appointments.

**(2) Summary of Significant Accounting Policies**

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 activities) report information on all of the nonfiduciary activities of the primary government and its discretely presented component unit. 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 separately from the legally separate *component unit* 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 the individual enterprise fund 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 *full accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. The agency fund, although it uses the full accrual basis of accounting only

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2003

reports assets and liabilities and can therefore not be said to have a measurement focus. 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 intergovernmental revenues. In applying the susceptible-to-accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible-to-accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth.

Property taxes are recorded as revenue in the year for which the taxes have been levied, provided they are collected within 60 days after year-end. Investment income is recorded as earned. Other revenues are recorded when received in cash because they are generally not measurable until actually received.

Expenditures are recorded when the liability is incurred except for (1) interest on general obligation debt, which is recorded when due; and (2) tax abatements and judgments and claims, all of which are recorded as expenditures to the extent that they have been paid or are expected to be paid with expendable available financial resources.

#### **Proprietary Fund Financial Statements**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 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 providing services and producing and delivering goods



## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2003

in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for water service. Operating expenses for the enterprise fund include the cost of preparing and delivering the water, administrative expenses, and depreciation on capital assets. 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 *capital fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

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

The *water fund* accounts for activities related to the preparation and delivery of water to City residents.

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

The *pension trust fund* accounts principally for the activities of the Cambridge Retirement System, which accumulates resources for pension benefit payments to retired City employees.

The *agency fund* is used to report assets held in a trustee or agency capacity for others.

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

(c) ***Cash Equivalents***

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

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

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of the System, which are described in note 8. 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."

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

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 activity columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of five 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.

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.

Capital assets of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Infrastructure	15-50
Furniture and equipment	7-10

**(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 cost of compensated absences for employees is recorded as earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if it has matured (i.e., come due for payment). 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).

**(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

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2003

method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**(j) *Fund Equity***

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

**(k) *Securities Lending Transactions***

Collateral received on securities lending transactions is reported as an asset with a corresponding liability to the borrower. The underlying securities lent to the borrower under these transactions are reported as investments. Borrower rebates and administrative fees are reported as expenses; interest and dividends on the underlying securities and related collateral are reported as revenues.

**(l) *Landfill Postclosure Care Costs***

State and federal regulations required the City to place a final cover on its Danehy Park landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2003, 100% of the landfill site had been used and has not accepted solid waste for several years. This estimate is subject to changes due to inflation, deflation, technology or applicable laws, and regulations. The City has completed the covering of this site in accordance with applicable laws and regulations.

The liability for postclosure care is estimated based on current costs to perform certain maintenance and monitoring over the next twenty years. The total liability is reported in the Statement of Net Assets.

**(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.

**(3) *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

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

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.

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, 2003 are as follows:

<u>Primary government</u>	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Total bank balance</u>	<u>Carrying amount</u>
Total cash deposits	60,000	—	25,726,031	25,786,031	21,671,925

<u>Discretely Presented Component Unit (CPHC)</u>	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Total bank balance</u>	<u>Carrying amount</u>
Total cash deposits	500,000	—	34,920,236	35,420,236	26,897,787

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

**(b) Investments**

The City and Cambridge Retirement System 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:

<b>Primary government June 30, 2003</b>	<b>Category</b>			<b>Fair value</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
Categorized:				
Fixed income securities:				
Not on loan	\$ 155,111,369	—	—	155,111,369
On loan	—	—	3,009,542	3,009,542
Equity securities:				
Not on loan	107,619,187	—	—	107,619,187
On loan	—	—	38,833	38,833
	<u>\$ 262,730,556</u>	<u>—</u>	<u>3,048,375</u>	<u>265,778,931</u>
Not categorized:				
Securities loaned:				
Fixed income securities				12,404,574
Equity securities				4,870,152
MMDT				136,780,465
Cash collateral pool				17,773,632
Other pooled funds				192,955,641
				<u>\$ 630,563,395</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

Of the investments reflected in the preceding table, investments of the Cambridge Retirement System constitute 70% of the amount of the Primary Government.

<b>CHPC</b> <b>June 30, 2003</b>	<b>Category</b>			<b>Fair value</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
Categorized:				
U.S. Government obligations	\$ 20,315,340	—	—	20,315,340
Debt securities	11,115,712	—	—	11,115,712
	<u>\$ 31,431,052</u>	<u>—</u>	<u>—</u>	31,431,052
Not categorized:				
MMDT				2,635,897
				<u>\$ 34,066,949</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.

**(4) Property Taxes**

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

The City bills and collects its property taxes on a semiannual basis following the January 1 assessment. The due dates for those tax billings are November 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. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

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

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

**(5) Capital Assets**

Capital asset activity for the year ended June 30, 2003 was as follows:

***Primary Government***

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 162,314,121	—	—	162,314,121
Construction in progress	32,626,866	28,003,475	(5,249,754)	55,380,587
Total capital assets not being depreciated	<u>194,940,987</u>	<u>28,003,475</u>	<u>(5,249,754)</u>	<u>217,694,708</u>
Capital assets being depreciated:				
Buildings and improvements	144,622,433	6,075,479	—	150,697,912
Improvements – nonbuilding	19,637,181	5,297,408	—	24,934,589
Furniture and equipment	22,193,382	1,153,754	—	23,347,136
Infrastructure	127,936,227	(574,393)(1)	—	127,361,834
Total capital assets being depreciated	<u>314,389,223</u>	<u>11,952,248</u>	<u>—</u>	<u>326,341,471</u>
Less accumulated depreciation for:				
Buildings and improvements	(53,557,361)	(3,492,675)	—	(57,050,036)
Improvements – nonbuilding	(3,289,352)	(740,210)	—	(4,029,562)
Furniture and equipment	(12,465,829)	(3,380,541)	—	(15,846,370)
Infrastructure	(83,925,062)	(6,621,151)	—	(90,546,213)
Total accumulated depreciation	<u>(153,237,604)</u>	<u>(14,234,577)</u>	<u>—</u>	<u>(167,472,181)</u>
Total capital assets being depreciated, net	<u>161,151,619</u>	<u>(2,282,329)</u>	<u>—</u>	<u>158,869,290</u>
Governmental activities capital assets, net	<u>\$ 356,092,606</u>	<u>25,721,146</u>	<u>(5,249,754)</u>	<u>376,563,998</u>

(1) This amount includes an adjustment to the estimated historical cost of previously recorded infrastructure assets.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

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

Governmental activities:

General government	\$ 946,852
Public safety	1,350,993
Human resource development	276,298
Education	3,594,555
Highways and streets, including depreciation of general infrastructure assets	<u>8,065,879</u>
Total depreciation expense – governmental activities	<u>\$ 14,234,577</u>

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
<b>Business-type activity:</b>				
Capital assets not being depreciated:				
Land	\$ 39,264,325	—	—	39,264,325
Construction in progress	2,842,209	572,898	(2,842,209)	572,898
Total capital assets not being depreciated	<u>42,106,534</u>	<u>572,898</u>	<u>(2,842,209)</u>	<u>39,837,223</u>
Capital assets being depreciated:				
Buildings and improvements	77,444,806	2,842,209	—	80,287,015
Furniture and equipment	921,741	63,575	—	985,316
Infrastructure	29,951,581	336,146	—	30,287,727
Total capital assets being depreciated	<u>108,318,128</u>	<u>3,241,930</u>	<u>—</u>	<u>111,560,058</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,903,635)	(1,971,648)	—	(3,875,283)
Furniture and equipment	(457,837)	(123,953)	—	(581,790)
Infrastructure	(7,715,552)	(602,533)	—	(8,318,085)
Total accumulated depreciation	<u>(10,077,024)</u>	<u>(2,698,134)</u>	<u>—</u>	<u>(12,775,158)</u>
Total capital assets being depreciated, net	<u>98,241,104</u>	<u>543,796</u>	<u>—</u>	<u>98,784,900</u>
Business-type activity capital assets, net	<u>\$ 140,347,638</u>	<u>1,116,694</u>	<u>(2,842,209)</u>	<u>138,622,123</u>



**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

**(6) Receivable and Payable Balances Between Funds and Component Unit**

Individual fund receivable and payable balances at June 30, 2003, are as follows:

<b>Interfund balances</b>	<b>Receivable</b>	<b>Payable</b>
Capital fund – Community Development Block Grant receivable from other governmental fund	\$ 2,182,089	—
Capital fund – Reimbursement from Enterprise fund related to construction	1,181,986	—
Enterprise fund – Reimbursement to Capital Fund related to construction	—	1,181,986
Other governmental fund – Community Development Block Grant payable to Capital fund	—	2,182,089
	<u>3,364,075</u>	<u>3,364,075</u>
Balance at June 30, 2003		
Balances in accompanying basic financial statements	<u>\$ 3,364,075</u>	<u>3,364,075</u>

Receivable and payable balances between the primary government and CPHC at June 30, 2003 are as follows:

<b>Discrete component unit balances</b>	<b>Receivable</b>	<b>Payable</b>
Primary government:		
General	\$ 22,500,000	—
Discretely presented component unit:		
CPHC	—	22,500,000
	<u>22,500,000</u>	<u>22,500,000</u>
Balance at June 30, 2003		
Balances in accompanying basic financial statements	<u>\$ 22,500,000</u>	<u>22,500,000</u>

In 1998, the City issued \$30 million of general obligation hospital bonds. The proceeds were provided to the CPHC for the construction of an ambulatory care center. CPHC 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. These general obligation bonds amounted to \$22,500,000 at June 30, 2003.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

**(7) Long-Term Obligations**

Following is a summary of the governmental long-term obligations of the City as of June 30, 2003:

	<u>Date of issue</u>	<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 purpose, serial maturities through December 15, 2011	6/15/92 to 1/15/03	2.25-6.0%	\$ 27,095,000	7,775,000	4,030,000	30,840,000	4,810,000
Urban redevelopment, serial maturities through December 1, 2011	6/15/92 to 1/15/03	2.25-5.9%	9,220,000	7,640,000	1,325,000	15,535,000	2,090,000
Schools, serial maturities through December 1, 2010	6/15/92 to 12/1/00	3.75-5.9%	31,119,000	—	5,868,000	25,251,000	5,868,000
Sewer, serial maturities through December 15, 2011	2/1/94 to 1/15/03	2.25-6.13%	48,594,249	13,638,565	7,542,151	54,690,663	7,792,014
Hospital, serial maturities through February 1, 2018	2/1/98	4.50-5.0%	24,000,000	—	1,500,000	22,500,000	1,500,000
Section 108 HUD notes payable, serial maturities through August 15, 2014	2/1/95	7.71-9.03%	825,000	—	420,000	405,000	10,000
School equipment notes, serial maturities through October 15, 2008	6/15/98	6.85%	2,314,652	—	314,136	2,000,516	335,956
Note payable serial maturities April 2010 through April 2021	4/15/00	2.00%	6,000,000	—	—	6,000,000	—
Total governmental obligation bonds and notes payable			<u>149,167,901</u>	<u>29,053,565</u>	<u>20,999,287</u>	<u>157,222,179</u>	<u>22,405,970</u>
Other long-term obligations:							
Claims			5,420,572	2,774,507	3,685,545	4,509,534	2,429,089
Compensated absences, net			18,185,010	1,909,639	—	20,094,649	8,281,513
Landfill postclosure care costs			475,000	—	25,000	450,000	25,000
Total other governmental long-term obligations			<u>24,080,582</u>	<u>4,684,146</u>	<u>3,710,545</u>	<u>25,054,183</u>	<u>10,735,602</u>
Total governmental long-term obligations			<u>\$ 173,248,483</u>	<u>33,737,711</u>	<u>24,709,832</u>	<u>182,276,362</u>	<u>33,141,572</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

Following is a summary of the business-type long-term obligations of the City as of June 30, 2003:

	<u>Date of issue</u>	<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>
General purpose, serial maturities through December 15, 2011	2/1/94 to 12/15/01	3.5-6.0%	\$ 72,701,609	—	5,912,314	66,789,295	5,969,782
Total business-type bond and notes payable			<u>72,701,609</u>	<u>—</u>	<u>5,912,314</u>	<u>66,789,295</u>	<u>5,969,782</u>
Other long-term obligations:							
Claims			163,322	206,581	123,449	246,454	82,151
Compensated absences, net			<u>358,572</u>	<u>2,880</u>	<u>—</u>	<u>361,452</u>	<u>193,608</u>
Total other long-term obligations			<u>521,894</u>	<u>209,461</u>	<u>123,449</u>	<u>607,906</u>	<u>275,759</u>
Total business-type long-term obligations			<u>\$ 73,223,503</u>	<u>209,461</u>	<u>6,035,763</u>	<u>67,397,201</u>	<u>6,245,541</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

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

The annual debt service requirements of the City's general obligation governmental bonds and notes payable outstanding as of June 30, 2003, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 22,405,970	6,404,810	28,810,780
2005	20,661,228	5,488,991	26,150,219
2006	17,655,934	4,664,419	22,320,353
2007	16,991,654	3,941,828	20,933,482
2008	15,265,115	3,207,233	18,472,348
2009-2013	51,833,977	7,382,585	59,216,562
2014-2018	10,691,505	1,365,078	12,056,583
2019-2022	1,716,796	49,862	1,766,658
	<u>\$ 157,222,179</u>	<u>32,504,806</u>	<u>189,726,985</u>

The City has entered into loan agreements with the President and Fellows of Harvard College. The loans provide funding to further the development of affordable housing within the City. The notes carry interest at 2% per year for a period of twenty years with principal payments beginning in 2010. Interest costs will be \$120,000 annually. At June 30, 2003, the principal amount outstanding is \$6,000,000.

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, 2003, such resources expected to be provided to the City total approximately \$23,000,000 from the Commonwealth.

Principal retirement of governmental funds has been reflected in the basic financial statements as debt service expenditures of \$14,817,151 and education expenditures of \$6,182,136 totaling \$20,999,287 of principal costs.

In January 2003, the City issued in \$28,675,000 in general obligation bonds to fund various capital purchases and improvements throughout the City. Interest is due semiannually on each January 1 and July 1, with principal payments due each January 1 until maturity in fiscal 2013.

In September 2002, the City borrowed \$378,565 from the Massachusetts Water Resources Authority to fund various sewer improvements. Principal is due in annual installments of \$75,713 through August 15, 2007.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

The City enters into loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT) to provide funding for sewer separation and drinking water projects. According to the loan agreements, the City will be subsidized on a periodic basis for debt and interest costs. The City received \$3,970,233 in subsidies during 2003. Loan payments commenced on February 1, 1994 and end on August 1, 2010, with interest rates ranging from 2.35% to 6.125%

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 2-1/2% and 5%, respectively, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit, but are subject to other limitations.

The City is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 2-1/2% and 5%, respectively, of the valuation of taxable property in the City as last equalized by the Commonwealth's 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, 2003, the City may issue approximately \$272,050,513 additional general obligation debt under the normal debt limit. The City has approximately \$92,040,295 of debt exempt from the debt limit.

The annual debt service requirements of the City's water enterprise fund as of June 30, 2003 is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2004	\$ 5,969,782	3,063,071	9,032,853
2005	5,973,814	2,796,146	8,769,960
2006	5,847,332	2,529,973	8,377,305
2007	5,614,004	2,260,788	7,874,792
2008	5,783,673	1,997,067	7,780,740
2009-2013	22,100,690	6,176,318	28,277,008
2014-2018	12,500,000	2,384,316	14,884,316
2019-2020	3,000,000	106,251	3,106,251
	<u>\$ 66,789,295</u>	<u>21,313,930</u>	<u>88,103,225</u>

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

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

**(8) Retirement Plan**

**(a) Plan Description**

The City contributes to the Cambridge Retirement System (System), a cost-sharing, multi-employer public employee retirement system. The system provides retirement, disability, and death benefits to plan members and beneficiaries of the following governmental units:

- (1) City of Cambridge
- (2) Cambridge Redevelopment Authority
- (3) Cambridge Housing Authority
- (4) Cambridge Public Health Commission

The System is a member of the Massachusetts Contributory System, which is governed by Chapter 32 of the Massachusetts General Laws (MGL).

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

**(b) Basis of Accounting**

The System's financial statements are prepared using the full 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.
- (d) Venture capital funds are stated at the lower of contributed cost or fair value.
- (e) International investments are stated at quoted market value and are included in equities and fixed income categories.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

**(c) Membership**

Membership in the System consisted of the following at January 1, 2002, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,662
Terminated plan members entitled to, but not receiving benefits	675
Active plan members	<u>3,870</u>
Total membership	<u><u>6,207</u></u>
Total number of participating employers	4

**(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. Effective July 1, 1998 Chapter 32 of the Massachusetts General Laws assigns to the local retirement boards authority to establish and amend benefit provisions of the Plan and grant cost-of-living increases. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's and CPHC's required and actual contributions to the System for the years ended June 30, 2003, 2002 and 2001 were \$13,277,195, \$14,372,278, and \$14,443,522, and \$8,121,556, \$7,658,168, and \$7,117,982, respectively.

**(e) Legally Required Reserve Accounts**

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2002 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity savings fund	\$ 128,924,418	Active members' contribution balance
Annuity reserve fund	34,906,374	Retired members' contribution account
Military service credit	1,811	Members' contribution account while on military leave
Pension reserve fund	216,889,327	Amounts appropriated to fund future retirement benefits
Pension fund	<u>53,023,366</u>	Remaining net assets
	<u><u>\$ 433,745,296</u></u>	

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

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2003

**(f) *Investment Concentration***

There were no investments (other than those issued or guaranteed by the United States Government) in any one organization that represented 5% or more of plan net assets.

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

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 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, 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 for the year ended December 31, 2002 was \$474,555.

At December 31, 2002, the fair value of securities loaned by the System amounted to \$20,323,101, against which was held collateral of \$20,894,247.

For loans having collateral other than cash, the related collateral securities are not recorded as assets in the Statement of Plan Net Assets, and a corresponding liability is not recorded, since the system cannot pledge or sell the collateral securities except in the event of a borrower's default.

**(h) *Massachusetts Teachers' Retirement System***

In addition, teachers, certain administrators, and other professionals of the School Department participate in a contributory defined benefit plan administered by the Massachusetts Teachers' Retirement System. The City has no obligation to contribute to this plan. The Commonwealth funds plan benefits to the extent that funding is not provided through employee contributions. However, the Commonwealth does not separately calculate the amount of its annual contribution attributable to benefits earned by City employees.



**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

**(9) Other Postemployment Benefit Disclosures**

In addition to the pension benefits described in note 8, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to eligible retirees. Approximately 1,650 retirees meet the eligibility requirements as put forth in Chapter 32B of Massachusetts General Laws. The City pays 90% 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.

Expenditures of approximately \$9.4 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal 2003.

**(10) Transfers**

Transfers and their purposes during the year ended June 30, 2003 were as follows:

	<b>Governmental funds</b>			<b>Enterprise fund</b>
	<b>General</b>	<b>Capital</b>	<b>Other</b>	<b>Water</b>
Capital – to fund capital expenditures	\$ (7,875,000)	7,875,000	—	—
Parking – reimbursement of administrative costs and other eligible City expenditures	13,361,470	—	(13,361,470)	—
Cemetery – reimbursement of operational costs to fund renovations of administration, buildings and grounds	45,000	—	(45,000)	—
CDBG – transfer of revenues to reimburse eligible capital costs	—	1,849,578	(1,849,578)	—
Water – reimbursement of administrative costs	376,870	—	—	(376,870)
CPA – to cover historic preservation cost	—	360,000	(360,000)	—
Parking – to replace obsolete traffic signals	—	340,000	(340,000)	—
Total	<u>\$ 5,908,340</u>	<u>10,424,578</u>	<u>(15,956,048)</u>	<u>(376,870)</u>

**(11) Risk Management**

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health insurance claims. The City is self-insured for other general liability; however, Chapter 258 of the MGL limits the liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain and breach of contract. The City is also self-insured for workers' compensation and unemployment claims.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2003

The City has medical plans with Tufts, Harvard-Pilgrim and Blue Cross/Blue Shield under which it makes actual claims payments. The medical plan providers act as claim processors and a transfer of risk does not occur. Approximately 90% of the City's employees participate in the self-insured plan with the remainder electing preferred provider plans that are premium based.

Employees contribute approximately 12% of the cost of healthcare with the remainder paid by the City. These costs are accounted for in the general fund. The contribution rate for retirees is 1% for those who enroll in indemnity plans and 10% for those who enroll in HMO-type plans. The City does not carry stop-loss insurance.

Changes in the self-insurance liability for the years ended June 30, 2003 and 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Accrued claims, beginning of year	\$ 5,583,894	3,255,609
Incurred claims	2,981,087	3,484,088
Less payments of claims attributable to events of both current and prior fiscal years	<u>(3,808,993)</u>	<u>(1,155,803)</u>
Accrued claims, end of year	<u>\$ 4,755,988</u>	<u>5,583,894</u>

There are numerous cases pending in courts throughout the Commonwealth where the City of Cambridge is a defendant. In the opinion of the City Solicitor, none of the pending litigation is likely to result, either individually or in the aggregate, in final judgments against the City that would materially affect its financial position.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Pension Information

(Dollar amounts in thousands)

Schedule of Funding Progress

<u>Actuarial stock valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b-a)/c)</u>
1/1/2002	\$ 516,947	578,050	61,103	89.4%	\$ 167,303	36.5%
1/1/2000	424,606	510,973	86,367	83.1%	140,489	61.5%
1/1/1998	342,788	436,216 (1)	93,428	78.6%	132,440	70.5%
1/1/1996	233,883	361,885	128,002	64.6%	114,485	111.8%
1/1/1994	182,632	323,644	141,012	56.4%	109,775	128.5%
1/1/1993	158,595	279,715	121,120	56.7%	99,063	122.3%

(1) Future cost of living increases assumed by the City.

Schedule of Employers' Contributions

<u>Year ended December 31:</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
2002	\$ 21,399	100%
2001	22,030	100
2000	21,669	100
1999	21,284	100
1998	20,696	100
1997	21,288	100

See accompanying notes to required supplementary pension information.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Pension Information

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2002
Actuarial cost method	Entry age normal cost method
Amortization method	Level payments
Remaining amortization period	Six years from July 1, 2002 for Early Retirement Incentive and seven years from July 1, 2002 for the remaining unfunded liability.
Asset valuation method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period.
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	5.5%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information

(Unaudited)

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

Year ended June 30, 2003

(with comparative actual amounts for 2002)

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>	<u>2002 Actual</u>
Revenues and other available funds:					
Property taxes	\$ 190,527,832	197,720,546	197,720,546	—	187,444,551
Provision for abatements and adjustments	(4,145,297)	(4,145,297)	(4,145,297)	—	(4,261,178)
Payment in lieu of tax receipts	3,600,000	3,600,000	4,644,373	1,044,373	5,316,254
Hotel/motel excise tax	5,000,000	5,250,000	4,401,259	(848,741)	4,907,532
Intergovernmental	43,633,880	43,224,981	42,690,197	(534,784)	46,822,454
Sewer use	24,058,915	24,058,915	27,061,324	3,002,409	23,836,866
Motor vehicle excise	4,900,000	5,619,650	6,031,393	411,743	5,838,407
Investment income	2,100,000	1,575,000	1,295,124	(279,876)	1,678,983
Other	25,672,665	26,956,312	22,051,719	(4,904,593)	17,362,618
	<u>295,347,995</u>	<u>303,860,107</u>	<u>301,750,638</u>	<u>(2,109,469)</u>	<u>288,946,487</u>
Expenditures:					
Current:					
General government	28,995,765	28,111,291	26,589,312	1,521,979	27,520,861
Public safety	73,205,525	73,353,735	72,909,499	444,236	70,409,269
Community maintenance and development	27,510,720	27,737,338	27,625,956	111,382	26,039,634
Human resource development	19,074,295	19,635,096	19,519,291	115,805	18,257,711
Education	116,562,345	117,138,643	117,137,186	1,457	112,573,192
Judgments and claims	250,000	1,575,000	755,696	(696)	205,418
Intergovernmental	29,981,390	30,026,099	29,698,511	327,588	28,019,200
Debt service:					
Principal	14,330,350	14,330,350	14,050,350	280,000	11,379,352
Interest	5,153,935	5,153,935	5,020,548	133,387	5,009,281
	<u>315,064,325</u>	<u>316,241,487</u>	<u>313,306,349</u>	<u>2,935,138</u>	<u>299,413,918</u>
Excess (deficiency) of revenues over expenditures	<u>(19,716,330)</u>	<u>(12,381,380)</u>	<u>(11,555,711)</u>	<u>(5,044,607)</u>	<u>(10,467,431)</u>
Other financing sources (uses):					
Operating transfers in (out):					
Special revenue funds	15,134,460	15,128,060	13,361,470	1,766,590	12,276,490
Capital projects funds	—	(343,000)	(7,875,000)	7,532,000	(10,175,172)
Permanent funds	4,205,000	3,405,000	3,405,000	—	5,273,692
Enterprise fund	376,870	376,870	376,870	—	376,870
	<u>19,716,330</u>	<u>18,566,930</u>	<u>9,268,340</u>	<u>9,298,590</u>	<u>7,751,880</u>
Excess (deficiency) of revenues and other financing source over expenditures and other financing uses	\$ <u>—</u>	<u>6,185,550</u>	<u>(2,287,371)</u>	<u>(14,343,197)</u>	<u>(2,715,551)</u>
Other budget items:					
Free cash appropriations		125,093			
Prior year deficits raised		(3,176)			
		<u>121,917</u>			
Net budget and actual		\$ <u>6,307,467</u>			

See accompanying notes to required supplementary budget information.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Required Supplementary Budget Information

Year ended June 30, 2003

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).
- (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, 2003:

	<b>Revenues</b>	<b>Expenditures</b>	<b>Other financing sources (uses), net</b>
As reported on a budgetary basis	\$ 301,750,638	313,306,349	9,268,340
Adjustments:			
Revenues to modified accrual basis	1,848,322	—	—
Sixty day accrual	534,942	—	—
Miscellaneous accruals	1,351,489	—	—
Expenditures, encumbrances and accruals, net	—	(6,959,224)	—
Reclassifications:			
Trust fund revenue	3,360,000	—	(3,360,000)
As reported on a GAAP basis	\$ 308,845,391	306,347,125	5,908,340

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Supplemental Statements and Schedules

June 30, 2003

The following section provides detailed information on the General Fund, Other Governmental Funds and Agency funds included in the basic financial statements. Information on real, personal, and excise tax collections, and a schedule of the bonds and notes payable of the City is also provided in this section.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
General Government:			
Mayor:			
Salaries and wages	\$ 307,440	304,656	2,784
Other ordinary maintenance	116,140	111,691	4,449
Travel and training	15,800	15,732	68
Total Mayor	<u>439,380</u>	<u>432,079</u>	<u>7,301</u>
City Manager:			
Salaries and wages	914,260	914,256	4
Other ordinary maintenance	401,000	348,614	52,386
Travel and training	29,965	28,554	1,411
Total City Manager	<u>1,345,225</u>	<u>1,291,424</u>	<u>53,801</u>
City Council:			
Salaries and wages	906,345	846,448	59,897
Other ordinary maintenance	46,900	46,295	605
Travel and training	33,000	31,272	1,728
Total City Council	<u>986,245</u>	<u>924,015</u>	<u>62,230</u>
City Clerk:			
Salaries and wages	628,255	628,255	—
Other ordinary maintenance	60,730	52,914	7,816
Travel and training	750	100	650
Total City Clerk	<u>689,735</u>	<u>681,269</u>	<u>8,466</u>
Law:			
Salaries and wages	1,028,180	1,028,176	4
Other ordinary maintenance	509,225	506,983	2,242
Travel and training	9,675	8,177	1,498
Total Law	<u>1,547,080</u>	<u>1,543,336</u>	<u>3,744</u>
Finance:			
Salaries and wages	5,784,585	5,784,584	1
Other ordinary maintenance	2,079,240	2,050,975	28,265
Travel and training	175,980	169,634	6,346
Extraordinary expenditures	77,800	77,325	475
Total Finance	<u>8,117,605</u>	<u>8,082,518</u>	<u>35,087</u>



**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Employment Benefits:			
Salaries and wages	\$ 11,801,050	10,519,614	1,281,436
Other ordinary maintenance	555,911	539,556	16,355
Total Employment Benefits	<u>12,356,961</u>	<u>11,059,170</u>	<u>1,297,791</u>
General Services:			
Salaries and wages	381,565	381,560	5
Other ordinary maintenance	594,930	592,891	2,039
Total General Services	<u>976,495</u>	<u>974,451</u>	<u>2,044</u>
Election Commission:			
Salaries and wages	488,280	488,278	2
Other ordinary maintenance	248,375	232,392	15,983
Travel and training	2,270	1,046	1,224
Total Election Commission	<u>738,925</u>	<u>721,716</u>	<u>17,209</u>
Public Celebrations:			
Salaries and wages	373,120	369,073	4,047
Other ordinary maintenance	302,370	300,289	2,081
Travel and training	1,125	1,124	1
Total Public Celebrations	<u>676,615</u>	<u>670,486</u>	<u>6,129</u>
Reserve:			
Other ordinary maintenance	24,130	—	24,130
Total Reserve	<u>24,130</u>	<u>—</u>	<u>24,130</u>
Animal Commission:			
Salaries and wages	200,180	199,389	791
Other ordinary maintenance	12,595	9,369	3,226
Travel and training	120	90	30
Total Animal Commission	<u>212,895</u>	<u>208,848</u>	<u>4,047</u>
Total General Government	<u>28,111,291</u>	<u>26,589,312</u>	<u>1,521,979</u>
Public Safety:			
Fire:			
Salaries and wages	26,743,110	26,743,107	3
Other ordinary maintenance	741,840	731,297	10,543
Travel and training	331,400	331,294	106
Extraordinary expenditures	95,000	94,977	23
Total Fire	<u>27,911,350</u>	<u>27,900,675</u>	<u>10,675</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2003

	<b>Budget</b>	<b>Actual</b>	<b>Variance positive (negative)</b>
Police:			
Salaries and wages	\$ 27,590,200	27,584,832	5,368
Other ordinary maintenance	824,850	790,715	34,135
Travel and training	369,000	344,639	24,361
Extraordinary expenditures	290,500	290,320	180
Total Police	<u>29,074,550</u>	<u>29,010,506</u>	<u>64,044</u>
Traffic and Parking:			
Salaries and wages	4,759,890	4,639,203	120,687
Other ordinary maintenance	2,854,640	2,752,768	101,872
Travel and training	19,400	11,692	7,708
Extraordinary expenditures	75,000	74,028	972
Total Traffic and Parking	<u>7,708,930</u>	<u>7,477,691</u>	<u>231,239</u>
Police Review and Advisory Board:			
Salaries and wages	65,785	65,783	2
Other ordinary maintenance	9,220	8,831	389
Travel and training	3,000	2,398	602
Total Police Review and Advisory Board	<u>78,005</u>	<u>77,012</u>	<u>993</u>
Inspectional Services:			
Salaries and wages	2,026,870	1,961,546	65,324
Other ordinary maintenance	107,100	95,882	11,218
Travel and training	51,825	48,172	3,653
Total Inspectional Services	<u>2,185,795</u>	<u>2,105,600</u>	<u>80,195</u>
License:			
Salaries and wages	615,820	615,819	1
Other ordinary maintenance	61,090	41,839	19,251
Travel and training	8,800	8,470	330
Total License	<u>685,710</u>	<u>666,128</u>	<u>19,582</u>
Weights and Measures:			
Salaries and wages	85,665	85,663	2
Other ordinary maintenance	7,780	7,726	54
Travel and training	1,745	1,315	430
Total Weights and Measures	<u>95,190</u>	<u>94,704</u>	<u>486</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Electrical:			
Salaries and wages	\$ 931,020	908,511	22,509
Other ordinary maintenance	1,440,580	1,429,673	10,907
Travel and training	31,670	30,130	1,540
Extraordinary expenditures	55,700	55,156	544
Total Electrical	<u>2,458,970</u>	<u>2,423,470</u>	<u>35,500</u>
Emergency Management:			
Salaries and wages	131,265	131,260	5
Other ordinary maintenance	16,535	15,620	915
Travel and training	100	—	100
Total Emergency Management	<u>147,900</u>	<u>146,880</u>	<u>1,020</u>
Emergency Communications:			
Salaries and wages	2,821,475	2,821,473	2
Other ordinary maintenance	166,010	165,896	114
Travel and training	15,850	15,720	130
Extraordinary expenditures	4,000	3,744	256
Total Emergency Communications	<u>3,007,335</u>	<u>3,006,833</u>	<u>502</u>
Total Public Safety	<u>73,353,735</u>	<u>72,909,499</u>	<u>444,236</u>
Community Maintenance and Development:			
Public Works:			
Salaries and wages	13,348,035	13,348,017	18
Other ordinary maintenance	7,990,820	7,986,588	4,232
Travel and training	190,625	189,254	1,371
Extraordinary expenditures	635,000	634,367	633
Total Public Works	<u>22,164,480</u>	<u>22,158,226</u>	<u>6,254</u>
Community Development:			
Salaries and wages	3,618,419	3,618,419	—
Other ordinary maintenance	211,681	160,389	51,292
Travel and training	35,200	31,150	4,050
Extraordinary expenditures	269,968	269,968	—
Total Community Development	<u>4,135,268</u>	<u>4,079,926</u>	<u>55,342</u>
Historical Commission:			
Salaries and wages	359,560	359,560	—
Other ordinary maintenance	27,380	27,094	286
Travel and training	800	594	206
Total Historical Commission	<u>387,740</u>	<u>387,248</u>	<u>492</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Conservation Commission:			
Salaries and wages	\$ 74,330	55,223	19,107
Other ordinary maintenance	3,865	799	3,066
Travel and training	885	560	325
Total Conservation Commission	<u>79,080</u>	<u>56,582</u>	<u>22,498</u>
Peace Commission:			
Salaries and wages	60,105	59,330	775
Other ordinary maintenance	12,695	12,689	6
Travel and training	1,330	456	874
Total Peace Commission	<u>74,130</u>	<u>72,475</u>	<u>1,655</u>
Cable Television:			
Salaries and wages	360,410	345,802	14,608
Other ordinary maintenance	532,780	522,545	10,235
Travel and training	3,450	3,152	298
Total Cable Television	<u>896,640</u>	<u>871,499</u>	<u>25,141</u>
Total Community Maintenance and Development	<u>27,737,338</u>	<u>27,625,956</u>	<u>111,382</u>
Human Resource Development:			
Library:			
Salaries and wages	4,163,440	4,163,439	1
Other ordinary maintenance	867,880	867,482	398
Travel and training	36,650	34,481	2,169
Extraordinary expenditures	46,500	41,053	5,447
Total Library	<u>5,114,470</u>	<u>5,106,455</u>	<u>8,015</u>
Human Services:			
Salaries and wages	11,090,160	11,034,541	55,619
Other ordinary maintenance	2,507,786	2,507,436	350
Travel and training	77,782	33,249	44,533
Extraordinary expenditures	72,462	70,299	2,163
Total Human Services	<u>13,748,190</u>	<u>13,645,525</u>	<u>102,665</u>
Women's Commission:			
Salaries and wages	137,025	137,024	1
Other ordinary maintenance	10,016	10,015	1
Travel and training	1,000	984	16
Total Women's Commission	<u>148,041</u>	<u>148,023</u>	<u>18</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2003

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Human Rights Commission:			
Salaries and wages	\$ 142,735	139,443	3,292
Other ordinary maintenance	2,825	2,825	—
Travel and training	1,930	340	1,590
Total Human Rights Commission	<u>147,490</u>	<u>142,608</u>	<u>4,882</u>
Veterans Benefits:			
Salaries and wages	221,805	221,801	4
Other ordinary maintenance	49,300	49,116	184
Travel and training	205,800	205,763	37
Total Veterans Benefits	<u>476,905</u>	<u>476,680</u>	<u>225</u>
Total Human Resource Development	<u>19,635,096</u>	<u>19,519,291</u>	<u>115,805</u>
Education:			
Salaries and wages	84,839,637	84,839,637	—
Other ordinary maintenance	23,477,158	23,477,158	—
Travel and training	302,910	302,910	—
Extraordinary expenditures	1,227,290	1,225,833	1,457
Debt:			
Principal payments	5,868,000	5,868,000	—
Interest payments	1,423,648	1,423,648	—
Total Education	<u>117,138,643</u>	<u>117,137,186</u>	<u>1,457</u>
Judgments and Claims	<u>755,000</u>	<u>755,696</u>	<u>(696)</u>
Debt Retirement:			
Principal payments	14,330,350	14,050,350	280,000
Interest payments	5,153,935	5,020,548	133,387
Total Debt Retirement	<u>19,484,285</u>	<u>19,070,898</u>	<u>413,387</u>
State assessments:			
MBTA assessment	7,126,089	7,120,563	5,526
MWRA assessment	15,718,780	15,423,213	295,567
Other State assessments	583,230	557,735	25,495
Cambridge Public Health Commission	6,598,000	6,597,000	1,000
Total Intergovernmental	<u>30,026,099</u>	<u>29,698,511</u>	<u>327,588</u>
Total General Fund Expenditures	<u>\$ 316,241,487</u>	<u>313,306,349</u>	<u>2,935,138</u>

## **CITY OF CAMBRIDGE, MASSACHUSETTS**

### Supplemental Statements and Schedules

June 30, 2003

## **OTHER GOVERNMENTAL FUNDS**

### **Community Development Block Grant**

Revenues from the Community Development Block Grant Program are recorded in this fund. A transfer of revenues is made at the end of the fiscal year to the Capital Projects Funds to cover Block Grant-related expenditures in these funds during the fiscal year. All operating expenditures are recorded within this Fund.

### **School Grants**

This fund accounts for both the receipt and expenditure of funds received from numerous federal and state agencies to support a wide range of elementary and secondary school programs.

### **Fuel Assistance**

This fund is used to account for revenues and expenditures for a federal program designed to provide low-income families with assistance in purchasing fuel supplies.

### **Parking Fund**

Receipts from the Parking Fund, which consist primarily of meter collections, parking fines, and miscellaneous revenues, are recorded in this fund and support a wide range of City programs in accordance with Chapter 844 of the Massachusetts General Laws. In a similar manner to the Block Grant Funds, an amount equal to that which is appropriated to the General and Capital Projects Funds, is transferred to those funds at the end of the fiscal year.

### **Community Preservation Act**

Receipts from added 3% tax and the matching funds from the State for the preservation of open space, historic locations and affordable housing are recorded in this fund. In a similar manner to the Parking fund, an amount equal to the amount appropriated to the Capital Projects and Other Grants funds, is transferred to those funds at the end of the fiscal year.

### **Other Grants**

Funds from a wide range of federal and state grants provide additional support to several City programs, including the Arts Council, Historical Commission, and Library. Both the receipt and expenditure of these funds are accounted for in this fund.

### **Permanent Funds**

This fund accumulates all the City of Cambridge Trust Funds that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting governments programs.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Combining Balance Sheet

Other Governmental Funds

June 30, 2003

**Special revenue**

<b>Assets</b>	<b>Community development block grant</b>	<b>School grants</b>	<b>Fuel assistance</b>	<b>Parking fund</b>	<b>Community preservation act</b>	<b>Other grants</b>	<b>Permanent funds</b>	<b>Total</b>
Cash and short-term investments	\$ 431,644	2,794,535	246,093	7,265,468	3,993,520	18,763,891	2,613,124	36,108,275
Restricted cash and investments	—	—	—	—	—	600,000	—	600,000
Accounts receivable	1,000,000	615,176	—	—	66,486	222,539	—	1,904,201
Accounts receivable-developer	—	—	—	—	—	1,500,000	—	1,500,000
Due from other governments	841,644	—	—	—	—	—	—	841,644
<b>Total assets</b>	<b>\$ 2,273,288</b>	<b>3,409,711</b>	<b>246,093</b>	<b>7,265,468</b>	<b>4,060,006</b>	<b>21,086,430</b>	<b>2,613,124</b>	<b>40,954,120</b>
<b>Liabilities and Fund Equity</b>								
Warrants payable	\$ 81,497	867,446	—	—	—	—	—	948,943
Accrued payroll	9,702	—	—	—	—	—	—	9,702
Accrued liabilities – other	—	—	—	—	—	521,213	—	521,213
Deferred revenue	—	—	—	—	66,486	—	—	66,486
Due to other funds	2,182,089	—	—	—	—	—	—	2,182,089
<b>Total liabilities</b>	<b>2,273,288</b>	<b>867,446</b>	<b>—</b>	<b>—</b>	<b>66,486</b>	<b>521,213</b>	<b>—</b>	<b>3,728,433</b>
Fund equity:								
Reserved for encumbrances	—	418,931	—	—	—	1,238,348	—	1,657,279
Reserved for specific purposes	—	—	—	—	2,160,000	600,000	2,613,124	5,373,124
Unreserved	—	2,123,334	246,093	7,265,468	1,833,520	18,726,869	—	30,195,284
<b>Total fund equity</b>	<b>—</b>	<b>2,542,265</b>	<b>246,093</b>	<b>7,265,468</b>	<b>3,993,520</b>	<b>20,565,217</b>	<b>2,613,124</b>	<b>37,225,687</b>
<b>Total liabilities and fund equity</b>	<b>\$ 2,273,288</b>	<b>3,409,711</b>	<b>246,093</b>	<b>7,265,468</b>	<b>4,060,006</b>	<b>21,086,430</b>	<b>2,613,124</b>	<b>40,954,120</b>

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Equity  
Other Governmental Funds  
Year ended June 30, 2003

	<b>Special revenue</b>							
	<b>Community development block grant</b>	<b>School grants</b>	<b>Fuel assistance</b>	<b>Parking fund</b>	<b>Community preservation act</b>	<b>Other grants</b>	<b>Permanent funds</b>	<b>Total</b>
<b>Revenues:</b>								
Intergovernmental	\$ 3,413,881	9,568,640	1,114,535	—	—	3,358,314	—	17,455,370
Investment income	—	315,280	2,887	354,893	—	285,773	15,995	974,828
<b>Other:</b>								
Permits	—	—	—	350,633	—	—	—	350,633
Fines	—	—	—	8,071,817	—	—	—	8,071,817
Charges for services	—	—	—	5,540,422	—	—	—	5,540,422
Miscellaneous	—	1,023,188	—	85,668	10,411,585	2,179,948	192,466	13,892,855
Total revenues	<u>3,413,881</u>	<u>10,907,108</u>	<u>1,117,422</u>	<u>14,403,433</u>	<u>10,411,585</u>	<u>5,824,035</u>	<u>208,461</u>	<u>46,285,925</u>
<b>Expenditures:</b>								
General government	—	—	—	—	—	35,588	78,751	114,339
Public safety	—	—	—	—	—	770,106	—	770,106
Education	—	12,542,839	—	—	—	—	—	12,542,839
Fuel assistance	—	—	1,134,970	—	—	—	—	1,134,970
Community maintenance and development	921,901	—	—	—	—	7,123,993	—	8,045,894
Human services	642,402	—	—	—	—	4,256,099	—	4,898,501
Total expenditures	<u>1,564,303</u>	<u>12,542,839</u>	<u>1,134,970</u>	<u>—</u>	<u>—</u>	<u>12,185,786</u>	<u>78,751</u>	<u>27,506,649</u>
Excess (deficiency) of revenues over expenditures	<u>1,849,578</u>	<u>(1,635,731)</u>	<u>(17,548)</u>	<u>14,403,433</u>	<u>10,411,585</u>	<u>(6,361,751)</u>	<u>129,710</u>	<u>18,779,276</u>
<b>Other financing sources (uses):</b>								
Transfers to other funds	(1,849,578)	—	—	(13,701,470)	(7,560,000)	—	(50,964)	(23,162,012)
Transfers from other funds	—	—	—	—	—	7,200,000	5,964	7,205,964
Excess (deficiency) of revenues over expenditures and transfers	<u>—</u>	<u>(1,635,731)</u>	<u>(17,548)</u>	<u>701,963</u>	<u>2,851,585</u>	<u>838,249</u>	<u>84,710</u>	<u>2,823,228</u>
Fund balances at beginning of year	<u>—</u>	<u>4,177,996</u>	<u>263,641</u>	<u>6,563,505</u>	<u>1,141,935</u>	<u>19,726,968</u>	<u>2,528,414</u>	<u>34,402,459</u>
Fund balances at end of year	<u>\$ —</u>	<u>2,542,265</u>	<u>246,093</u>	<u>7,265,468</u>	<u>3,993,520</u>	<u>20,565,217</u>	<u>2,613,124</u>	<u>37,225,687</u>



**CITY OF CAMBRIDGE, MASSACHUSETTS**

Supplemental Statements and Schedules

June 30, 2003

**AGENCY FUNDS**

The City's Agency Funds are used to account for assets received and disbursed by the City acting in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2003

<u>Assets</u>	<u>Balance at June 30, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2003</u>
Contract Bids	\$ 93,475	12,800	610	105,665
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	2,246,082	521,817	1,724,955	1,042,944
Street Openings	375,589	45,884	346,889	74,584
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	(828,080)	4,407,891	4,289,925	(710,114)
Cambridge Fire Detail	491,491	905,233	836,655	560,069
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	2,621	7,129	6,676	3,074
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	180,694	84,509	77,706	187,497
Meal Tax Agency	36,619	—	—	36,619
Senior Cab	4,279	—	—	4,279
Water Service Renewal	17,422	—	—	17,422
Undistributed Interest	3,808	—	—	3,808
Purchase of Trees	47,204	5,233	—	52,437
Accident and life Insurance	266,789	169,301	126,635	309,455
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	61,370	2,349	50,000	13,719
Retirement Office Payroll	77,932	305,209	286,398	96,743
New England Life	156,078	—	—	156,078
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	862,356	141,607	—	1,003,963
Excise Registry Fees	13,857	—	—	13,857
3 Bidglow Contingency Fund	17,341	11,550	—	28,891
Retroactive Wages	6	—	—	6
Land Court Fees	50,624	682	—	51,306
Choke Program	1,182	—	—	1,182
Payroll Checks	67,594	—	—	67,594
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	234,063	—	—	234,063
Stop Payments	23,138	—	—	23,138
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Twelve Mt. Auburn	7,684	—	—	7,684
Blue Cross	6,112	—	—	6,112
Hackney Applications	5,386	—	—	5,386
Purchase of Bike Racks	5,138	—	—	5,138
Recycling Bins	(255)	396,620	150	396,215
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-Three Mt. Auburn Rents	2,899	—	—	2,899
Police – Recovered Cash	1,103	—	661	442
Police – Found Cash	4,115	4,600	—	8,715
Firearms Recordkeeping Fund	1,763	1,675	—	3,438
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	10,219	15,532	—	25,751
Estate of George W. Boyce	54,591	—	—	54,591
Kendall Sq. Fire Station	150,000	—	—	150,000
Computers for Kids	1,000	—	—	1,000
Payroll Payable	—	—	225,950	(225,950)
Robert Chambers Settlement	—	7,799	—	7,799
<b>Total</b>	<b>\$ 4,897,747</b>	<b>7,047,420</b>	<b>7,973,210</b>	<b>3,971,957</b>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Combining Statement of Changes in Assets and Liabilities – Agency Funds

Year ended June 30, 2003

<b>Liabilities</b>	<b>Balance at June 30, 2002</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2003</b>
Guarantee deposits and amounts due other:				
Contract Bids	\$ 93,475	12,800	610	105,665
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	2,246,082	521,817	1,724,955	1,042,944
Street Openings	375,589	45,884	346,889	74,584
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	(828,080)	4,407,891	4,289,925	(710,114)
Cambridge Fire Detail	491,491	905,233	836,655	560,069
Dog Licenses	14,212	—	—	14,212
Sporting Licenses	2,621	7,129	6,676	3,074
Dog Officer	(3,555)	—	—	(3,555)
Constable Fees	180,694	84,509	77,706	187,497
Meal Tax Agency	36,619	—	—	36,619
Senior Cab	4,279	—	—	4,279
Water Service Renewal	17,422	—	—	17,422
Undistributed Interest	3,808	—	—	3,808
Purchase of Trees	47,204	5,233	—	52,437
Accident and life Insurance	266,789	169,301	126,635	309,455
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	61,370	2,349	50,000	13,719
Retirement Office Payroll	77,932	305,209	286,398	96,743
New England Life	156,078	—	—	156,078
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	862,356	141,607	—	1,003,963
Excise Registry Fees	13,857	—	—	13,857
3 Bidglow Contingency Fund	17,341	11,550	—	28,891
Retroactive Wages	6	—	—	6
Land Court Fees	50,624	682	—	51,306
Choke Program	1,182	—	—	1,182
Payroll Checks	67,594	—	—	67,594
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	234,063	—	—	234,063
Stop Payments	23,138	—	—	23,138
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Twelve Mt. Auburn	7,684	—	—	7,684
Blue Cross	6,112	—	—	6,112
Hackney Applications	5,386	—	—	5,386
Purchase of Bike Racks	5,138	—	—	5,138
Recycling Bins	(255)	396,620	150	396,215
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-three Mt. Auburn Rents	2,899	—	—	2,899
Police – Recovered Cash	1,103	—	661	442
Police – Found Cash	4,115	4,600	—	8,715
Firearms Recordkeeping Cash	1,763	1,675	—	3,438
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	10,219	15,532	—	25,751
Estate of George W. Boyce	54,591	—	—	54,591
Kendall Sq. Fire Station	150,000	—	—	150,000
Computers for Kids	1,000	—	—	1,000
Payroll Payable	—	—	225,950	(225,950)
Robert Chambers Settlement	—	7,799	—	7,799
<b>Total</b>	<b>\$ 4,897,747</b>	<b>7,047,420</b>	<b>7,973,210</b>	<b>3,971,957</b>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Supplemental Statements and Schedules

June 30, 2003

**OTHER SCHEDULES**

The following schedules present detailed information on the City's real estate, personal property and motor vehicle excise taxes, and bonds and notes payable, as of June 30, 2003.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes

June 30, 2003

	<u>Uncollected June 30, 2002</u>	<u>Commitments</u>	<u>Abatements</u>	<u>Transfers to tax title</u>	<u>Refunds</u>	<u>Collections</u>	<u>Adjustments increase (decrease)</u>	<u>Uncollected June 30, 2003</u>
Real estate taxes:								
1979 and prior	\$ 5,409	—	—	—	—	—	(1)	5,408
1980	—	—	—	—	—	(887)	887	—
1981	3,268	—	—	—	—	(2,127)	2,127	3,268
1982	3,416	—	—	—	—	(3)	3	3,416
1983	1,971	—	—	—	—	—	—	1,971
1984	17,256	—	—	—	—	—	—	17,256
1985	1,025	—	—	—	—	—	—	1,025
1987	376	—	—	—	—	—	—	376
1992	13,911	—	—	—	—	—	—	13,911
1993	3,013	—	—	—	—	—	—	3,013
1995	—	—	—	—	—	(659)	660	1
1996	6,771	—	—	—	—	—	—	6,771
1997	660	—	—	—	—	—	—	660
1998	5,457	—	—	—	2,525	2,525	(5,050)	5,457
1999	19,821	—	(1,791)	—	192,298	(33,926)	(166,647)	9,755
2000	14,992	—	(4,885)	—	284,618	8,004	(293,371)	9,358
2001	13,444	—	(6,942)	—	91,467	(9,584)	(76,562)	11,823
2002	4,238,073	—	(1,221,505)	(1,037,231)	1,627,232	(1,771,970)	(1,821,570)	13,029
2003	—	191,018,271	(1,623,641)	—	494,459	(186,412,224)	(453,778)	3,023,087
Total real estate	<u>4,348,863</u>	<u>191,018,271</u>	<u>(2,858,764)</u>	<u>(1,037,231)</u>	<u>2,692,599</u>	<u>(188,220,851)</u>	<u>(2,813,302)</u>	<u>3,129,585</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes

June 30, 2003

	<u>Uncollected June 30, 2002</u>	<u>Commitments</u>	<u>Abatements</u>	<u>Transfers to tax title</u>	<u>Refunds</u>	<u>Collections</u>	<u>Adjustments increase (decrease)</u>	<u>Uncollected June 30, 2003</u>
Personal property taxes:								
1988	\$ 155,185	—	—	—	—	—	—	155,185
1989	125,187	—	—	—	—	—	—	125,187
1990	139,171	—	—	—	—	—	2	139,173
1991	120,046	—	—	—	—	—	—	120,046
1992	138,015	—	—	—	—	—	(356)	137,659
1993	141,864	—	—	—	—	—	—	141,864
1994	45,850	—	—	—	—	—	—	45,850
1995	65,720	—	—	—	—	—	—	65,720
1996	58,129	—	—	—	—	—	—	58,129
1997	63,360	—	—	—	—	—	—	63,360
1998	56,141	—	—	—	—	—	—	56,141
1999	69,635	—	—	—	—	(117)	—	69,518
2000	68,770	—	—	—	—	(3,792)	2,389	67,367
2001	113,520	—	(157)	—	—	(12,938)	7,456	107,881
2002	386,154	—	(86,805)	—	—	(321,442)	50,913	28,820
2003	—	6,873,218	(155,433)	—	—	(6,456,020)	43,637	305,402
Total personal property	<u>1,746,747</u>	<u>6,873,218</u>	<u>(242,395)</u>	<u>—</u>	<u>—</u>	<u>(6,794,309)</u>	<u>104,041</u>	<u>1,687,302</u>
Property taxes	\$ <u>6,095,610</u>	<u>197,891,489</u>	<u>(3,101,159)</u>	<u>(1,037,231)</u>	<u>2,692,599</u>	<u>(195,015,160)</u>	<u>(2,709,261)</u>	<u>4,816,887</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes

June 30, 2003

	<b>Uncollected June 30, 2002</b>	<b>Commitments</b>	<b>Abatements</b>	<b>Transfers to tax title</b>	<b>Refunds</b>	<b>Collections</b>	<b>Adjustments increase (decrease)</b>	<b>Uncollected June 30, 2003</b>
Motor vehicle excise taxes:								
1986	\$ 2,794	—	—	—	—	(18)	—	2,776
1987	154,078	—	(105)	—	—	(946)	1	153,028
1988	166,403	—	(10)	—	—	(1,444)	—	164,949
1989	196,739	—	(10)	—	29	(968)	(29)	195,761
1990	150,418	—	(68)	—	—	(888)	—	149,462
1991	154,195	—	—	—	—	(728)	(2)	153,465
1992	114,057	—	—	—	—	(930)	—	113,127
1993	101,203	—	—	—	—	(540)	—	100,663
1994	110,135	—	(24)	—	—	(1,780)	—	108,331
1995	118,123	—	(289)	—	—	(800)	—	117,034
1996	123,606	—	(126)	—	—	(1,645)	(1)	121,834
1997	138,066	—	(311)	—	71	(4,505)	(72)	133,249
1998	144,419	—	(479)	—	—	(5,546)	—	138,394
1999	173,316	—	(1,336)	—	314	(17,436)	(315)	154,543
2000	291,891	—	(3,238)	—	843	(40,032)	(7,710)	241,754
2001	455,031	87,674	(40,800)	—	25,912	(124,742)	(25,895)	377,180
2002	758,908	1,123,602	(102,061)	—	84,401	(1,367,416)	(55,402)	442,032
2003	—	4,964,682	(113,273)	—	49,977	(4,320,806)	(49,780)	530,800
Total motor vehicle	\$ <u>3,353,382</u>	<u>6,175,958</u>	<u>(262,130)</u>	<u>—</u>	<u>161,547</u>	<u>(5,891,170)</u>	<u>(139,205)</u>	<u>3,398,382</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Schedule of Bonds and Notes Payable

June 30, 2003

	<u>Interest rates</u>	<u>Issue dates</u>	<u>Final maturity date</u>	<u>Balance June 30, 2002</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance June 30, 2003</u>
<b>Inside debt limit:</b>							
Senior Center/City Hall Renovations	4.75-5.75%	6/15/1996	6/15/2006	\$ 180,000	—	45,000	135,000
Emergency Communications	4.75-5.75%	6/15/1996	6/15/2006	1,320,000	—	330,000	990,000
Acquisition of computers	4.75-5.75%	6/15/1996	6/15/2006	240,000	—	60,000	180,000
Frisoli Youth Center	4.0-5.0%	6/15/1997	6/15/2007	1,800,000	—	360,000	1,440,000
Area 4 Youth Center Renovations	4.0-5.0%	6/15/1997	6/15/2007	100,000	—	20,000	80,000
Building Renovations	4.0-5.0%	6/15/1997	6/15/2007	250,000	—	50,000	200,000
Fiber Optics Network	4.0-5.0%	6/15/1997	6/15/2007	500,000	—	100,000	400,000
Frisoli Youth Center	4.3-5.0%	8/1/1998	8/1/2018	490,000	—	70,000	420,000
Personal Computer Acquisition	4.75%	11/1/1999	11/1/2004	1,350,000	—	450,000	900,000
Public Art	4.75-5.0%	11/1/1999	11/1/2009	40,000	—	5,000	35,000
City Hall Renovations	4.75-5.0%	11/1/1999	11/1/2009	400,000	—	50,000	350,000
Gately Center Renovations	4.5-5.0%	12/1/2000	12/1/2010	2,250,000	—	250,000	2,000,000
City Hall Renovations	4.5-5.0%	12/1/2000	12/1/2010	2,700,000	—	300,000	2,400,000
Open Space Improvements	3.75-4.3%	2/1/1994	2/1/2004	350,000	—	175,000	175,000
City Hall Renovations	5.5-5.9%	11/1/1994	11/1/2004	90,000	—	30,000	60,000
Senior Center Renovations	5.5-5.9%	11/1/1994	11/1/2004	1,155,000	—	385,000	770,000
Open Space Improvements	5.5-5.9%	11/1/1994	11/1/2004	75,000	—	25,000	50,000
Central Square Enhancements	4.0-5.0%	6/15/1997	6/15/2007	1,785,000	—	360,000	1,425,000
Yerxa Road Underpass	4.5-5.0%	12/1/2000	12/1/2010	1,710,000	—	190,000	1,520,000
Open Space Improvements	4.5-5.0%	12/1/2000	12/1/2010	4,050,000	—	450,000	3,600,000
MWPAT/Sewer Loan	3.75-4.3%	2/1/1994	2/1/2004	100,000	—	50,000	50,000
MWPAT/Sewer Loan	5.5-5.9%	11/1/1994	11/1/2004	150,000	—	50,000	100,000
MWPAT/Sewer Loan	2.35-5.5%	5/21/1993	8/1/2003	1,180,084	—	776,841	403,243
MWPAT/Sewer Loan	4.0-6.13%	5/1/1995	2/1/2005	2,316,874	—	734,326	1,582,548
MWPAT/Sewer Loan	4.25-5.75%	6/15/1996	6/15/2006	300,000	—	75,000	225,000
MWPAT/Sewer Loan	4.0-5.0%	6/15/1997	6/15/2007	250,000	—	50,000	200,000
MWPAT/Sewer Loan	4.0-5.0%	5/1/1997	2/1/2007	2,435,296	—	463,578	1,971,718
MWRA Loan	N/A	5/20/1999	5/20/2004	318,642	—	159,321	159,321
MWPAT/Sewer Loan	4.0-5.75%	10/6/1999	8/1/2009	357,727	—	41,623	316,104
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	2,094,728	—	404,133	1,690,595
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	1,078,413	—	109,449	968,964
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	224,338	—	22,759	201,579
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	7,680,365	—	779,639	6,900,726
MWPAT/Sewer Loan	4.25-5.67%	11/1/2000	8/1/2010	4,146,367	—	1,001,199	3,145,168
MWPAT/Sewer Loan	4.5-5.0%	12/1/2000	12/1/2010	14,040,000	—	1,560,000	12,480,000
Hospital (Ambulatory Center)	4.5%	2/1/1998	2/1/2018	24,000,000	—	1,500,000	22,500,000
MWRA Loan	N/A	10/18/2001	8/15/2006	1,246,415	—	249,283	997,132
Improvements to War Memorial	3.5-5.0%	12/15/2001	12/15/2011	1,000,000	—	200,000	800,000
City Hall Renovations	3.5-5.0%	12/15/2001	12/15/2011	13,230,000	—	1,325,000	11,905,000
Sewer Loan	3.5-5.0%	12/15/2001	12/15/2011	10,675,000	—	1,015,000	9,660,000
Traffic Improvement	3.5-5.0%	12/15/2001	12/15/2011	1,250,000	—	125,000	1,125,000
MWRA Loan	N/A	9/5/2002	8/15/2007	—	378,565	—	378,565
Sewer Renovations	2.25-4.00%	1/15/2003	1/15/2013	—	13,260,000	—	13,260,000
Fire Station Renovations	2.25-4.00%	1/15/2003	1/15/2013	—	4,875,000	—	4,875,000
Building Renovations	2.25-4.00%	1/15/2003	1/15/2013	—	950,000	—	950,000
City Hall Annex Renovations	2.25-4.00%	1/15/2003	1/15/2013	—	1,950,000	—	1,950,000
Street Reconstruction	2.25-4.00%	1/15/2003	1/15/2013	—	6,040,000	—	6,040,000
Golf Course Improvements	2.25-4.00%	1/15/2003	1/15/2013	—	850,000	—	850,000
Open Space Improvements	2.25-4.00%	1/15/2003	1/15/2013	—	250,000	—	250,000
Harvard Square Enhancements	2.25-4.00%	1/15/2003	1/15/2013	—	500,000	—	500,000
<b>Total inside debt limit</b>				<b>108,909,249</b>	<b>29,053,565</b>	<b>14,397,151</b>	<b>123,565,663</b>
<b>Outside debt limit:</b>							
<b>School:</b>							
Elementary school construction	3.75-4.3%	2/1/1994	2/1/2004	2,110,000	—	1,055,000	1,055,000
Elementary school construction	5.5-5.9%	11/1/1994	11/1/2004	3,969,000	—	1,323,000	2,646,000
Elementary school construction	4.75-5.75%	6/15/1996	6/15/2006	970,000	—	245,000	725,000
Elementary school construction	4.5%	2/1/1998	2/1/2008	7,200,000	—	1,200,000	6,000,000
Elementary school renovation-Fitz	4.75-5.0%	11/1/1999	11/1/2009	11,540,000	—	1,445,000	10,095,000
Elementary school renovation-Morse	4.75-5.0%	11/1/1999	11/1/2009	560,000	—	70,000	490,000
Elementary school renovations	4.5-5.0%	12/1/2000	12/1/2010	4,770,000	—	530,000	4,240,000
<b>Total school</b>				<b>31,119,000</b>	<b>—</b>	<b>5,868,000</b>	<b>25,251,000</b>
<b>Water:</b>							
Treatment Plant Renovations	3.75-4.3%	2/1/1994	2/1/2004	110,000	—	55,000	55,000
Water Plant Equipment	5.5-5.9%	11/1/1994	11/1/2004	261,000	—	87,000	174,000
Water Main Replacements	5.5-5.9%	11/1/1994	11/1/2004	300,000	—	100,000	200,000
Water Main Replacements	4.25-5.75%	6/15/1996	6/15/2006	1,200,000	—	300,000	900,000
New Water Treatment Plant	4.3-5.0%	8/1/1998	8/1/2018	34,000,000	—	2,000,000	32,000,000
MWPAT/Water Loan	4.0-5.75%	10/6/1999	8/1/2009	9,827,514	—	1,126,981	8,700,533
Construction/Water Treatment Plant	4.75-5.75%	11/1/1999	11/1/2019	9,000,000	—	500,000	8,500,000
MWPAT/Water Loan	4.25-5.63%	11/1/2000	11/1/2010	11,528,095	—	1,143,333	10,384,762
Construction/Stoney Brook	3.5-5.0%	12/15/2001	12/15/2011	6,475,000	—	600,000	5,875,000
<b>Total water</b>				<b>72,701,609</b>	<b>—</b>	<b>5,912,314</b>	<b>66,789,295</b>



**CITY OF CAMBRIDGE, MASSACHUSETTS**

Schedule of Bonds and Notes Payable

June 30, 2003

	<u>Interest rates</u>	<u>Issue dates</u>	<u>Final maturity date</u>	<u>Balance June 30, 2002</u>	<u>Additions</u>	<u>Retired</u>	<u>Balance June 30, 2003</u>
HUD Sec 108 Notes (2/95)	7.71-9.03%	2/1/1995	8/1/2014	\$ 825,000	—	420,000	405,000
School Equipment Notes	6.85%	6/15/1998	6/15/2008	2,314,652	—	314,136	2,000,516
Housing Trust Fund: Note payable	2.00%	4/15/2000	4/15/2022	6,000,000	—	—	6,000,000
Total outside debt limit				112,960,261	—	12,514,450	100,445,811
Total debt outstanding				\$ 221,869,510	29,053,565	26,911,601	224,011,474

PROPOSED FORM OF LEGAL OPINION

PALMER & DODGE LLP

111 HUNTINGTON AVENUE, BOSTON, MA 02199-7613

(Date of Delivery)

Louis A. Depasquale  
City Treasurer  
City of Cambridge  
Cambridge, Massachusetts

(Cambridge Municipal Purpose Loan of 2004 Bonds)

We have examined the law, a certified copy of proceedings and other papers relating to the issue of \$35,165,000 Municipal Purpose Loan of 2004 Bonds, dated January 15, 2004, by the City of Cambridge, Massachusetts.

On the basis of this examination we are of opinion, as of the date hereof and under existing law, as follows:

(1) The bonds are valid general obligations of the City of Cambridge 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 upon all taxable property in the City, subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

(2) 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 as to other Massachusetts tax consequences arising with respect to the bonds.

(3) The interest on the bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that interest on the bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the bonds. We express no opinion regarding other federal tax consequences arising with respect to the bonds.

The rights of the holders of the bonds and the enforceability thereof 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.

Yours faithfully,

## APPENDIX C

### PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Cambridge, Massachusetts (the "Issuer") in connection with the issuance of its \$35,165,000 Municipal Purpose Loan of 2004 Bonds, dated January 15, 2004 (the "Bonds"). The Issuer covenants and agrees as follows:

SECTION 1. *Purpose of the Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. *Definitions.* For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"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 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).

SECTION 3. *Provision of Annual Reports.*

(a) The Issuer shall, not later than 270 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 Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer 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 Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated January \_\_, 2004 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, and (vi) pension obligations of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, 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 and the audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which 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 Issuer shall clearly identify each such other document so incorporated by reference.

*SECTION 5. Reporting of Material Events.*

(a) The Issuer 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.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

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

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

*SECTION 6. Termination of Reporting Obligation.* The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

*SECTION 7. Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

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

SECTION 8. *Default.* In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 9. *Beneficiaries.* This Disclosure Certificate shall insure 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: \_\_\_\_\_, 2004

CITY OF CAMBRIDGE

By \_\_\_\_\_  
Treasurer

\_\_\_\_\_  
City Manager

[EXHIBIT A: List of National Repositories]

[EXHIBIT B: Form of Notice of Failure to File Annual Report]