

**NEW ISSUE  
BOOK ENTRY ONLY**

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

In the opinion of Locke Lord LLP, as successor by merger to Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "Tax Exemption" herein. The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

**\$75,465,000**

**CITY OF CAMBRIDGE  
 MASSACHUSETTS  
 GENERAL OBLIGATION BONDS, SERIES A  
 MUNICIPAL PURPOSE LOAN OF 2015**

**Dated: Date of Delivery**

**Due: February 15, 2016–2035**

**MATURITIES, AMOUNTS, 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>
2016	\$5,585,000			2026	\$2,050,000		
2017	5,585,000			2027	2,050,000		
2018	5,585,000			2028	2,050,000		
2019	5,585,000			2029	2,050,000		
2020	5,585,000			2030	2,050,000		
2021	5,515,000			2031	2,050,000		
2022	5,385,000			2032	2,050,000		
2023	5,385,000			2033	2,050,000		
2024	5,380,000			2034	2,050,000		
2025	5,375,000			2035	2,050,000		

The Bonds will be dated their date of delivery. Principal on the Bonds will be payable on February 15 of the years in which the Bonds mature. Interest will be payable semiannually on February 15 and August 15, commencing on August 15, 2015. Principal and semi-annual interest on the Bonds will be payable by U.S. Bank National Association, Boston, Massachusetts, or its successors, as Paying Agent. So long as Depository Trust Company ("DTC") or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and the disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully 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 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.

The Bonds shall be subject to redemption prior to maturity as described herein.

The Bonds are offered subject to the final approving opinion of Locke Lord LLP, as successor by merger to Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, as aforesaid, and to certain other conditions referred to herein. The Bonds in definitive form will be delivered to DTC, or its custodial agent, on or about March 19, 2015.

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.

The date of this official statement is , 2015.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities to any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

**THE CITY COUNCIL**

David P. Maher, Mayor  
Dennis A. Benzan, Vice Mayor  
Dennis J. Carlone  
Leland Cheung  
Craig A. Kelley  
Nadeem A. Mazen  
Marc C. McGovern  
E. Denise Simmons  
Timothy J. Toomey, Jr.

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**CERTAIN APPOINTED OFFICIALS**

Richard C. Rossi, City Manager  
Lisa C. Peterson, Deputy City Manager  
Louis A. DePasquale, Assistant City Manager for  
Fiscal Affairs and Treasurer/Collector  
Nancy Glowa, City Solicitor  
Donna P. Lopez, City Clerk  
James H. Monagle, City Auditor

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**BOND COUNSEL**

Locke Lord LLP  
111 Huntington Avenue  
Boston, MA 02199-7613

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**FINANCIAL ADVISOR**

Government Finance Group  
2306 Wilkinson Place  
Alexandria, VA 22306

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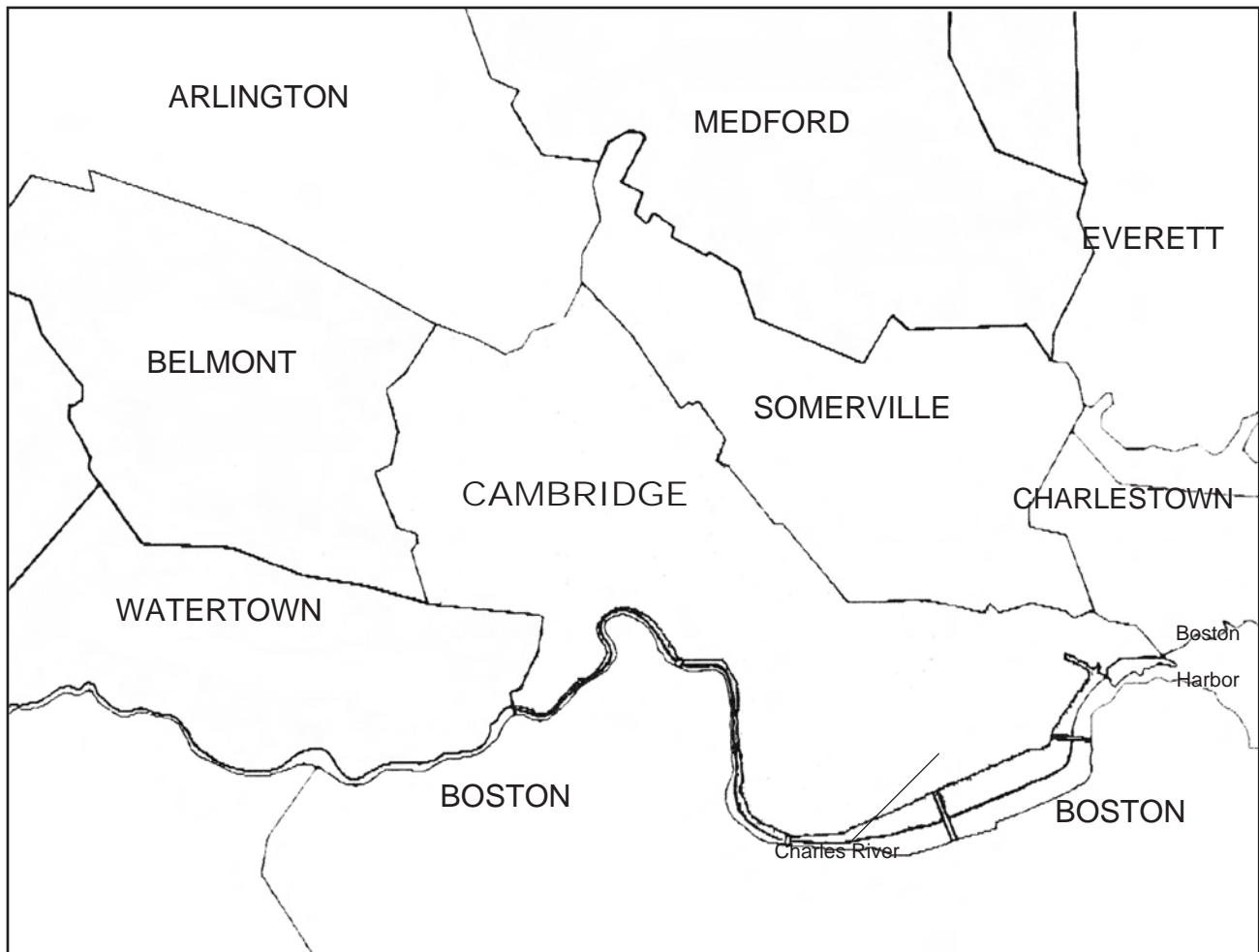
**CERTIFIED PUBLIC ACCOUNTANTS**

KPMG LLC  
Two Financial Center  
60 South Street  
Boston, MA 02111

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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, Massachusetts (herein, the “City of Cambridge” or the “City”) 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 1942, 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 2010 census population of 105,162.

### The Bonds

The City of Cambridge General Obligation Bonds, Municipal Purpose Loan of 2015, in book-entry-only-form, dated March 19, 2015, are due February 15 in each year of the years 2016 through 2035 in the aggregate principal amount of \$75,465,000.

### 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. They are not guaranteed by the Commonwealth of Massachusetts (the “Commonwealth” or the “State”) or any other entity. (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 sewer reconstruction, school building renovations, recreational improvements, municipal building renovations and street, and sidewalk improvements.

### Redemption Provisions

Bonds maturing on or after February 15, 2026, will be subject to redemption beginning February 15, 2025 in whole or in part at any time, at the option of the City. See “Redemption Provisions” in “Part II: The Bonds” for a more complete description of the Optional, Mandatory, Notice of, and Manner of Redemption of the Bonds.

### Tax Exemption

In the opinion of Locke Lord LLP, as successor by merger to Edwards Wildman Palmer, LLP, Bond Counsel to the City (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The Bonds will not be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code. See “Tax Exemption” in “Part II: The Bonds”.

### Legal Matters

A copy of the legal opinion of the firm of Locke Lord 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 Locke Lord LLP, Boston, Massachusetts, Bond Counsel. Delivery of the Bonds is expected on or about March 19, 2015

## **Financial Advisor**

Government Finance Group, Alexandria, 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**

Locke Lord LLP, Boston, Massachusetts, as successor by merger to Edwards Wildman Palmer LLP, 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 not contingent on the sale and delivery of the Bonds.

## **Ratings**

Ratings are assigned by Moody's Investors Service, Inc. ("Moody's"), 7 World Trade Center, New York, New York 10007, Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies ("S&P"), 55 Water Street, 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 judgment 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.

## **Absence of Material Litigation**

According to the City Solicitor, there is no litigation of any kind now pending or, to the best of her 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 the opinion of the City Solicitor, there is no pending legislation which is likely to result, either individually or in the aggregate, in final judgments against the City that would materially affect its financial position or its ability to pay its obligations.

## **Auditors**

A yearly independent audit of all accounts, books, records, and financial transactions of the City has been performed by KPMG LLP, 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 2014 Financial Statements are presented as a part of this Official Statement. (See Appendix A.)

KPMG LLP, as the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this Official Statement.

## **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 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 notices of certain significant events required by the Rule. See the section herein "Continuing Disclosure" in "Part II: The Bonds".

**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 Richard A. Manley or Claudia J. Matzko, Locke Lord LLP, (617) 239-0100.



## PART II: THE BONDS

### DESCRIPTION OF THE BONDS

#### General

The Bonds are dated March 19, 2015, and will bear interest from that date which will be payable beginning August 15, 2015 and semi-annually thereafter on February 15 and August 15 until maturity. The Bonds will mature on February 15 each year as specified below:

<u>Due February 15</u>	<u>Principal Amount</u>	<u>Due February 15</u>	<u>Principal Amount</u>
2016	\$5,585,000	2026	\$2,050,000
2017	5,585,000	2027	2,050,000
2018	5,585,000	2028	2,050,000
2019	5,585,000	2029	2,050,000
2020	5,585,000	2030	2,050,000
2021	5,515,000	2031	2,050,000
2022	5,385,000	2032	2,050,000
2023	5,385,000	2033	2,050,000
2024	5,380,000	2034	2,050,000
2025	5,375,000	2035	2,050,000

#### Redemption Provisions

**Optional Redemption** – The Bonds that mature on or before February 15, 2025, are not subject to redemption prior to their stated maturities. The Bonds that mature on and after February 15, 2026, will be subject to redemption beginning February 15, 2025, 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.

**Mandatory Redemption** – Bidders may provide in the bid form for all of the Bonds to be issued as serial Bonds or may designate consecutive annual principal amounts of the Bonds to be combined into not more than two Term Bonds. In the event that a bidder chooses to specify a Term Bond, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity of such Term Bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the amortization schedule on the cover page of the Preliminary Official Statement. Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among the Bonds of the maturity being redeemed.

**Notice of Redemption** – So long as DTC is the registered owner of the Bonds, notice of any redemption of Bonds prior to their maturities, specifying the Bonds (or portion thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to their redemption date. Any failure on the part of the DTC Participants of the redemption or failure on the part of the DTC participants, Indirect Participants, or a nominee of the beneficial Owner (having received notice from the a DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption.

**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. As noted above, 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.



## **Record Date**

The record date for debt service payment is the close of business on the last business day of the month prior to the month in which a debt service payment comes due.

## **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 in fully-registered form 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.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others 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 a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of securities deposited with the DTC 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 Securities, except in the event that use of the book-entry system for the securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct 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 securities 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 securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notice shall be sent to DTC. If less than all of a maturity is 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 MMI procedures. Under its usual procedures DTC mails an Omnibus Proxy to the City or its paying agent 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 securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC 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 to Beneficial Owners.

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 to Beneficial Owners.

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 net proceeds from \$75,465,000 General Obligation Bonds will be used to finance the following projects:

### **King School Renovations**

\$41,000,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) and loan orders of the City Council passed September 10, 2012 and May 5, 2014 to provide funds for renovations to the King Elementary School.

### **Sewer Reconstruction**

\$23,985,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(1) and loan orders of the City Council passed May 23, 2011, May 20, 2013, and June 2, 2014 to provide funds for various sewer reconstruction projects.

### **Kendall Square Improvements**

\$4,000,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(5) and s.7(6) and loan orders of the City Council passed May 21, 2012 and May 20, 2013 to provide funds for street and sidewalk improvements to Kendall Square.

### **Street and Sidewalk Renovations**

\$1,000,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(5) and s.7 (6) and a loan order of the City Council passed June 2, 2014 to provide funds for the repair and/or reconstruction of various streets and sidewalks.

### **Building Renovations**

\$1,600,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) and a loan order of the City Council passed June 2, 2014 to provide funds for building renovations including improvements at the City Hall Annex, City Hall third floor restroom, and a comprehensive facilities improvement plan.

### **Cambridge Common**

\$1,180,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(25) and a loan order of the City Council May 20, 2013 to provide funds for renovations to the Cambridge Common.

### **Danehy Park Improvements**

\$1,150,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(25) and a loan order of the City Council passed June 2, 2014 to provide funds for improvements to the soccer fields at Danehy Park.

### **School Building Renovations**

\$750,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) and a loan order of the City Council passed June 2, 2014 to provide funds for school building renovations.

### **Fresh Pond Golf Course Improvements**

\$550,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(25) and a loan order of the City Council passed June 2, 2014 to provide funds for improvements to Fresh Pond Golf Course

### **Public Safety Elevator Purchase and Installation**

\$150,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) and a loan order of the City Council passed June 2, 2014 to provide funds for the purchase and installation of mechanical components for the elevators at the Public Safety Facility.

### **Old Police Station Renovations**

\$100,000      Authorized pursuant to Massachusetts General Laws, Chapter 44, s.7(3A) and a loan order of the City Council passed February 27, 2012 to provide funds for renovations to the old police station at 5 Western Avenue.

## **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 judgments.” 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 judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, 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 judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

### **Court Proceedings**

Massachusetts cities and towns are subject to suit on their general obligation bonds and notes. Courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the cities or towns 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 or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of 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, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, and community preservation and affordable housing 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 programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system 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"), and/or the Massachusetts Water Resources Authority ("MWRA"), for any debt service due on obligations issued to the Massachusetts School Building Authority, 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 laws 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. Massachusetts municipalities are not currently authorized by the Massachusetts General Laws to file a petition for bankruptcy under the federal bankruptcy laws.

In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termi-



nation of the Commonwealth's oversight of the financially distressed city, town or regional school district. To date, no such filings had been approved or made.

## **OPINION OF BOND COUNSEL**

The legal opinion of the firm of Locke Lord LLP, as successor by merger to Edwards Wildman Palmer 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**

In the opinion of Locke Lord LLP, as successor by merger to Edwards Wildman Palmer LLP, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on the Bonds. The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

The Code imposes various requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The City has covenanted to comply with these requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

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

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a holder of the Bonds. Among other possible consequences of ownership or disposi-

tion of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income, deduction or exclusion. Except as indicated in the following paragraph, Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

### **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.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

### **Sale at Competitive Bidding**

The Bonds will be offered at competitive bidding on March 3, 2015. After the Bonds have been awarded, the City will issue an Official Statement in final form to be dated March 3, 2015. The City will deem the Official Statement final as of its date, and the Official Statement in final form will be a "Final Official Statement" within the meaning of 15c2-12(b)(5). The Official Statement in final form will include, among other matters, the identity of the winning bidder, the expected compensation to such winning bidder and other information on the interest rates and offering prices or yields of the Bonds, all as supplied by the winning bidder.

### **Continuing Disclosure**

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the Issuer will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Issuer by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. The City is the only "obligated person" with respect to the Bonds within the meaning of the Rule. **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.**



## **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 was 105,162 in 2010, based upon the 2010 census.

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 1942, 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 34 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 December 2012, Richard C. Rossi was appointed as City Manager, effective July 1, 2013.

There is a School Committee which is comprised of six elected members, who are elected for two-year terms, plus the Mayor. 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, 2015:

David P. Maher, Mayor	
Dennis A. Benzan, Vice Mayor	Nadeem A. Mazen
Dennis J. Carlone	Marc C. McGovern
Leland Cheung	E. Denise Simmons
Craig A. Kelley	Timothy J. Toomey, Jr.

The following are the six members of the School Committee elected for two-year terms ending December 31, 2015 (the Mayor serves as Chairman of the School Committee):

David P. Maher, Chairman	
Fran Cronin	Kathleen Kelly
Alfred B. Fantini	Patricia M. Nolan
Richard Harding	Mervan F. Osborne

### **Principal Executive Officers**

*Richard C. Rossi, City Manager since July 2013.*

Mr. Rossi previously served as the Deputy City Manager from 1981 to 2013, as Purchasing Agent from 1978 to 1981, and as Assistant Superintendent of the Water Department from 1975 to 1978. He holds a Bachelor of Science degree in Business Education from Salem State University and a Masters degree in Public Administration from Northeastern University.

*Lisa C. Peterson, Deputy City Manager since July 2013.*

Ms. Peterson previously served as the Commissioner of Public Works from 2001 to 2013 and as Assistant to the City Manager from 1990 to 2001. She holds a Bachelor of Arts degree in English and Political Science from Michigan State University and a Masters degree in Public Health from Boston University.

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

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

*Brian P. Murphy, Assistant City Manager for Community Development since February 2011.*

Mr. Murphy previously served as Vice Mayor and City Councillor from 2002-2009. He also served as Deputy Secretary of MassDOT and Deputy Secretary for Government Affairs for the Massachusetts Executive Office of Transportation. He holds a Bachelor of Arts degree from Harvard College and a Juris Doctor degree from the University of Chicago Law School.

*Ellen M. Semonoff, Assistant City Manager for Human Services since August 2004.*

Ms. Semonoff previously served as Acting Assistant City Manager for Human Services from December, 2003 to August, 2004, as Deputy Director of the Department of Human Service Programs from 1995-2003 and as Assistant to the City Manager from 1991-1995. She holds a Bachelor of Arts degree from Brandeis University and a Doctor of Jurisprudence degree from Harvard Law School.

*Nancy E. Glowa, City Solicitor since December 2012.*

Ms. Glowa previously as Acting City Solicitor from January 2012 to December 2012, as Deputy City Solicitor from 2002 to 2012, as First Assistant City Solicitor from 1997 to 2002, and as Legal Counsel from 1994 to 1997; she also served as Acting Director of the Conservation Commission from 2001 to 2002. She holds a Bachelor of Arts degree in English from Smith College and Doctor of Jurisprudence degree from Boston University School of Law.

*Donna P. Lopez, City Clerk since June 2013.*

Ms. Lopez previously served as Interim City Clerk from March 2012 to June 2013, and as Deputy City Clerk from June 1996 to February 2012. She graduated from Emmanuel College in 2000. In her forty-three years of employment in the City Clerk's Office she has held the following positions: Office Manager, Head Clerk, Principal Clerk, Senior Clerk Stenographer, Senior Clerk and Junior Clerk Typist.

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

Mr. Monagle previously served as Assistant Finance Director for Cambridge, Massachusetts from 1997 to 2001. He is 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. He served in both corporate headquarters and hotels throughout New England. He holds a Bachelor of Arts in Political Science from Boston State College and Masters in Business Administration from Suffolk University.

*Dr. Jeffrey M. Young, Superintendent of the Cambridge Public Schools since July 2009.*

In July 2009, the Cambridge School Committee appointed Dr. Jeffrey M. Young to the position of Superintendent of Schools. He previously served as Superintendent in Newton, Lexington, and Lynnfield, MA. Dr. Young also worked as a Curriculum Coordinator for Grades 6, 7, 8, Co-chairman in the English Department, and classroom teacher in the Brookline Public Schools. He earned his undergraduate degree at Brandeis University in 1974 in English and American Literature, his M.A. from Tufts University in Education in 1977, and his Ed.D. from Harvard University Graduate School of Education in 1988.

## **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 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 is one public safety facility (police headquarters and emergency communication center), nine fire stations, six area libraries, plus a main branch, approximately 80 parks and playground areas, a high school, 12 elementary schools, and 4 upper 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 field house located at the high school.

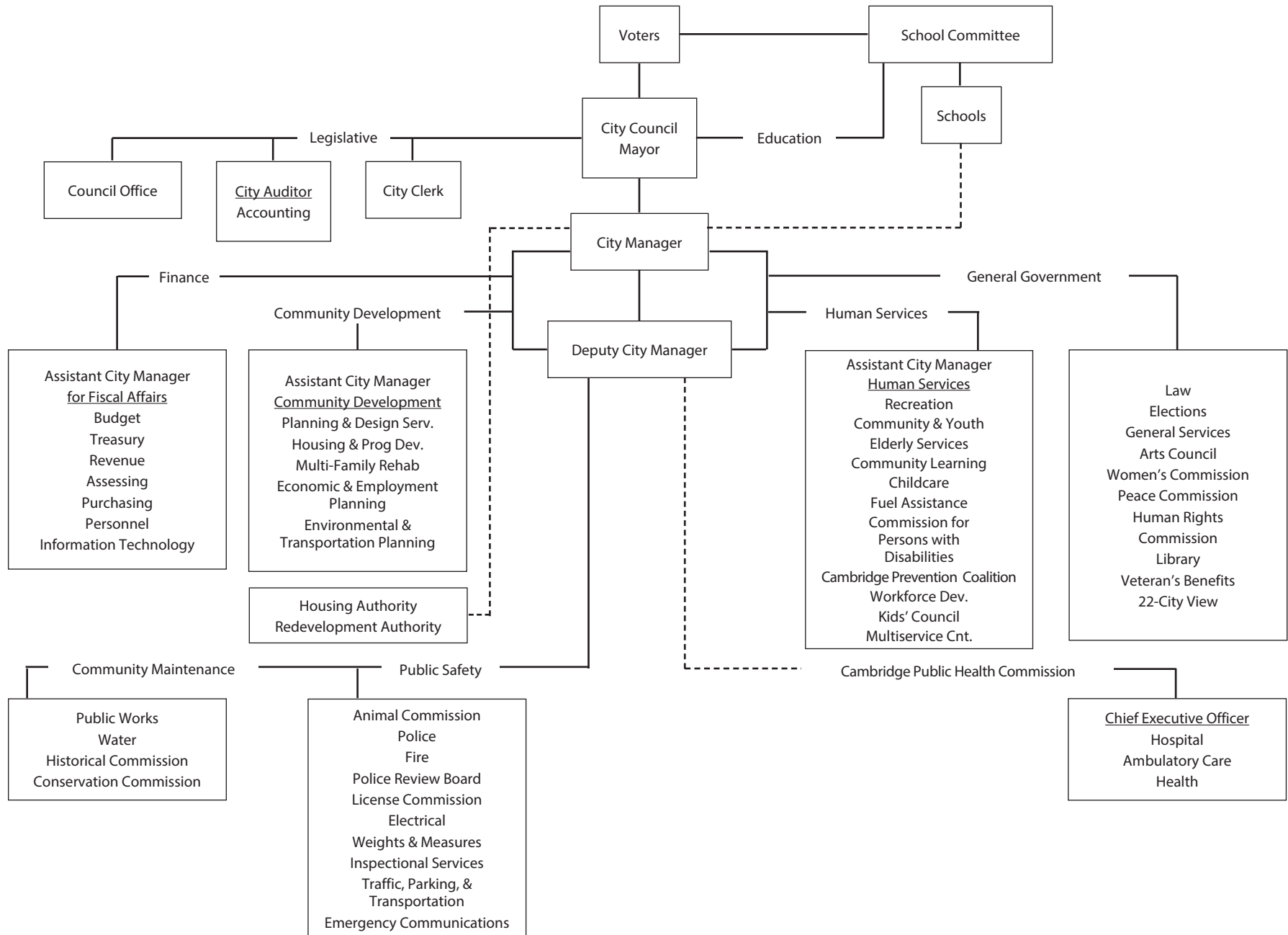
Federal buildings which are located in the City include offices for the Department of Transportation. Also, in connection with Harvard University, the Smithsonian Astrophysical Observatory is located in the City.

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

### The Cambridge Economy

The momentum of the Cambridge economy, driven by both biotechnology and software development and bolstered by a university-based research community, continues to deliver a strong performance and is expected to do so throughout 2015. The City's proximity to world-class educational and healthcare institutions; cultural amenities; an entrepreneurial, innovation driven business culture; and the ongoing development of state-of-the-art Office/R&D facilities in close proximity to high frequency public transportation lines provide a unique combination of attractions as both a business and a residential community. The City's ability to leverage these assets contributed to an expanding city economy throughout the recent economic downturn, leaving Cambridge well-positioned to take advantage of an increasingly dynamic national economy.

Underpinning the boom in real estate investment activity is the City's growing volume of venture capital and angel capital investments in startups and growing companies. A 2014 Battelle study found that Massachusetts received the most biotech venture capital and the most biotech patents per capita and the second largest quantity of each overall. The critical mass represented by the numerous firms ranging from start ups in stealth mode to mature companies has itself proven a powerful driver of the Cambridge economy. During 2014 Cambridge companies received \$1.6 billion in 92 venture capital placements, more than all but three states. Overall, the city attracted 38% of the venture capital funds and 27% of the deals that occurred in the state. The city ranked first in the nation among municipalities for health care venture capital deals and in the top ten for both the internet and green tech sectors. Firms located in Cambridge accounted for 14% of the dollar value of all health care placements across the nation.

Over the past four years several venture capital firms have either relocated to Cambridge or opened offices here to place themselves in closer proximity to potential investment targets. In 2013, three venture capital firms opened new offices in Cambridge – Amplify Partners, New Enterprise Associates, and German-based Boehringer Ingelheim Venture Fund. Boehringer plans to invest \$130 million in life sciences companies. In 2015, MPM Capital will relocate its Boston office to a new building at 450 Kendall Street in Cambridge Research Park.

Innovation and coworking centers are another Cambridge strength, providing the foundation for a strong and rapidly expanding community of innovation and entrepreneurship. As of the end of 2014, Cambridge hosted thirteen coworking spaces. The Cambridge Innovation Center serves as an anchor to the innovation economy in Cambridge, hosting over 600 companies in their offices and providing services to many more. In April 2014, LabCentral, a 27,000 square feet (s.f.) biotech-capable shared lab facility for life science startups, celebrated its grand opening at 700 Main Street and also announced \$5 million in additional capital funding from the Massachusetts Life Sciences Center to fund build-out of additional space of equal size. In 2014 NGIN Workplace opened its first co-working space in 15,000 s.f. at 210 Broadway. Video game firm Fire Hose Games is in the process of transforming itself into an indie game incubator in Inman Square.

A third key point for attracting new ventures to Cambridge is the proximity of a highly educated workforce prepared for 21st century industries. Many technology workers place a premium on employment in close proximity to homes located in an attractive urban setting. Cambridge has responded to this demand by encouraging housing development throughout the City. At the present time over 1,800 units of housing are under construction, in addition to 4,500 units completed during the prior ten years.

Recent residential development includes 227 units completed by Criterion Partners along Concord Turnpike positioned at a key gateway to Cambridge from communities west of the city. Nearby, in the Alewife Triangle sub-district two large developments either complete or underway at 160 and 165 Cambridgepark Drive total 642 units. 2014 saw the completion of 429 units in the Alewife Quadrangle area at 80-90 Fawcett Street and another 61 units nearby on Concord Avenue. In North Point the rehabbed Mapleleaf Building reopened with 104 microunits owned and managed by Avalon Bay. Residential communities under construction in eastern Cambridge include 115 units at 159 First Street, 392 units at 22 Water Street in the North Point area, and 355 units at 20 Child Street, part of the HYM North Point development. All have designs and amenities aimed squarely at a younger, highly educated, technology savvy workforce. Additional large residential developments totaling over 3,000 units are fully permitted.

A large pool of entrepreneurial investment capital; an innovation and startup culture; expanding housing opportunities; and an active urban lifestyle buttress Cambridge's strong attraction for tech firms and their skilled workers. Site Selection Magazine named Massachusetts as the leading state for science and technology investment in 2013. The attributes that drive this high rank include R&D inputs, risk capital and entrepreneurial infrastructure, human capital investment, technology and science work force, and technology concentration and dynamism. Even within the context of being a national leader Cambridge excels in each of these areas. In 2013 Dice Holdings, a leading career site for technology and engineering professionals, named the city one of the top five locations in the United States in which to launch a technology startup. So far indications are that Cambridge will continue to exhibit strengths in this area during 2015. Early January 2015 brought news of a \$450 million financing round for Moderna Therapeutics.

The combination of access to capital, an innovation driven business culture and a highly educated workforce help drive the transition from startup to growth phase to publically traded firms. During 2014, eleven biotechnology firms completed successful IPOs, including Akebia, Bluebird Bio, Cerulean Pharma, Eleven Biotherapeutics, Foundation Medicine, Genocoe Biosciences, Minerva Neuroscience, Radius Health, Sage Therapeutics, Tokai, and Zafgen. 17% of health care IPOs nationally occurred in Cambridge during 2014. Cambridge continues to host a large proportion of publicly traded Massachusetts biotech firms, according to Transwestern/RBJ. While there has been less recent IPO activity among high tech companies based in Cambridge, web marketing services company Hubspot completed a well publicized initial offering during 2014. All told, Cambridge IPOs raised over \$1.1 billion during 2014. Two thirds of venture capital backed IPOs during 2014 in Massachusetts were for Cambridge companies.



Providing balance to a surging start up economy, the City continues to benefit from its position as an employment leader in the biotechnology and high tech industries. Large biotech firms based in Cambridge include Novartis, Biogen Idec, Pfizer, Takeda/Millennium, and Sanofi/Genzyme. Collectively, these companies employ over 9,000 workers. In recent years, several major software and internet companies have established R&D operations in Cambridge, including Microsoft, Google, and EMC/VMware, who together now have over 1,800 employees in the City. Companies such as IBM, Amazon, Twitter, and Facebook operate smaller R&D centers in the city. These firms join established Cambridge firms such as Akamai Technologies and Pegasystems. In addition to employment created by the growth of both the biotech and high tech industries, the City retains traditional employers in the areas of education, healthcare, and government.

**Assessed Valuation.** The fiscal year 2015 total assessed property valuation, including both real and personal property, is \$30.1 billion. Of the total, approximately \$11.6 billion consists of industrial, commercial, and personal property. New growth in the last year added approximately \$1.1 billion to the taxable valuation of the City. The City's total assessed valuation increased by \$3.0 billion, or 10.98%, from fiscal year 2014.

**Employment.** Due to extensive development and proximity to both the Massachusetts Institute of Technology and Harvard University, Cambridge experiences unemployment rates significantly lower than both the national and Massachusetts averages. This favorable trend has held true over the past twenty years. In December 2014, the Executive Office of Labor and Workforce Development reported a seasonally unadjusted unemployment rate of 2.8% for Cambridge, 4.8% for the Commonwealth and 5.4% for the United States. The State reported average employment of 111,498 persons in Cambridge during 2013.

### **Commercial Real Estate Market**

The strength of the Cambridge commercial real estate market is evidenced by a continued high volume of ongoing development, a moderate vacancy rate, strong absorption, and a dynamic market for office/R&D properties. From 2010 through 2014 Cambridge added 1.6 million s.f. to its inventory of commercial real estate. Another 2.3 million s.f. is now under construction, and 3.1 million s.f. is permitted and ready to go. According to CBRE, the combined vacancy rate for office and R&D markets rose to 10.0% by the third quarter of 2014. Short term increased vacancy reflects tenant moves to surrounding cities, but also provides a much needed release valve for a tight market. Historically high rents, averaging \$56.18 per s.f. for office and \$50.65 per s.f. for lab in the third quarter of 2014, demonstrate the city's continuing attractiveness to both biotech and high tech firms. In the final quarter of the year Class A space in East Cambridge is reported to average \$66.63/s.f. with prime locations receiving as much as \$80/s.f. While the annual absorption rate for the period stands at -14.4% for the period ending 3rd quarter of 2014, the Cambridge market has absorbed over half the additional space that became available during the preceding year, totaling more than 500,000 s.f. Eight major sales of office/R&D properties in East Cambridge, Cambridgeport and Alewife totaled over \$1.2 billion. By the end of the 4th quarter of 2014, the net absorption rate had improved to positive 10.1%, according to CBRE.

Cambridge continues to increase in appeal as a magnet for software and pharmaceutical companies ranging from startups to international firms seeking access to cutting edge basic and applied research at MIT and Harvard University. Over the past year, a flurry of commercial real estate transactions has continued. There continues to be a pressing need for medium and large blocks of R&D lab space, as growing companies attempt to retain and grow their Cambridge presence. JLL reports that in the last quarter of 2014 demands by market moving tenants exceeded total availability by over 1 million s.f. With limited options remaining in existing buildings, those firms seeking larger blocks of space are actively evaluating various build-to-suit options. Significant new leases include the Balaxta biopharma spinoff from Baxter (200,000 s.f.), Novartis (100,000 s.f.), Biogen Idec (93,000 s.f.), Momenta Pharmaceuticals (78,000 s.f.), KAYAK Software (42,000 s.f.), and Dicena Pharma (40,000 s.f.). Several companies expanded their offices, including Aegerion (54,000 s.f.), Boston Biomedical (43,000 s.f.) and ModeRNA (43,000 s.f.). All told, leases were executed for 1.6 million s.f. in blocks of 25,000 s.f. or more.

The tight market for existing commercial space is driving companies to prelease large blocks in new buildings or act as their own developer. Novartis AG, already Cambridge's largest corporate employer, is constructing a new research facility designed by award winning architect Maya Lin. The 573,000 s.f. development on a 4-acre site across Massachusetts Avenue across from the company's world research headquarters will double the size of the research complex and add at least 200 to 300 jobs. University Park is constructing a nearby 218,000 s.f. building for use by Takeda/Millennium. MIT's real estate arm MITIMCo preleased 180,000 s.f. to Pfizer in the recently completed 610 Main Street building and is now constructing 238,000 s.f. building on the same site also largely for Pfizer's use. In the North Point district Education First (EF) completed a 295,000 s.f. expansion of its North American headquarters.

Following a proposal from Alexandria Real Estate, in 2010, the City rezoned several properties along or near Binney Street to allow 1.5 million s.f. of commercial development and 218,000 s.f. of residential space. During 2013 the developer completed the first building in the complex, a 303,000 s.f. headquarters for Biogen Idec, which relocated from Weston. Three more commercial buildings totaling over 800,000 s.f. are currently under construction. Elsewhere in Kendall Square, a short walk from the subway stop of the same name, Boston Properties completed a 250,000 s.f. expansion for the Broad Institute.

The strength of the Cambridge market is not limited to the biotech and pharmaceutical sector. Across the city from the EF project in North Point, the owners of Discovery Park in Alewife, Bullfinch Companies, received approval to construct 310,000 s.f. in up to three additional buildings, one of which might be a hotel. The development approval also includes a 310 space parking garage. Close to North Point, another 150 room hotel is under construction along Monsignor O'Brien Highway. Google expanded its footprint in Cambridge by adding a 63,000 s.f. lease at 5 Cambridge Center in 2012 and in 2013 completed a 42,000 s.f. expansion, connecting offices in different buildings into an integrated space.

During 2012 Microsoft consolidated over 400 employees previously based in the Waltham office to the company's Kendall Square location. Medium and large blocks of office space are hard to find throughout the city.

## Economic Development Districts

The City guides development through an orderly process, utilizing zoning strategies, planned unit development, and control over infrastructure. In recent years commercial growth has focused on a broad arc across the eastern part of the City, starting at University Park near Central Square, extending through the Osborn Triangle, down Main Street to Kendall Square, then continuing across the East Cambridge riverfront to North Point. A second focal point for commercial development is in the western part of the City, encompassing Discovery Park located off Route 2, Cambridgepark Drive and the Alewife Quadrangle north of Concord Avenue.

Presented below is a summary of recent and current economic activities and future potential of several major development areas:

**Concord/Alewife.** Located in the western portion of the City, near Fresh Pond Reservoir and the Belmont and Arlington town lines, the district consists of approximately 350 acres. The state's Alewife Reservation bisects the area. Concord/Alewife lies within a 30 minute drive to Logan International Airport. The district is in close proximity to both residential suburbs and the Route 128 corridor. The MBTA serves Concord/Alewife via surface bus lines and the Alewife Rapid Transit Station. The MBTA station, located at the north terminus of the Red Line, provides direct access to downtown Boston. A 2,000-car parking garage integral with the Station provides direct access to Route 2. In 2011, the City completed \$2.7 million in improvements to Concord Avenue, a major transportation corridor adjacent to the district.

Concord/Alewife acts as both an office/R&D district and a lively retail center. A recent burst of development is now adding a residential dimension. Since 1990 the district has seen the construction of 1.1 million s.f. of commercial space. The area is home to Abt Associates, Forrester Research, Raytheon BBN Technologies, the Smithsonian Astrophysical Observatory, Whole Foods' northeastern regional headquarters, Dicenara Pharma, and Vecna Technologies. The nearby Fresh Pond Shopping Center houses a busy Whole Foods grocery store, restaurants, a movie theater, hotel, and a number of smaller independent and chain retailers. During 2012 Linear Retail Properties rebuilt an older strip center on the west side of Route 16/Alewife Brook Parkway, bringing in new tenants such as Trader Joe's. In 2014 a new retail center was completed at 355 Fresh Pond Parkway with The Vitamin Shoppe as an anchor tenant.

The portion of the district north of the Alewife Reservation contains the 26.5 acre former Arthur D. Little campus, now known as Discovery Park. The property is permitted for redevelopment as new office and R&D space. The first two phases of development are complete and occupied by Forrester Research and the Smithsonian Astrophysical Observatory. The site includes a public open space amenity, a walking path to the Alewife MBTA station, and has received approval for an additional 310,000 s.f. of development. Adjacent to Discovery Park, Criterion Partners completed a 227 unit residential rental property during 2014. The development upgrades a long underutilized site on a key approach to the City from the western suburbs.

South of the Reservation lies the core of the Concord/Alewife area. In 2005 the Cambridge City Council rezoned the entire section, which encompasses the properties along Cambridgepark Drive, the industrial area to the south of the MBTA train right-of-way, and the Fresh Pond Shopping Center. The City Council adopted zoning changes encouraging creation of a mixed-use, transit-oriented district, including new roadway infrastructure and improved storm water management. The new zoning anticipates approximately 2.8 million s. f. of total development, which will likely occur over the next 20 years.

The City's initiative triggered a new round of developer activity in the area. One node of activity is near existing shopping areas, including 72 new condominium units built on Wheeler Street at the site of a former industrial building, 429 units at 80-90 Fawcett Street on the site of an unused warehouse, and 61 units at 563 Concord Avenue on a former gas station parcel.

The largest development node presently is along Cambridgepark Drive within one third mile of the Alewife MBTA Station, where two projects under construction on formerly underutilized properties will bring 640 additional units to the district. Two more residential buildings permitted in the vicinity will add another 642 units. There has also been renewed interest in the existing office/R&D properties here. During 2014 Vecna Technologies acquired 35 Cambridgepark Drive for \$43 million or \$315/s.f., Roseview-PMG Fund acquired 100 Cambridgepark Drive for \$42 million or \$306/s.f., and King Street Properties purchased 87 and 200 Cambridgepark Drive from Pfizer for \$55 million, or \$191/s.f. King Street is expected to make a substantial investment upgrading its two buildings.

**Harvard Square.** Harvard Square remains an active center for academic, retail and office activities. Transportation amenities include the Harvard Square MBTA station, which provides a subway stop and serves as a hub for numerous surface bus and trackless trolley lines. In 2006 the City completed a \$3.5 million surface enhancement project in Harvard Square that included improved pedestrian walkways, lighting and landscaping. 2010 through 2012 saw the investment of another \$2.0 million to reconstruct JFK Street between Eliot and Brattle Streets and several adjacent side streets. A \$5.1 million project for the repair of a nearby major vehicular underpass is complete. This latest project includes a series of ground level street and sidewalk improvements undertaken in cooperation with Harvard University.

Harvard Square enjoys an eclectic mix of retailers, boutiques, cafes and destination restaurants that attract large numbers of both residents and visitors. The few retail vacancies available at any one time fill quickly. Recent notable development includes the Hotel Veritas, a 31 room boutique hotel opened in 2010, the first hotel to open in Harvard Square in 22 years. In 2012 a new owner completed development of 20 units of housing and 7,000 s.f. of ground

floor retail space at the former Bowl & Board site on Massachusetts Ave. Currently, the Carpenter Company is constructing an 83,000 s.f. office building on Mt. Auburn Street, which is preleased to Harvard University. In 2014 Harvard University completed a \$350 million expansion to the school's art museum complex. This 204,000 s.f. renovation and expansion designed by Pritzker Prize-winning architect Renzo Piano adds to the appeal of the area for both residents and tourists.

**Central Square.** Served by a Red Line subway station and numerous bus lines, Central Square continues to benefit from long term improvements to roadway, bicycle and pedestrian facilities. A more recent 2008 roadway improvement project, totaling \$6.8 million, upgraded the pedestrian environment, lighting and landscaping, and improved traffic flow through nearby Lafayette Square and along Massachusetts Avenue, extending down to the MIT campus and the Charles River. Currently under construction are \$20 million in improvements to Western Avenue. The scope of work includes the roadway, bicycle lanes and sidewalks. Western Avenue links Central Square and Cambridge to the Massachusetts Turnpike at the Brighton exit.

In 2011, the City completed a study examining how to improve the pedestrian ambiance and retail diversity of the Square. That year the City began a planning and urban design study of Central Square, Kendall Square and the transition area between. The effort aims to create a new vision to guide future development throughout the area. Committee meetings and public involvement finished in 2012, and a project report was completed at the end of 2013.

Real estate developers are demonstrating renewed support for the Square through investment activity. Normandy Real Estate Partners in partnership with Twinings Properties has assembled a portfolio of fifteen properties anchoring the end of the area closest to the MIT campus. Zoning discussions will begin early in 2015 with a goal of integrating these parcels into the evolving fabric of Central Square. A 46 unit development in the heart of Central Square at 10 Essex Street received approval during the past year. Nearby on Massachusetts Avenue H Mart, an Asian-inspired supermarket with stores throughout the country opened a new retail store in the heart of Central Square.

**University Park/Cambridgeport.** This district 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 the area is a 20-minute drive from Logan Airport. The MBTA rapid transit station in Central Square, surface bus routes, the city-sponsored EZRide shuttle, and various private shuttle buses serve the area.

University Park is a \$600 million, 2.3 million s.f. major mixed-use development project located off Massachusetts Avenue near both MIT and Central Square. Forest City Development undertook this project in conjunction with MIT. The development includes 21 occupied buildings comprising over 1.3 million s.f. of office/R&D space, two parking garages with 2,700 parking spaces, 250,000 s.f. of hotel, restaurant and retail facilities, and more than 600 units of housing. University Park serves as the headquarters for Millennium Pharmaceuticals and is home to other important Cambridge employers such as Novartis, Alkermes, Partners Healthcare, CBIZ Tofias, and Ariad Pharmaceuticals. Forest City recently received zoning approval to expand University Park onto a parcel of land along lower Massachusetts Avenue not included in the original development. A 5-story, 218,000 s.f. building under construction for Takeda/Millennium Pharmaceuticals will contain offices with ground floor retail. The development will bring the success of University Park onto Massachusetts Avenue and significantly upgrade the adjacent retail corridor.

In 2004, Novartis converted the old NECCO Candy factory located on Massachusetts Avenue and adjacent to University Park into a 484,000 s.f. R&D facility for its world research headquarters. The company expanded its presence in Cambridge's Central Square and now employs 2,704 people, making the firm the 4th largest employer overall and the largest biotech employer in the City. Novartis is in the midst of constructing a three building 573,000 s.f. addition to its research campus on a site across Massachusetts Avenue from its headquarters, which will fuel a further increase in employment.

**Kendall Square/Cambridge Center.** This 160-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 district encompasses Cambridge Center, Technology Square, One Kendall Square, Cambridge Research Park, and development parcels along the Binney Street corridor. The MBTA's Kendall Station on the Red Line, surface bus routes, and the Galleria Mall bus shuttle service the area. The EZRide shuttle brings commuters from as far away as North Station and the Green Line. Enhancements around Kendall Square include an active commercial center, the public plaza adjacent to the Cambridge Center Marriott, and the Kendall Square MBTA station.

The Kendall Square area includes over 9.0 million s.f. of first class office/R&D space within easy walking distance of the Kendall Square MBTA station. Buildings completed in the 1980s contributed over 4.8 million s.f. to the total. The 1990s saw the construction of another 1.3 million s.f., and 3.6 million s.f. more has been added since 2000. Office leasing throughout the area is heavily influenced by close proximity to the biotechnology industry cluster found around MIT, the Whitehead Institute, and the Broad Institute. Indicative of office/R&D values in the area, during 2014 DivcoWest acquired the nine-building 670,000 s.f. One Kendall Square complex for \$395 million, or \$590/s.f. On the other side of Kendall Square, Oxford Properties purchased One Memorial Drive for \$405 million or \$1,096/s.f. Another significant purchase was the Jamestown deal that brought the company a two building site at 245 First Street for \$193 million, or \$652/s.f.

Kendall Square is home to over 800 startups and established biotechnology, information technology, and related service firms and a growing number of clean energy and technology startup companies. The Cambridge Innovation Center located at both One Broadway and 101 Main Street has become a key element in Kendall Square innovation ecosystem, providing incubator space for over 600 firms and services to many other companies and individual innovators. The firms serviced range from early stage startups to regional offices of well known firms. For example, the Center served as the launching pad for Amazon's efforts to build a Cambridge office. The district includes the corporate



headquarters of Akamai Technologies, Biogen, Draper Labs, Pegasystems, and CDM Smith. Pharmaceutical companies Pfizer, Sanofi/Genzyme, and Amgen all have a major presence in the area. Baxter's biopharma spinoff Baxalta plans to move several hundred employees to the area over the coming one to two years. The Cambridge offices of both Microsoft and Google are located in Kendall Square.

2014 saw several major real estate projects underway or completed in the Kendall Square Area. Boston Properties completed work on a 250,000 s.f. building for the Broad Institute at 75 Ames Street in Cambridge Center. The latest phase of development at Cambridge Research Park is a 53,000 s.f. office building underway at 450 Kendall Street. Alexandria Real Estate is building three office/R&D buildings totaling over 800,000 s.f. along Binney Street. MITIMCo completed an 180,000 s.f. building at 610 Main Street preleased to Pfizer and has begun work on an adjacent 238,000 s.f. building.

Cambridge Research Park, under development at a site adjacent to the GenOn Kendall Square energy plant, includes five finished buildings: a 276,000 s.f. LEED Platinum headquarters building for Sanofi's Genzyme unit; a 245,000 s.f. building at 675 West Kendall Street leased by Momenta Pharmaceuticals, and Sanofi/Genzyme; a 217,000 s.f. building at 650 East Kendall St. leased by Baxalta; and 465 units in two buildings at the Watermark Apartments. The development also includes a 2,200 space underground parking garage and 30,000 s.f. of retail space. Construction of a 53,000 s.f. office building is underway at 450 Kendall Street. Future plans include the Constellation Center performing arts venue. A pedestrian walkway built adjacent to the Broad Canal in 2009 provides a recreational amenity and canoe/kayak boat launch for area residents, employees and visitors.

In 2010, life sciences developer Alexandria Real Estate Equities obtained permits to build 1,528,000 s.f. of R&D space along the Binney Street corridor, near Kendall Square. The project will also include 218,000 s.f. of residential use and 23,000 s.f. of retail space. Construction of a 303,000 s.f. building at 225 Binney Street for Biogen Idec is complete. A 348,000 s.f. complex is under construction at 75-125 Binney Street. Construction of a 485,000 s.f. building at 50 Binney Street started during 2014. As part of the project, Alexandria deeded to the City over 2 acres of land along Rogers Street for conversion to city parkland and is contributing to the design and construction of those parks. The city is developing a plan incorporating the Rogers Street parcel along with other properties owned by the City and the Redevelopment Authority to create a new open space system around Kendall Square.

In 2006, Boston Properties completed construction of 7 Cambridge Center to house the Broad Institute, which creates new tools for genomic medicine and pioneers the application of new disease treatments. Harvard, MIT, and the Broad Foundation fund this research and development venture. Within several years Broad had outgrown the facilities, leading to the Institute's new 250,000 s.f. expansion to 75 Ames Street, also developed by Boston Properties. Other recent activity in Cambridge Center includes the 188,000 s.f. building built for Biogen Idec at 17 Cambridge Center and a 42,000 "bridge" connecting 3 and 5 Cambridge Center, providing expansion space and enhancing the work environment for Google. Currently, the City is undergoing a land disposition process for a parcel along Ames Street, which Boston Properties plans to develop into housing.

In recent years MIT undertook a series of institutional expansions in Kendall Square that enhance the entrepreneurial environment. These include a 209,000 s.f. addition to the Sloan School of Management, the 309,000 s.f. Koch Cancer Center, and a 163,000 s.f. addition to the Media Lab. In 2009, MITIMCo successfully permitted the site at 610-650 Main Street for a 418,000 s.f. research building intended for lease to private companies. The company recently completed the first phase of that development, a 180,000 s.f. building, whose R&D space is leased to Pfizer. A second 238,000 s.f. building is now under construction.

Real estate owned by MIT adjacent to Kendall Square still offers significant opportunities for further development of this area. MIT has developed preliminary plans for several properties in close proximity to the Kendall Square MBTA station, which will enliven the area. During 2013, the City passed a rezoning petition filed by MIT and affecting the Institute's academic and investment property around Kendall Square. The petition retains 800,000 s.f. of existing potential development for academic buildings and adds a new overlay district that permits up to 980,000 square feet of additional commercial development and requires an additional 240,000 square feet of new residential development.

MIT's proposals will create retail amenities, cultural opportunities, and public spaces to foster collaboration and strengthen the connection between academic research and industry. To guide this proposal and to address the long standing desire to create a true center to the area, the City has recently completed an in-depth planning process to create a vision future development around Kendall Square and to address the infrastructure needed to support that development. The area under review extends along the Main Street corridor, where additional parcels await redevelopment, and ends in Central Square.

The center of the Kendall Square district is occupied by the 14 acre USDOT Volpe Transportation Center. The site largely consists of surface parking and smaller structures along with a single high rise, totaling 375,000 s.f. In perhaps the most significant real estate event of 2014, the General Services Administration (GSA) announced plans to soon solicit proposals from developers to transform the 14 acre Volpe Center USDOT site into a mixed-use, public-private development. In return for replacing existing facilities with a state of the art building, a private developer will receive site control and the opportunity to develop the remainder of the property for private use.

**East Cambridge/Riverfront.** This 80-acre Riverfront area lies directly across the Charles River from Boston, between Kendall Square and North Point. The area is 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. The area is well served by MBTA surface bus routes. Both a free shuttle bus operated by the Galleria Mall and the public-private EZ-Ride Shuttle connect the two MBTA rapid transit stations, providing access to the mall and local offices. In 2014, the EZRide Shuttle alone provided over half a million transit trips.

Starting in the early 1980s, \$50 million in public improvements stimulated 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 since 1990 includes over 3.0 million s.f. of new and renovated office/R&D and retail space. Since redevelopment began, the Riverfront district has added over 600 hotel rooms and over 900 housing units.

Development activity continues in the area. Nearby, at 159 First Street 115 units of housing and a retail space continue construction. In 2013 Skanska USA completed a 109,000 s.f. office/R&D facility at 150 Second Street, whose primary tenant is Foundation Medicine. The developer sold the property that same year to Alexandria Real Estate for \$95 million, or \$871/s.f. A strong market continues for East Cambridge properties. During 2014 Beacon Capital Partners acquired the Davenport Building at 2 First Street for \$78 million, or \$379/s.f. and 1 Canal Park for \$44 million, or \$427/s.f.

**North Point.** Situated on a prominent 80-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. 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 is well located in relationship to both the urban core and the North Shore.

Recent years have seen the beginning of a transformation in North Point. With funding from Boston's Central Artery project, the State built North Point Park along the Charles River. During 2012 a new pedestrian and bicycle bridge created connections from the Park to Charlestown and on to downtown Boston. The MBTA is proceeding with the design of a replacement to the Lechmere MBTA stop, which is a first step for the expansion of Green Line rapid transit to Somerville and Medford. This project will improve direct access to the North Point district, further increasing appeal to both prospective commercial tenants and new residents. During December 2014 the federal government announced plans to provide \$1 billion toward the cost of the \$2.3 billion project.

In 2014, Education First, an international educational services company completed a 295,000 s.f. expansion of its existing U.S. headquarters on a parcel formerly owned by The Commonwealth of Massachusetts. Late in 2014 the company began state permitting to build a similarly sized building nearby. Construction continued during the past year on both a 392 unit housing development at 22 Water Street and a 123 room hotel at 219 Monsignor O'Brien Highway. Both projects should be finished during 2015. In 2014 Avalon Bay completed redevelopment of the Mapleleaf Building, converting an older office structure adjacent to the firm's existing North Point development into 104 luxury rental micro units.

In 2003, the Planning Board permitted a 4.4 million s.f. mixed-use development that includes up to 1.9 million s.f. of commercial space, including retail, and at least 2,400 housing units on the largest remaining underdeveloped parcel in Cambridge. When finished, the North Point development will be home to the largest mixed-use development project in the City's history. In 2008 the original partnership completed two buildings, adding 330 condominium units to the city, as well as construction of a 5-acre park. In 2010 the property owner Pan Am Transportation Systems partnered with HYM Investment Group LLC of Boston, Atlas Capital Group, and Canyon Johnson Urban Funds to move the long-delayed North Point project forward. In 2013 the developers broke ground on a for a 355 unit residential building at 20 Child Street, which they plan to deliver in 2015.

## **Housing Preservation and Development**

Citywide, there is a clear, continued interest in the construction of new market-rate housing. Approximately 7,700 housing starts have occurred since 2000. Over 1,800 units are actively in construction and 3,200 additional units are in various stages of permitting. Several zoning initiatives have helped create the framework for this activity.

The creation and preservation of affordable housing remains a top priority of the City. Since the end of rent control, the City, in collaboration with local non-profit agencies and the Cambridge Housing Authority, has developed affordable units with Affordable Housing Trust, CDBG, and HOME funds. These funds, in turn, help leverage other public and private funds. Approximately 14.75% 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 through new construction.

**City Funding.** Since 1994, the City has allocated \$134.9 million to the City-sponsored Affordable Housing Trust from local taxes and Community Preservation Act funds, developing or preserving over 3,425 affordable units of housing. City affordable housing programs include the following:

- **Non-Profit Acquisition and Development of Multifamily Properties:** Through this program, affordable housing developers 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 and Financial Assistance Program:** City housing staff provides first-time home-buyer classes ten times annually, which educate more than 500 participants. Staff also provides one-on-one counseling to class graduates and offers down payment and other financial assistance to income-eligible first time buyers.

- **Preservation of Expiring Use Restriction Properties:** City staff work with private and non-profit owners, tenants, advocates, and the Cambridge Housing Authority to preserve affordability of housing subject to expiring use restrictions which are at risk of conversion to market rate housing. To date, more than 1,770 units have been pre-

served as affordable through the efforts of the City and its partners.

- **Home Improvement Programs:** Offered in collaboration with the non-profits 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 make necessary repairs and improvements to their homes to meet code requirements. In collaboration with the Cambridge Neighborhood Apartment Housing Services, Inc. (CNAHS), the City offers a separate multifamily rehabilitation program, providing low-interest financing to private owners of multifamily properties in return for a set-aside of units for affordable to low and moderate-income tenants.

- **Inclusionary and Incentive Zoning:** Through 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 between 11% and 15% of the total number of units as affordable housing. To date, over 800 affordable inclusionary units have been created or are now under construction.

*Incentive Zoning:* The Incentive Zoning Ordinance requires that non-residential developers seeking a special permit that authorizes an increase in the permissible density of a particular use mitigate the impact of their development through a contribution to the Affordable Housing Trust. To date, nearly \$4.5 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 \$600,000 from HUD for the provision of new and rehabilitated affordable housing units. The City receives approximately \$2.6 million annually through the CDBG program, much of which is allocated to housing-related activities.

**Public Housing.** The Cambridge Housing Authority (CHA) owns and/or manages approximately 2,700 housing units within 45 properties of deeply affordable housing and administers approximately 3,400 housing vouchers. The CHA and its affiliated serve approximately 10,000 residents through a combination of public housing and voucher programs. The Agency has approximately 190 full-time employees.

At the end of 2013 the CHA was approved by HUD to proceed with conversion of its federal public housing portfolio under HUD's Rental Assistance Demonstration Program ("RAD") and the MTW Demonstration Program to a property-based subsidy program. Under its flexibility under MTW, the Authority has created an innovative approach to rehabilitate its public housing developments and to stabilize its future funding. The RAD program will provide CHA the ability to transition and modernize its entire housing stock through outside funding sources via mixed-finance tax credit deals.

The CHA will receive a \$163.4 million allocation of private activity bond cap from MassDevelopment which will be used to generate approximately \$9.3 million of annual low-income housing tax credits for the properties. The massive redevelopment activity is expected to have the following loans: permanent loans assumed to equal \$61.1 million, acquisition loans from the CHA of approximately \$72.4 million, and a loan of Capital Fund/MTW Program funds from the CHA of approximately \$66.1 million. The CHA's overall redevelopment plan includes conversion of 2,130 units and will proceed in two phases. Phase 1 includes 1,150 units in nine developments of which the first 441 units were converted at the close of calendar year 2014. The remaining 709 units in Phase 1 will be converted during the first half of 2015. The planning and design process for Phase 2 which will address the renovation and conversion of the remaining 979 units will continue throughout 2015 with construction beginning at the Phase 2 sites in 2016.

Meanwhile the CHA will be completing the construction of 40 new deeply affordable units at Temple Place in 2015 and with the financial assistance of the City of Cambridge will begin replacing its final State-funded public housing development at Jefferson Park-State with 104 newly constructed family units at the same site.

## **Employment by Sector**

The following table presents the number of employees for the calendar year 2013, as compiled by the Executive Office of Labor and Workforce Development. The annual payroll approximately 4,550 businesses and government agencies conducting business in Cambridge during 2013 totaled approximately \$11.1 billion.



**CITY OF CAMBRIDGE  
EMPLOYMENT BY SECTOR – CALENDAR YEAR 2013**

	<b>2013 Average Employees</b>	<b>Percent of Total Employment(1)</b>
Private Sector:		
Other Goods Producing .....	54	0.0%
Construction .....	921	0.8
Manufacturing .....	2,850	2.6
Trade, Transportation and Utilities .....	8,939	8.0
Information.....	3,539	3.2
Financial Activities .....	2,937	2.6
Professional and Business Services .....	35,515	31.9
Education and Health Services.....	35,960	32.3
Leisure and Hospitality .....	10,382	9.3
Other Services .....	2,389	2.1
Total Private Sector .....	<u>103,486</u>	<u>92.8%</u>
Total Public Sector .....	<u>8,012</u>	<u>7.2%</u>
TOTAL .....	<u><u>111,498</u></u>	<u><u>100.0%</u></u>

(1) Percentage totals do not always add to 100.0% due to rounding.

Source: Massachusetts Executive Office of Labor and Workforce Development.

**CITY OF CAMBRIDGE  
PRINCIPAL PUBLIC AND PRIVATE EMPLOYERS – DECEMBER 2014**

<b>2014 Rank</b>	<b>Name of Employer</b>	<b>Nature of Business</b>	<b>2014 Employees(1)(6)</b>	<b>2013 Rank</b>
1	Harvard University.....	Higher Education	10,980	1
2	MIT .....	Higher Education	8,455	2
3	City of Cambridge (2) .....	Government	2,927	3
4	Novartis Institute for Biomedical Research.....	Biotechnology	2,704	4
5	Biogen Idec (3) .....	Biotechnology	2,660	6
6	Mt. Auburn Hospital .....	Health Care	1,922	8
7	Cambridge Health Alliance .....	Health Care	1,704	7
8	Sanofi/Genzyme .....	Biotechnology	1,640	5
9	Cambridge Innovation Center (4) .....	Start Up Incubator	1,574	9
10	Akamai Technologies .....	Internet Technology	1,367	14
11	Draper Laboratory .....	Research & Development	1,262	11
12	Federal Government .....	Government	1,240	13
13	Takeda/Millennium Pharmaceuticals .....	Biotechnology	1,166	12
14	Pfizer.....	Biotechnology	922	15
15	EF International.....	Travel & Education Programs	889	17
16	Microsoft.....	Software Development	880	19
17	Broad Institute .....	Research & Development	872	16
18	Google.....	Software Development	800	18
19	Hubspot (5).....	Marketing Software	640	21
20	Pegasystems.....	Software Development	635	22
21	Forrester Research.....	Business Services	611	20
22	Spaulding Hospital Cambridge.....	Health Care	558	23
23	Lesley University .....	Higher Education	533	25
24	Whole Foods.....	Supermarket	530	26
25	CDM Smith.....	Engineering Consultants	524	24
	TOTAL		<u>47,995</u>	

(1) All figures collected between 8/14 and 12/14, unless otherwise noted. All figures reflect employment within the City of Cambridge only. Whenever possible, totals are based on Full Time Equivalents (FTEs). Part time workers are counted as 0.5 FTEs, unless otherwise indicated by employer response.

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

(3) Biogen Idec relocated its corporate headquarters to Cambridge during 2014.

(4) The Cambridge Innovation Center is a start-up incubator that houses employees from 601 companies.

(5) Figure reported by the Boston Globe.

(6) Employer deleted since 2013: Vertex Pharmaceuticals. Employer added since 2013: Whole Foods.

Source: City of Cambridge, Community Development Department, Boston Globe, and cited employers

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 2003 TO 2014(1)**

	<u>Cambridge</u>	<u>Boston Region(2)</u>	<u>Massachusetts</u>	<u>United States</u>
2014 (December) .....	2.8%	4.0%	4.8%	5.4%
2013 .....	4.5	6.0	7.1	7.4
2012 .....	4.2	6.7	6.7	8.1
2011 .....	4.6	6.6	7.3	8.9
2010 .....	5.3	7.6	8.3	9.6
2009 .....	5.4	7.6	8.2	9.3
2008 .....	3.5	4.9	5.3	5.8
2007 .....	3.0	4.1	4.5	4.6
2006 .....	3.2	4.4	4.8	4.6
2005 .....	3.4	4.5	4.8	5.1
2004 .....	3.6	5.0	5.2	5.5
2003 .....	4.2	5.7	5.8	6.0

(1) Seasonally unadjusted rate

(2) The Boston Region includes the Boston-Cambridge-Quincy, MA-NH Metropolitan NECTA

Source: U.S. Dept. of Labor, Bureau of Labor Statistics, 2013; Massachusetts Executive Office of Labor and Workforce Development, 2014

**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 2007 calendar year, the most recent data available.

**CITY OF CAMBRIDGE  
RETAIL ESTABLISHMENTS AND SALES  
CALENDAR YEAR 2007 (1)(2)**

	<u>Cambridge</u>			<u>Boston Region (2)</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.....	6	suppressed	—	401	\$ 3,853,907	19.6%
Furniture and Home Furnishings Stores.....	33	\$ 37,672	2.9%	342	794,640	4.1
Electronics and Appliances Stores.....	21	126,979	9.9	264	732,229	3.7
Buildings Material & Garden Equipment & Supplies Dealers .....	12	30,330	2.4	361	1,657,723	8.4
Food & Beverages Stores..	88	321,357	25.0	914	3,507,878	17.8
Health & Personal Care Stores .....	39	103,391	8.0	437	1,634,899	8.3
Gasoline Stations.....	25	77,411	6.0	466	1,806,401	9.2
Clothing & Clothing Accessories Stores .....	115	212,444	16.5	819	1,560,050	7.9
Sporting Goods, Hobby, Book & Music Stores ....	51	138,050	10.7	320	605,339	3.1
General Merchandise Stores (1) .....	6	48,259	3.7	103	1,663,628	8.5
Miscellaneous Stores (1) ..	53	suppressed	—	533	472,991	2.4
Nonstore Retailers.....	25	49,774	3.9	346	1,371,445	7.0
Total(3) .....	474	\$1,287,709	100.0%	5,306	\$19,661,130	100.0%

(1) Percentage totals do not always add to 100.0% due to rounding.

(2) The Boston Region includes Cambridge-Newton-Framingham-Metropolitan Division of Boston-Cambridge-Quincy MSA

(3) Totals include suppressed data.

Source: 2007 Economic Census Geographic Area Series Massachusetts, U.S. Census Bureau.

**CITY OF CAMBRIDGE  
SERVICE ESTABLISHMENTS AND SALES  
CALENDAR YEAR 2007(1)(2)**

	Cambridge			Boston Region (3)		
	Firms With Payrolls	Sales (000)	% of Total	Firms With Payrolls	Sales (000)	% of Total
Information Related .....	192	—	—	1,327	—	—
Real Estate & Rental & Leasing .....	160	\$ 332,529	3.5%	1,690	\$ 3,802,705	7.7%
Professional, Scientific & Technical Services ...	856	6,710,421	69.8	6,955	22,686,037	45.6
Administrative, Support & Waste Management & Remediation.....	139	232,072	2.4	2,515	5,785,647	11.6
Educational Services.....	69	103,566	1.1	554	670,258	1.4
Health Care & Social Assistance (1) ...	336	1,176,819	12.2	4,386	10,192,848	20.5
Arts, Entertainment & Recreation.....	68	147,428	1.5	681	761,986	1.5
Accommodation & Food Services .....	398	594,920	6.2	3,372	3,250,213	6.5
Other Services (except public administration).....	262	313,544	3.3	2,302	2,577,170	5.2
Total .....	2,480	\$9,611,299	100.0%	23,782	\$49,726,864	100.0%

(1) Receipts and Revenues include both taxable and non-taxable establishments.

(2) Percentage totals do not always add to 100.0% due to rounding

(3) The Boston Region includes Cambridge-Newton-Framingham-Metropolitan Division of Boston-Cambridge-Quincy MSA

Source: 2007 Economic Census Geographic Area Series, U.S. Census Bureau.

### **Housing and Construction Activity**

The data in the following tables 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, 2014.

**CITY OF CAMBRIDGE  
PARCEL COUNT BY TYPE  
As of January 2014**

<u>Type of Housing</u>	<u>Number of Parcels</u>
One-Family	3,857
Two-Family	2,503
Three-Family	1,248
Four or More Units	844
Vacant Land	171
Condominiums	14,144 (1)
Multiple-Use	343
Mobile/Multiple on One Parcel	141
<b>Total</b>	<b>23,251</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 2008 TO 2014**

<u>Fiscal Year</u>	<u>Est. Value of Construction</u>	<u>% Distribution</u>	
		<u>Residential</u>	<u>Commercial</u>
2014	\$1,185,300,492	10%	90%
2013	1,321,024,047	20	80
2012	1,145,992,568	19	81
2011	503,240,195	33	67
2010	321,046,531	24	76
2009	409,427,908	29	71
2008	803,701,422	30	70

(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 2010, the City of Cambridge had a population of 105,162. This figure represents a 3.8 percent increase from the 2000 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>
2010	105,162	3.8%
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, 2000, and 2010 figures are from the U.S. Decennial Census which is provided by the U.S. Department of Commerce, Bureau of the Census.

The 2010 U.S. Census reported the City's median age to be approximately 30 years with a much greater representation of residents in the 25–44 year old age group than the national average. In comparison to the Massachusetts averages, the City has the highest percentage of individuals who have graduated from high school and who have attended four or more years of college.

### SELECTED POPULATION CHARACTERISTICS

Characteristic	Cambridge	Boston PMSA(1)	Massachusetts	United States
Population (2010) .....	105,162	1,503,085	6,547,629	308,745,538
Median Age				
2010 .....	30.2	38.5	39.1	37.2
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 (2010 data)				
0-4 .....	4.3%	5.7%	5.6%	6.5%
5-17 .....	7.1	15.6	16.1	17.5
18-24 .....	20.8	9.5	10.4	9.9
25-44 .....	40.6	28.7	26.5	26.6
45-64 .....	17.7	27.3	27.7	26.4
65 and over .....	9.5	13.2	13.7	13.1
Total .....	100.0%	100.0%	100.0%	100.0%
Four or more years of college education 25 years or older (2011-2013 data) .....	74.0%	43.7%	39.6%	29.1%
High school graduates 25 years or older (2011-2013 data) .....	93.4%	90.8%	89.6%	86.3%

(1) The Boston PMSA incorporates the Boston-Cambridge-Quincy, MA-NH Metro Area.  
Source: 1950-2010 Decennial Census, 2011-2013 American Community Survey, U.S. Bureau of the Census.

### Income

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

### MEDIAN FAMILY INCOME(1)

Year	Cambridge	Boston PMSA(2)	Massachusetts	United States
2011-13	\$93,406	\$91,308	\$83,867	\$63,784
1999	59,423	64,427	61,664	50,046
1989	39,990	49,266	44,367	35,225
1979	17,845	22,848	21,166	19,917

(1) Figures are not adjusted for inflation.

(2) The Boston PMSA comprises the Boston-Cambridge-Quincy, MA-NH Metro Area and its predecessors.

Source: 1980-2000 Decennial Census, 2011-13 American Community Survey, U.S. Census Bureau.

## PER CAPITA INCOME

<u>Year</u>	<u>Cambridge</u>	<u>Boston PMSA</u>	<u>United Massachusetts</u>	<u>States</u>
2011-13	\$46,529	\$38,552	\$35,518	\$27,884
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: 1980, 1990, 2000, and 2010 Decennial Census, U.S. Bureau of the Census.

## EDUCATION

### Elementary and Secondary Schools

The City of Cambridge public school enrollment totals 6,678 for the 2014-15 school year. It is projected that the figures will show increases from 2016-2019. In addition to the public school system, as of January 1, 2014, there are approximately 1,280 Cambridge residents attending private and parochial schools throughout the Greater Boston area. In addition there are 397 students attending the three charter schools located in Cambridge, 8 students attending out of district public schools, and approximately 40 students being home-schooled.

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 2014–2015 SCHOOL YEAR

12 Elementary Schools (1)  
1 High School  
3 Miscellaneous Buildings

(1) 4 Upper Schools (Grades 6-8) are housed within the Elementary Schools.

Source: Cambridge School Department.

### SCHOOL ENROLLMENT ACTUAL AND PROJECTIONS SCHOOL YEARS 2015–2019 (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Elementary	3,590	3,660	3,755	3,858	3,890
Upper	1,113	1,139	1,136	1,152	1,205
Secondary	1,834	1,823	1,880	1,825	1,783
Tuitioned-out	141	155	157	159	161
Total	6,678	6,777	6,928	6,994	7,039

(1) Enrollments are as of October 1 for the school years shown. The figures shown for 2015 are actual with the following years as projections. The tuitioned-out category includes special education and vocational education tuitioned-out students.



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

<b>Fiscal Year</b>	<b>K-5(2)</b>	<b>6-8</b>	<b>K-8</b>	<b>9-12</b>	<b>Tuitioned- out</b>	<b>Total</b>	<b>Percentage Change</b>
2015	3,590	1,113	4,703	1,834	141	6,678	2.45%
2014	3,523	1,097	4,620	1,739	159	6,518	1.96
2013	3,472	1,066	4,538	1,684	171	6,393	2.72
2012	n/a	n/a	4,436	1,611	177	6,224	0.35
2011	n/a	n/a	4,439	1,580	183	6,202	1.06
2010	n/a	n/a	4,367	1,583	187	6,137	3.14
2009	n/a	n/a	4,234	1,540	176	5,950	1.52
2008	n/a	n/a	4,151	1,546	164	5,861	1.10
2007	n/a	n/a	4,005	1,612	180	5,797	-3.40
2006	n/a	n/a	4,076	1,738	187	6,001	-6.96
2005	n/a	n/a	4,361	1,827	262	6,450	-4.53
2004	n/a	n/a	4,557	1,887	312	6,756	-4.99

(1) Enrollments are as of October 1 for the fiscal years shown.

(2) In FY13, the Cambridge Public School introduced four (4) Upper Schools for grades 6 through 8, as part of its Innovation Agenda.

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 17,470 degree candidates in 2013-14, the most recent year for which figures are available.

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 M.I.T. began its life across the Charles River, in Boston, the University moved to Cambridge in the early part of the last century.

The facilities of the undergraduate and graduate schools for M.I.T., with an enrollment of over 11,038 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 (doing business as the Cambridge Health Alliance). Under the enacted legislation, the City's Department of Health and Hospitals, which included the Cambridge Hospital and the Department of Public Health, was 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 legislation established the Commission as a public instrumentality governed by a board of nineteen members who are appointed by the City Manager. The affairs of the Commission are administered 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 operation of the Department's real property was transitioned 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 Somerville Hospital and its neighborhood health centers, and in July, 1996, the Commission acquired Somerville Hospital. The Commission was further expanded with the addition of Whidden Memorial Hospital in Everett in July 2001. The Commission also operates health centers in Malden, Everett, and Revere and will evaluate other affiliation opportunities as they arise.

The Commission completed a \$60 million renovation and expansion of the Cambridge Hospital in 2001. The project included 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 was constructed to meet substantial existing and projected demand for outpatient services in the Commission's service area. Financing for the project consisted of \$30 million in City general obligation bonds (issued in February, 1998), and a \$30 million equity contribution by the Commission. The City refunded \$13.5 million of these bonds in 2007 with proceeds from general obligation bonds issued in March 2007. 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 is being paid by the Commission.

As provided in the home rule legislation, the City and the Commission have entered into an agreement for the Commission to serve as the City's Public Health Department. The compensation to be paid by the City and the services to be provided by the Commission are outlined in a contract originally entered into in 1997. Effective July 1, 2010, the City and the Commission extended this contract for an additional seven years until June 30, 2017 through an amendment providing for modest increases over that period.

The Board of Trustees at the Commission has established a primary focus for the organization to create the key concept of financial viability and sustainability in order to maintain the mission and commitments to its communities. In March 2012, the Commission welcomed Patrick Wardell as the new CEO, and in July 2012, welcomed four new trustees. The Commission affiliated with Beth Israel Deaconess Medical Center in 2013 to deliver better, broader and more affordable care to improve the quality of life for patients in our communities and will evaluate other affiliation opportunities as they arise.

For fiscal year 2015, the Commission has seen improved financial performance as a result of increased volume and operational improvements, which began in fiscal year 2014. In addition, the Commission has successfully worked with the Commonwealth to extend, and increase its supplemental payments under the Medicaid waiver through fiscal year 2018. Based on its performance through the first two quarters of fiscal year 2015, the Commission is currently projecting to have a strong fiscal year 2015.

## **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 law, the General Debt Limit of a city or town 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 the state Municipal Finance Oversight 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 separate limits). 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 judgments 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 law, 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 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. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. 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. The maximum terms permitted are set forth in the

statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue ("DOR"). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. 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 applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required principal payment of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first required principal payment of any bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as "qualified bonds" with the approval of the state Municipal Finance Oversight 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 paid by the State 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.

### **Tax Credit Bonds or Notes**

Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as "tax credit bonds" to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

### **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. This article is not intended to summarize laws relating to revenue bonds or to notes issued in anticipation of them. Industrial revenue bonds are also outside the scope of this article. 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, 2014**

**Bonds:**

	<b>Outstanding Bonds Prior To This Issue</b>	<b>Authorized Unissued Prior To This Issue (4)</b>	<b>Outstanding After This Issue</b>	<b>Authorized Unissued After This Issue</b>
Within General				
Debt Limit (2) .....	\$347,563,458	\$102,682,819	\$423,028,458	\$27,217,819
Outside General				
Debt Limit:				
School (3).....	—	—	—	—
Water.....	12,680,000	—	12,680,000	—
Sub Total.....	12,680,000	—	12,680,000	—
Total Bonds .....	<u>\$360,243,458</u>	<u>\$102,682,819</u>	<u>\$435,708,458</u>	<u>\$27,217,819</u>

**Temporary Loans:**

	<b>Outstanding Notes</b>
Bond Anticipation .....	\$0
Grant Anticipation .....	0
Revenue Anticipation: (3)	
For Current Year .....	0
For Prior Year .....	0
	<u>\$0</u>

- (1) Excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability.
- (2) Based upon the 2014 final equalized valuation of the City, the Normal General Debt Limit is \$1,486,690,875 and the Double General Debt Limit (see "Debt Limit" above) is \$2,973,381,750.
- (3) The City has not borrowed in anticipation of revenues since fiscal 1987.
- (4) Includes \$13.8 million S.R.F issued in January 2015 for sewer reconstruction.
- 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 \$413,000.

**CITY OF CAMBRIDGE  
GROSS AND NET DIRECT DEBT  
as of June 30, 2014 (1)**

General Obligation Bonds (before current issue) .....	\$350,082,232
MCWT and MWRA Loans .....	10,161,226
Gross Direct Debt .....	360,243,458
Current Issue ("2015 Bonds") .....	75,465,000
TOTAL GROSS DIRECT DEBT .....	\$435,708,458
Less:	
Self-Supporting GO Water Bonds .....	12,680,000
Self-Supporting GO Sewer Bonds .....	72,585,448
Self-Supporting GO Golf Course (Current Issue) .....	550,000
Self-Supporting GO Parking Fund .....	-
Self-Supporting MCWT and MWRA Loans .....	9,787,280
Self-Supporting Hospital Bonds .....	5,995,000
Self-Supporting HUD Section 108 Loan .....	170,000
Self-Supporting Current Issue for Sewer .....	23,985,000
SUBTOTAL SELF-SUPPORTING .....	\$125,752,728
Less:	
Commonwealth Subsidy of MCWT Loans (2) .....	373,946
SUBTOTAL COMMONWEALTH SUBSIDY .....	\$373,946
TOTAL NET DIRECT DEBT .....	\$309,581,784

(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 Clean Water Trust (MCWT).

Source: City Department of Finance

**OVERLAPPING DEBT**

**Massachusetts Water Resources Authority**

The Massachusetts Water Resources Authority (the "MWRA") provides wholesale drinking water services in whole or in part to 48 cities, towns and special purpose entities and provides wastewater collection and treatment services to 43 cities, towns and special purpose entities. Under its enabling legislation, as amended, the aggregate principal amount of all bonds issued by the MWRA for its corporate purposes may not exceed \$6.45 billion outstanding at any time. Its obligations are secured by revenues of the MWRA. The MWRA assesses member cities, towns and special purpose entities, which continue to provide direct retail water and sewer services to users. The cities, towns and other entities collect fees from the users to pay all or part of the assessments; some municipalities levy property taxes to pay part of the amounts assessed upon them.

## 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 generally 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:

<b>CITY OF CAMBRIDGE OVERLAPPING DEBT(1)</b>				
	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Estimated City Share</u>	<u>Overlapping Debt</u>
Massachusetts Water Resources Authority (2)				
Sewer.....	\$3,898,585,000	(see above)	4.831%	\$188,329,487
Total.....				<u>\$188,329,487</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, 2014.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
KEY DEBT RATIOS  
as of June 30, 2014**

	<u>Amount (1)</u>	<u>Per Capita (2)</u>	<u>Ratio to Assessed Valuation (3)</u>
Gross Direct Debt .....	\$435,708,458	\$4,143	1.45%
Net Direct Debt (4) .....	309,581,784	2,944	1.0
Gross Direct and Gross Overlapping Debt .....	624,037,945	5,934	2.1
Net Direct and Net Overlapping Debt .....	497,911,271	4,735	1.7

(1) Includes current bond issue.

(2) Based on 2010 population of 105,162.

(3) Based on January 1, 2014 value of \$30,143,180,521

(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 Clean Water (MCWT) to be paid from state assistance.

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
FIVE-YEAR DEBT SUMMARY  
OUTSTANDING GENERAL OBLIGATION DEBT  
FISCAL YEARS 2010 TO 2014 (1)(2)  
(\$ in 000s)**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Inside .....	\$290,053	\$300,935	\$321,989	\$351,565	\$347,563
Outside:					
School .....	530	0	0	0	0
Water .....	26,853	21,895	18,360	15,520	12,680
Sub Total .....	27,383	21,895	18,360	15,520	12,680
Total .....	<u>\$317,436</u>	<u>\$322,830</u>	<u>\$340,349</u>	<u>\$367,085</u>	<u>\$360,243</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, 2014 (1)(2)**

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal This Issue</b>	<b>Interest This Issue(3)</b>	<b>Total</b>
2015	\$41,687,940	\$12,215,961	\$ -	\$ -	\$53,903,901
2016	37,797,228	10,912,705	5,585,000	3,773,250	58,068,183
2017	36,113,736	9,725,562	5,585,000	3,494,000	54,918,298
2018	33,985,246	8,576,018	5,585,000	3,214,750	51,361,014
2019	29,383,758	7,480,686	5,585,000	2,935,500	45,384,944
2020	26,765,273	6,466,643	5,585,000	2,656,250	41,473,166
2021	25,401,790	5,539,149	5,515,000	2,377,000	38,832,939
2022	22,828,310	4,638,892	5,385,000	2,101,250	34,953,452
2023	19,455,177	3,947,320	5,385,000	1,832,000	30,619,497
2024	15,660,000	3,217,099	5,380,000	1,562,750	25,819,849
2025	13,695,000	2,585,049	5,375,000	1,293,750	22,948,799
2026	12,995,000	2,071,581	2,050,000	1,025,000	18,141,581
2027	10,445,000	1,581,920	2,050,000	922,500	14,999,420
2028	9,590,000	1,196,907	2,050,000	820,000	13,656,907
2029	7,580,000	841,950	2,050,000	717,500	11,189,450
2030	5,555,000	563,669	2,050,000	615,000	8,783,669
2031	4,305,000	371,569	2,050,000	512,500	7,239,069
2032	3,300,000	223,875	2,050,000	410,000	5,983,875
2033	2,775,000	120,250	2,050,000	307,500	5,252,750
2034	925,000	32,375	2,050,000	205,000	3,212,375
2035	-	-	2,050,000	102,500	2,152,500
	<u>\$360,243,458</u>	<u>\$82,309,180</u>	<u>\$75,465,000</u>	<u>\$30,878,000</u>	<u>\$548,895,638</u>

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

(2) Totals may not agree with sum of figures due to rounding.

(3) Estimated based on an average coupon rate of 5.0%.

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, 2014 including these Bonds.

<b>Maturing Within</b>	<b>Amount to be Retired</b>	<b>Cumulative % Principal Retired</b>
5 years	\$233,658,181	53.63%
10 years	357,738,458	82.11
20 years	435,708,458	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 2010 TO 2014**

<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>
2010	101,355	\$24,271,700,606	\$317,436,444	1.3	\$3,132
2011	105,162	24,446,954,999	322,830,017	1.3	3,070
2012	105,162	25,213,972,501	340,348,511	1.3	3,236
2013	105,162	27,161,648,788	367,085,450	1.4	3,491
2014	105,162	30,143,180,521	435,708,458(4)	1.4	4,143

- (1) Population estimates are from the U.S. Department of Commerce, Bureau of the Census.  
(2) All of the assessed values shown reflect full market value.  
(3) As of June 30 of that fiscal year and excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability. Includes full principal on MCWT and MWRA sewer loans.  
(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 2010 TO 2014**

<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>
2010	\$41,635,272	\$12,030,062	\$53,665,334	\$436,588,909	12.3%
2011	40,826,427	11,607,229	52,433,656	457,716,895	11.5
2012	37,946,621	11,593,447	49,540,068	476,484,895	10.4
2013	39,238,061	11,112,458	50,350,519	489,282,141	10.3
2014	41,741,992	11,891,725	53,633,717	507,305,320	10.6

- (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 cost increase from the \$1,400,000 in fiscal year 2014 to \$5,050,000 in fiscal year 2015 (which includes \$3,650,000 for IT related initiatives). The five year plan calls for a total of \$24,877,000 in general fund revenues 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 2, 2014, is a program of capital spending for the five-year period beginning July 1, 2014 and ending June 30, 2019. 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 \$315,888,150. 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 2015 TO 2019**

<b>Expenditure Category</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
General						
Government .....	\$ 3,800,000	\$2,000,000	\$1,500,000	\$1,000,000	\$1,000,000	\$9,300,000
Public Safety .....	263,000	263,000	60,000	263,000	113,000	962,000
Community						
Maintenance & Development .....	25,047,025	37,303,540	66,656,195	45,741,195	22,141,195	196,889,150
Human Resource						
Development ..	2,034,000	167,000	750,000	118,000	118,000	3,187,000
Education.....	810,000	9,560,000	40,060,000	55,060,000	60,000	105,550,000
Total.....	<u>\$ 31,954,025</u>	<u>\$49,293,540</u>	<u>\$109,026,195</u>	<u>\$102,182,195</u>	<u>\$23,432,195</u>	<u>\$315,888,150</u>

Source: "Public Investment Plan, Fiscal Year 2015 to Fiscal Year 2019," Annual Budget Fiscal Year 2015, as adopted.

**PUBLIC INVESTMENT PROGRAM  
USES AND SOURCES OF FUNDS  
FISCAL YEARS 2015 TO 2019**

<b>Uses</b>	<b>Total Amount</b>	<b>Percent of Total</b>
General Government.....	\$ 9,300,000	2.94%
Public Safety .....	962,000	0.30
Community Maintenance and Development		
Housing Development.....	3,375,975	1.07
Economic Development .....	3,307,750	1.05
Streets, Highways & Transportation .....	23,233,140	7.36
Water & Sewer .....	136,888,000	43.33
Other .....	30,084,285	9.52
Human Resource Development.....	3,187,000	1.01
Education.....	105,550,000	33.41
Total.....	<u>\$315,888,150</u>	<u>100.00%</u>
<b>Sources</b>	<b>Total Amount</b>	<b>Percent of Total</b>
Property Taxes.....	\$ 14,927,000	4.73%
Block Grant.....	6,058,725	1.92
Parking Fund.....	4,150,000	1.31
Parking Fund Balance .....	600,000	0.19
Sewer Service Charge .....	9,650,000	3.05
Water Service Charge .....	17,400,000	5.51
Bond Proceeds .....	249,438,000	78.97
Chapter 90 Grant .....	10,553,475	3.34
Tree Program Revenues.....	71,285	0.02
Resident Sticker Revenues.....	2,125,000	0.67
Street Preservation Offset Fund .....	238,115	0.08
War Memorial Receipts .....	140,000	0.04
Golf Course Fees.....	160,000	0.05
Sidewalk Revenues .....	76,805	0.02
Paving Revenues.....	49,745	0.02
Developer Donations.....	250,000	0.08
Total.....	<u>\$315,888,150</u>	<u>100.00%</u>

Source: "Public Investment Plan, Fiscal Year 2015 to Fiscal Year 2019," Annual Budget Fiscal Year 2015, as adopted.

**PUBLIC INVESTMENT PROGRAM  
SOURCES OF FINANCING  
FISCAL YEARS 2015 TO 2019**

<b>Financing Category</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
<b>GENERAL GOVERNMENT:</b>						
Property Taxes	\$3,650,000	\$2,000,000	\$1,500,000	\$1,000,000	\$1,000,000	\$9,150,000
Sewer Service Charge	150,000	—	—	—	—	150,000
Subtotal	\$3,800,000	\$2,000,000	\$1,500,000	\$1,000,000	\$1,000,000	\$9,300,000
<b>PUBLIC SAFETY:</b>						
Property Taxes	\$113,000	\$113,000	\$60,000	\$113,000	\$113,000	\$512,000
Bond Proceeds	150,000	150,000	—	150,000	—	450,000
Subtotal	\$263,000	\$263,000	\$60,000	\$263,000	\$113,000	\$962,000
<b>COMMUNITY MAINTENANCE &amp; DEVELOPMENT:</b>						
Property Taxes	\$1,001,000	\$1,108,000	\$873,000	\$708,000	\$708,000	\$4,398,000
Parking Fund Balance	600,000	—	—	—	—	\$600,000
Parking Fund Revenues	850,000	850,000	850,000	800,000	800,000	4,150,000
Sewer Service Charges	1,500,000	2,500,000	1,500,000	1,500,000	2,500,000	9,500,000
Water Service Charges	3,400,000	3,500,000	3,500,000	3,500,000	3,500,000	17,400,000
Community Development						
Block Grant	1,225,945	1,208,195	1,208,195	1,208,195	1,208,195	6,058,725
Chapter 90	2,553,475	2,000,000	2,000,000	2,000,000	2,000,000	10,553,475
Street Preservation						
Offset Fund	238,115	—	—	—	—	238,115
Sidewalk Revenues	76,805	—	—	—	—	76,805
Paving Revenues	49,745	—	—	—	—	49,745
Tree Program Revenues	71,285	—	—	—	—	71,285
Developer Donations	250,000	—	—	—	—	250,000
Resident Parking						
Sticker Revenues	425,000	425,000	425,000	425,000	425,000	2,125,000
Bond Proceeds	12,805,655	25,712,345	56,300,000	35,600,000	11,000,000	141,418,000
Subtotal	\$25,047,025	\$37,303,540	\$66,656,195	\$45,741,195	\$22,141,195	\$196,889,150
<b>HUMAN RESOURCE DEVELOPMENT:</b>						
Property Taxes	\$226,000	\$119,000	\$82,000	\$70,000	\$70,000	\$567,000
Golf Course Fees	80,000	20,000	20,000	20,000	20,000	160,000
War Memorial Receipts	28,000	28,000	28,000	28,000	28,000	140,000
Bond Proceeds	1,700,000	—	620,000	—	—	2,320,000
Subtotal	\$2,034,000	\$167,000	\$750,000	\$118,000	\$118,000	\$3,187,000
<b>EDUCATION:</b>						
Property Taxes	\$60,000	\$60,000	\$60,000	\$60,000	\$60,000	\$300,000
Bond Proceeds	750,000	9,500,000	40,000,000	55,000,000	-	105,250,000
Subtotal	\$810,000	\$9,560,000	\$40,060,000	\$55,060,000	\$60,000	\$105,550,000
<b>GRAND TOTAL</b>	<b>\$31,954,025</b>	<b>\$49,293,540</b>	<b>\$109,026,195</b>	<b>\$102,182,195</b>	<b>\$23,432,195</b>	<b>\$315,888,150</b>

Source: "Public Investment Plan, Fiscal Year 2015 to Fiscal Year 2019." Annual Budget Fiscal Year 2015, as adopted.

## 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, 2014, which is the system's fiscal period for reporting to the Commissioner of the Retirement of the Commonwealth of Massachusetts. The financial statements are for the year ending December 31, 2014. 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, each of which is accounted for separately. 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.

## **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 by mid-January. 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.

Under certain circumstances and subject to certain limits and requirements, the city council of a city, upon the recommendation of the mayor or city manager, may transfer amounts appropriated for the use of one department (except for a municipal light department or a school department) to another appropriation for the same department or for the use of any other department.

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 2<sup>1</sup>/<sub>2</sub> 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.

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for, and final judgments 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 2011 through 2015. 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 2015 budget of \$528,988,243 includes all appropriations made to operating budgets prior to the calculation of the fiscal year 2015 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 2015 operating budget represents an increase of \$115,695,426, or 3.1%, over the fiscal year 2014 budget. Increases in the fiscal year 2015 budget include salary adjustments for employees which are spread over most City departments, debt service costs, health and retirement costs, Massachusetts Water Resources Authority and State (Cherry Sheet) Assessments, energy costs, and additional school expenditures of \$5,605,000.

The largest source of funding for the operating budget is property taxes. This revenue increased from a fiscal year 2014 level of \$328,544,945 (including an allocation of \$1,400,000 to the Public Investment Fund) to a fiscal year 2015 level of \$341,445,455 (including \$5,050,000 allocated to the Public Investment Fund). An additional \$11,498,370 from other current revenue sources has been combined with bond authorizations of \$15,405,655 for a total capital budget of \$31,954,025.

**CITY OF CAMBRIDGE**  
**BUDGETED REVENUES AND EXPENDITURES**  
**FISCAL YEARS 2011 THROUGH 2015**  
**(\$ in 000s)**

	2011	2012	2013	2014	2015
<b>Revenues:</b>					
Real & Personal Property Taxes(1)	\$282,111.7	\$299,090.6	\$316,947.8	\$328,544.0	\$341,445.5
Local Estimated Receipts:					
Motor Vehicle Excise.....	5,925.0	6,030.4	6,000.0	6,100.0	6,100.0
Water .....	16,412.5	15,346.6	14,599.7	14,655.3	14,324.2
Sewer.....	37,569.7	36,723.1	38,090.9	39,620.7	40,996.2
Interest Income .....	970.0	575.0	500.0	500.0	500.0
Other Local Receipts.....	59,543.4	61,006.7	54,742.6	57,410.5	58,503.2
Subtotal .....	120,420.6	119,681.8	113,933.2	118,286.5	120,423.6
State Aid .....	31,631.9	29,752.0	30,980.3	30,601.8	32,100.2
Other Available Funds.....	34,327.9	31,374.2	33,102.3	35,859.5	35,018.9
Total Revenues .....	<u>\$468,492.1</u>	<u>\$479,898.6</u>	<u>\$494,963.5</u>	<u>\$513,292.8</u>	<u>\$528,988.2</u>
<b>Expenditures:</b>					
Deficits to be Raised:					
Overlay .....	\$ 1,535.3	\$ 995.2	\$ 36.3	\$ 47.0	\$ 0.0
Other.....	112.6	124.7	129.1	136.5	169.2
Subtotal Deficits .....	1,647.9	1,119.9	165.4	183.5	169.2
Overlay Reserve .....	4,295.4	4,390.6	4,447.8	4,544.9	4,604.2
<b>Fixed Expenses:</b>					
State & County					
Assessments.....	10,885.4	11,733.6	12,930.0	12,516.9	12,251.8
Mass. Water Resources					
Authority .....	21,617.3	21,699.8	21,006.1	21,346.8	22,189.7
Debt Service(2).....	45,305.7	44,594.8	50,350.5	53,633.7	50,446.0
Retirement System(3) .....	20,566.8	24,650.5	23,723.2	24,188.4	22,902.2
MBTA.....	8,618.1	8,743.6	8,891.7	8,988.1	9,066.2
Cambridge Public Health					
Commission .....	6,000.0	6,000.0	6,500.0	6,500.0	6,750.0
Other Fixed Costs(4) .....	3,041.2	3,098.8	3,356.8	3,537.0	3,634.
Subtotal Fixed.....	<u>\$116,034.5</u>	<u>\$120,521.1</u>	<u>\$126,758.3</u>	<u>\$130,719.9</u>	<u>\$127,240.4</u>
<b>Variable Expense (Budget):</b>					
Schools .....	137,567.3	140,794.3	145,062.7	151,064.4	156,669.4
Police.....	42,148.0	43,496.3	45,643.1	47,186.0	49,260.6
Fire .....	38,018.4	39,055.1	40,111.1	43,350.3	44,661.5
Public Works:.....					
Water .....	16,416.1	14,902.6	14,144.1	14,238.7	13,964.3
Other.....	29,680.7	30,397.9	31,945.3	32,859.7	33,364.5
General Government .....	21,075.5	21,944.1	22,311.7	23,501.1	25,246.3
Other Variable(5).....	61,608.3	63,276.1	64,374.1	65,653.2	73,537.7
Subtotal Variable .....	<u>\$346,514.3</u>	<u>\$353,866.8</u>	<u>\$363,592.1</u>	<u>\$377,853.4</u>	<u>\$396,974.4</u>
Total Expenditures.....	<u>\$468,492.1</u>	<u>\$479,898.6</u>	<u>\$494,963.5</u>	<u>\$513,292.8</u>	<u>\$528,988.2</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.

(5) The Sewer and Highway Divisions now included in the "Other" category.

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 required to be borne by residential real property is 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; and the share of commercial, industrial and personal property must exceed 175 percent of their share of the total valuation. The City may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) under a special act applicable to the City and up to 10% of the valuation of commercial real property (where 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, or pursuant to a revised schedule as may be issued by the commissioner.

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 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 2013, 2014, and 2015.

**CITY OF CAMBRIDGE  
ASSESSED AND EQUALIZED VALUATIONS  
FISCAL YEARS 2011 TO 2015**

Fiscal Year	Assessed Value(1)			Equalized Valuation(2)	% of Total Assessed Valuation to Equalized
	Real Property	Personal Property	Total		
2015	\$29,053,317,721	\$1,089,862,800	\$30,143,180,521	\$29,733,817,500	101.4%
2014	26,081,462,559	1,080,186,230	27,161,648,789	29,733,817,500	91.3
2013	24,143,725,561	1,070,246,940	25,213,972,501	26,640,125,400	94.6
2012	23,495,974,749	950,980,250	24,446,954,999	28,162,029,300	86.8
2011	23,202,458,158	959,619,440	24,162,077,598	28,162,029,300	85.8

(1) As of January 1, 2014, 2013, 2012, 2011, and 2010, respectively.

(2) As of January 1, 2014, 2012, 2010, 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 2013, 2014, AND 2015**

Class	2013 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential .....	\$15,566,609,253	61.74%	34.56%
Commercial .....	5,405,660,055	21.44	36.67
Industrial .....	3,171,456,253	12.58	21.51
Personal Property .....	1,070,246,940	4.24	7.26
	<u>\$25,213,972,501</u>	<u>100.00%</u>	<u>100.00%</u>

Class	2014 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential .....	\$16,642,348,025	61.27%	34.56%
Commercial .....	5,936,084,416	21.85	36.93
Industrial .....	3,503,030,118	12.90	21.79
Personal Property .....	1,080,186,230	3.98	6.72
	<u>\$27,161,648,789</u>	<u>100.00%</u>	<u>100.00%</u>

Class	2015 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential .....	\$18,562,023,898	61.58%	34.57%
Commercial .....	6,577,555,346	21.82	37.16
Industrial .....	3,913,738,477	12.98	22.11
Personal Property .....	1,089,862,800	3.62	6.16
	<u>\$30,143,180,521</u>	<u>100.00%</u>	<u>100.00%</u>

Source: City Department of Finance.

The following table shows the actual tax rates per \$1,000 of assessed valuation for fiscal years 2011-2015 and the estimated full value rate based on the equalized valuations for the latest fiscal years:

**CITY OF CAMBRIDGE  
PROPERTY TAX RATE  
FISCAL YEARS 2011 to 2015**

<u>Fiscal Year</u>	<u>Actual Tax Rate</u>	<u>Category</u>	<u>Estimated Full Value Tax Rate(1)(3)</u>	<u>Average Rate(2)</u>
2015	\$ 7.82	Residential	\$11.48	\$11.33
	19.29	Commercial/Industrial		
2014	8.38	Residential	11.05	12.10
	20.44	Commercial/Industrial		
2013	8.66	Residential	11.90	12.57
	21.50	Commercial/Industrial		
2012	8.48	Residential	11.23	12.23
	20.76	Commercial/Industrial		
2011	8.16	Residential	10.08	11.75
	19.90	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, multiplied by 1,000.

(3) The 2014 Estimated Full Value Tax Rate has been restated to reflect the final fiscal 2014 equalized value.

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 21.46 percent of the City's total assessable base for fiscal 2015.



**CITY OF CAMBRIDGE  
10 LARGEST TAXPAYERS  
Fiscal Year 2015(1)**

<b>Property Owner</b>	<b>Nature of Business</b>	<b>Assessed Valuation (\$)</b>	<b>Real Property Taxes (\$)</b>	<b>% of Total Tax Levy</b>
1. Mass. Institute of Technology .....	Educational(2)	\$ 2,290,153,400	41,958,708	12.29%
2. BioMed Realty Trust .....	Commercial	1,169,048,100	22,417,980	6.57
3. Boston Properties .....	Commercial	845,806,600	16,289,318	4.77
4. Equity Partners .....	Commercial	571,512,400	10,553,343	3.09
5. Presidents & Fellows of Harvard College .....	Educational(2)	423,374,500	5,426,154	1.59
6. Novartis Pharmaceuticals. ....	Commercial	249,889,700	4,820,372	1.41
7. New England Development. ....	Commercial	235,845,500	4,549,460	1.33
8. Alexandria Real Estate. ....	Commercial	234,646,500	4,458,974	1.31
9. PREEF American Reit II Corp.....	Commercial	231,186,300	4,459,584	1.31
10. RB Kendall Fee LLC .....	Commercial	212,935,800	4,092,397	1.20
Totals .....		<u>\$6,464,398,800</u>	<u>\$119,026,290</u>	<u>34.87%</u>

(1) As of January 1, 2014

(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 judgments, 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 59, Section 21C of the General Laws, also known as “Proposition 2½,” 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 or for the City's apportioned share for certain capital outlay expenditures by a regional government unit. 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, Proposition 2½ 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 Proposition 2½ 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. The City has not voted to exempt debt service from Proposition 2½ on any projects.

### **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 therefore 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 \$134.0 million in FY15, the highest in the City's history.

#### *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 \$1,000 to \$25 per \$1,000 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 \$43,956,481. 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 which was the lowest amount since the early 1990's. The downward trend was reversed in fiscal year 2004 when the City received \$38,533,452 in state aid. The positive trend continued with the City receiving \$40,129,925 in fiscal year 2005, \$41,506,405 in fiscal year 2006, \$41,918,510 in fiscal year 2007 and \$45,331,957 in fiscal year 2008. This trend has again been reversed. Actual revenues in fiscal year 2009 were \$34,955,472, \$29,315,720 in fiscal year 2010, \$29,276,565 in fiscal year 2011, \$29,600,413 in fiscal year 2012, \$29,103,688 in fiscal year 2013, and \$30,065,299 in fiscal year 2014.

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

Fiscal year 2015 valuations of \$30,143,180,521 in real and personal property valuations were certified by the Massachusetts Department of Revenue. This figure represents a \$2,981,531,733, or 10.98%, increase over fiscal year 2014 valuations. The chart on the following page illustrates that total assessed values are anticipated to increase by an average of approximately 3.88% annually over the fiscal year 2015 to fiscal year 2019 period due to a moderate 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 2019.

**CITY OF CAMBRIDGE  
PROJECTED GROWTH IN PROPERTY VALUATION  
FISCAL YEARS 2015 TO 2019**

<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>
2015	\$30,143,180,521	\$341,445,455	\$753,579,513	\$475,410,995
2016	31,927,848,411	356,307,749	798,196,210	497,059,370
2017	33,078,248,932	373,203,591	826,956,223	518,694,357
2018	34,118,791,842	394,563,254	852,969,796	541,136,235
2019	35,097,850,759	415,015,590	877,446,269	563,961,045

(1) The figures for fiscal year 2015 are those which have been certified by the Massachusetts Department of Revenue and the figures for 2016-2019 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 the use of statistical standards set by the Department of Revenue. 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. In FY15, the City successfully completed the interim certification of its real and property values, systems and methodologies, which yielded \$30.1 billion in real and personal property values.

The City has several general policies with respect to property assessments. First, values should be maintained at approximately 100 percent. Thus, Cambridge adjusts values annually and thereby avoids the disrupting shifts in value (and taxes) which might otherwise occur every third year when values must be certified by the state. This policy, which the City has been practicing for several years, is now mandated 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 are currently handled by the Assessing Department permanent staff.

The City has upgraded 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 is available to most City departments.

The following table shows the calculation of the tax levies for fiscal years 2011 to 2015.

**CITY OF CAMBRIDGE  
CALCULATION OF PROPERTY TAX LEVIES  
FISCAL YEARS 2011 TO 2015  
(\$ in 000s)**

	2011	2012	2013	2014	2015
Gross Amount to be Raised:					
Total Appropriations .....	\$481,028	\$488,733	\$541,045	\$561,238	\$582,491
Overlay Deficits from Prior Years .....	1,535	995	36	47	-
Other Local Expenditures .....	989	1,048	998	987	1,494
State and County Assessments .....	19,504	20,477	21,822	21,505	21,318
Overlay for Current Year .....	4,295	4,391	4,448	4,545	4,604
Total to be Raised .....	<u>\$507,351</u>	<u>\$515,644</u>	<u>\$568,349</u>	<u>\$588,322</u>	<u>\$609,907</u>
Offsets:					
Estimated Receipts from State .....	\$ 31,632	\$ 29,752	\$ 30,980	\$ 30,602	\$ 32,100
Prior Year's Overestimates of					
State & County Assessments .....	0	0	0	0	0
Local Estimated Receipts .....	134,199	138,341	142,193	148,627	154,091
Other Available Funds .....	57,558	48,461	78,228	80,548	82,270
Total Offsets .....	<u>\$223,389</u>	<u>\$216,554</u>	<u>\$251,401</u>	<u>\$259,777</u>	<u>\$268,461</u>
Tax Levy .....	<u>\$283,962</u>	<u>\$299,090</u>	<u>\$316,948</u>	<u>\$328,545</u>	<u>\$341,446</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.

**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

A city or town 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 2010 TO 2014

Fiscal Year	Tax Commitment	Collections During Fiscal Year Payable (1)		Collections as of 6/30/14(2)	
		Amount	% of Tax Commitment	Amount	% of Tax Commitment
2014	\$329,185,186	\$324,173,637	98.5%	\$324,173,637	98.5%
2013	317,650,354	313,575,938	98.7	315,073,504	99.2
2012	299,269,635	294,569,421	98.4	296,210,823	99.0
2011	285,237,707	280,979,635	98.5	281,993,354	98.9
2010	269,094,125	263,057,040	97.8	265,369,247	98.6

(1) Actual collection of levy less refunds and amounts refundable including proceeds of tax titles and tax possessions but not including abatements or other credits.

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

Source: City Department of Finance.

**CITY OF CAMBRIDGE  
OVERLAY RESERVES AND ABATEMENTS  
FISCAL YEARS 2010 TO 2014**

Fiscal Year	Overlay Reserve		Abatements	
	Amount	% of Total Levy	During Fiscal Year of Each Tax Levy	Since Fiscal Year Ended (through 6/30/14)(1)
2014	\$4,544,945	1.4%	\$1,419,005	\$1,419,005
2013	4,447,770	1.4	1,777,870	2,071,150
2012	4,390,639	1.5	1,362,467	1,845,865
2011	4,295,422	1.5	1,471,642	2,286,819
2010	4,362,984	1.6	2,018,228	3,318,179

(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.

Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

**OVERDUE PROPERTY TAXES  
FISCAL YEARS 2010 TO 2014**

Fiscal Year	Aggregate(1)(2)	For Current Year(1)(2)	Tax Title and Tax Possessions(2)
2014	\$4,585,923	\$3,462,998	\$3,322,878
2013	3,988,393	2,840,293	3,578,291
2012	4,351,203	3,300,803	3,216,887
2011	3,969,474	2,777,185	3,056,350
2010	5,528,500	4,070,855	2,503,794

(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 fiscal years:

**CITY OF CAMBRIDGE  
PRINCIPAL FEDERAL AID BY SOURCE  
FISCAL YEARS 2010 TO 2014**

<b>Fiscal Year</b>	<b>Community Development Block Grant(1)</b>	<b>Other</b>	<b>Total From Federal Government</b>
2014	\$3,473,538	\$12,645,202	\$16,118,740
2013	3,018,666	11,445,290	14,463,956
2012	2,256,340	14,321,430	16,577,770
2011	3,273,271	17,914,922	21,188,193
2010	2,914,396	14,537,724	17,452,120

(1) Includes Program Income

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 2013, or in accordance with a more rapid amortization schedule. The City did not choose to defer payment of teachers' summer compensation.

## **State School Building Assistance Program**

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

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

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The Authority either has paid and is expected to continue to pay the remaining amounts of the grants for such projects in either annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects, or as lump sum payments to contribute to the defeasance of such bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the Authority in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality eliminating the need for the municipality to borrow even on a temporary basis to finance the Authority's share of the project costs in most cases.

The range of reimbursement rates for new project grant applications submitted to the Authority on or after July 1, 2007 has been reduced to between 40% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority pays grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement. The City does not currently have any projects that have been approved by the MSBA for funding.

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

**CITY OF CAMBRIDGE  
MAJOR STATE ASSISTANCE BY SOURCE  
FISCAL YEARS 2010 TO 2014**

<u>Fiscal Year</u>	<u>School Operations</u>	<u>Other</u>	<u>Total From State</u>
2014	\$10,806,835	\$19,258,464	\$30,065,299
2013	10,261,156	18,842,532	29,103,688
2012	10,648,835	18,951,578	29,600,413
2011	10,393,382	18,883,183	29,276,565
2010	9,741,701	19,574,019	29,315,720

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 2014, motor vehicle excise tax revenue increased from \$2.0 million to approximately \$7.2 million. 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 2010 TO 2014**

<u>Fiscal Year</u>	<u>Receipts(1)(2)</u>
2014	\$7,230,474
2013	6,833,482
2012	6,238,835
2011	6,452,602
2010	6,182,561

(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.

On July 27, 2009, the City Council voted to accept Chapter 65G, section 3A of the Massachusetts General Laws which allows the City to increase the room occupancy excise tax from four to six percent.

### RECEIPTS FROM ROOM OCCUPANCY EXCISE FISCAL YEARS 2010 to 2014

<u>Fiscal Year</u>	<u>Receipts(1)</u>
2014	\$12,413,943
2013	11,989,110
2012	11,219,831
2011	10,201,206
2010	7,601,971

(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.

## LOCAL MEALS EXCISE TAX

On July 27, 2009, the City Council voted to accept Chapter 64L, Section 2(a) of the Massachusetts General Laws which imposes a local meals excise tax in the City of Cambridge. The State Meals Tax was increased from 5.0% to 6.25% with cities and towns having the option of approving an additional .75% in order to mitigate the effects of a substantial reduction in State Aid in fiscal year 2010. During Fiscal Year 2010 actual receipts from local meals excise tax were \$1,759,717, \$3,551,926 in Fiscal Year 2011, \$3,734,594 in Fiscal Year 2012, \$3,920,538 in Fiscal Year 2013, and \$4,111,239 in Fiscal Year 2014.

## COMMUNITY PRESERVATION ACT

The Massachusetts Community Preservation Act (the “CPA”) 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 LLP, 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 2010 through 2014, while the second table compares City revenues, expenditures, and changes in fund balance for fiscal years 2010 through 2014.

**CITY OF CAMBRIDGE  
GENERAL FUND BALANCE SHEETS  
FISCAL YEARS 2010 TO 2014(1)  
(as of June 30)**

	2010	2011	2012	2013	2014
<b>ASSETS</b>					
Cash.....	\$178,909,465	\$183,045,990	\$192,187,580	\$226,051,224	\$260,516,932
Receivables(2)					
Taxes .....	4,950,755	3,336,193	3,866,014	3,494,205	4,307,833
Tax Title and Possessions .....	2,503,794	3,056,350	3,216,887	3,578,291	3,322,787
Motor Vehicle Excise.....	995,487	946,975	1,043,063	1,177,512	932,467
Departmental .....	10,319,844	10,448,658	10,486,691	10,081,275	12,453,076
Intergovernmental.....	—	—	—	—	—
Due From Component Unit.....	11,995,000	10,495,000	8,995,000	7,495,000	5,995,000
Other Assets.....	1,084,131	1,748,986	2,266,162	2,359,193	1,886,542
Total Assets.....	<u>\$210,758,476</u>	<u>\$213,078,152</u>	<u>\$222,061,397</u>	<u>\$254,236,700</u>	<u>\$289,414,637</u>
<b>LIABILITIES AND FUND EQUITY</b>					
Warrants Payable.....	\$7,781,381	\$6,656,223	\$6,827,640	\$6,249,138	\$7,863,533
Tax Abatement Refunds.....	3,000,000	3,300,000	2,000,000	2,600,000	3,600,000
Other.....	24,560,322	32,160,712	23,340,775	24,476,990	25,640,812
Deferred/Unearned Revenue.....	29,118,877	27,531,381	26,723,055	24,929,214	24,812,319
Total Liabilities.....	<u>\$64,460,580</u>	<u>\$69,648,316</u>	<u>\$58,891,470</u>	<u>\$58,255,342</u>	<u>\$61,916,664</u>
<b>FUND BALANCES:</b>					
Nonspendable .....	\$1,004,131	\$1,668,986	\$2,186,162	\$2,279,193	\$1,806,542
Restricted .....	—	—	—	—	—
Committed .....	50,207,982	42,061,955	34,256,986	43,762,124	59,468,937
Unassigned .....	95,085,783	99,698,895	126,726,779	149,940,041	166,222,585
Total Fund Balance.....	<u>146,297,896</u>	<u>143,429,836</u>	<u>163,169,927</u>	<u>195,981,358</u>	<u>227,498,064</u>
Total Liabilities & Fund Equity .....	<u>\$210,758,476</u>	<u>\$213,078,152</u>	<u>\$222,061,397</u>	<u>\$254,236,700</u>	<u>\$289,414,728</u>

(1) See Appendix A for complete financial report for 2014. Copies of the financial reports for 2010, 2011, 2012, and 2013 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 LLP for the fiscal years ended June 30, 2010, 2011, 2012, 2013, and 2014.

**CITY OF CAMBRIDGE**  
**GENERAL FUND—COMPARATIVE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**ACTUAL FOR FISCAL YEARS 2010 TO 2014 (1)**

	2010	2011	2012	2013	2014
Revenues:					
Property Taxes.....	\$266,861,794	\$281,812,153	\$297,723,747	\$315,776,734	\$327,998,703
In Lieu of Tax Receipts .....	7,105,643	7,344,911	7,586,219	7,553,728	7,759,252
Hotel/Motel/Meals Tax .....	9,361,688	13,573,132	14,954,425	15,909,648	16,525,182
Intergovernmental Revenue.....	32,138,738	31,795,812	31,954,472	31,035,786	58,572,275
Sewer Use.....	36,825,469	40,346,895	40,579,119	40,019,569	41,690,417
Motor Vehicle Excise.....	6,182,561	6,452,602	6,238,835	6,833,482	7,230,474
Interest.....	1,273,261	1,064,224	864,286	616,276	1,621,623
Other.....	30,070,728	34,561,571	43,555,600	46,475,307	47,891,799
Total Revenues .....	<u>\$389,819,882</u>	<u>\$416,951,300</u>	<u>\$443,456,703</u>	<u>\$464,220,530</u>	<u>\$509,289,725</u>
Expenditures:					
General Government.....	40,100,913	35,891,674	35,852,058	34,893,797	33,234,730
Public Safety .....	95,716,808	100,413,995	103,388,702	106,985,572	112,495,641
Community Maintenance and Development .....	34,126,970	36,459,244	36,682,794	39,174,605	40,570,532
Human Resource Development.....	28,133,379	29,586,338	30,919,537	32,143,378	32,860,663
Education.....	132,652,341	134,077,602	139,276,389	143,787,568	176,930,223
Judgments and Claims.....	924,862	9,029,151	4,112,551	75,633	52,394
State Assessments.....	42,447,468	44,892,107	46,146,725	46,660,306	47,682,872
Debt Service:					
Principal.....	32,775,576	34,865,929	33,939,454	35,925,892	38,429,825
Interest .....	10,439,315	10,381,632	10,623,015	10,379,070	11,239,084
Total Expenditures.....	<u>\$417,317,632</u>	<u>\$435,597,672</u>	<u>\$440,941,225</u>	<u>\$450,025,821</u>	<u>\$493,495,964</u>
Transfers from (to) Other Funds: (Net) ..	\$ 17,300,308	\$ 15,778,312	\$ 17,224,613	\$ 18,616,722	\$15,722,945
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses. ....	(10,197,442)	(2,868,060)	19,740,091	32,811,431	31,516,706
Fund Equity at beginning of year .....	156,495,338	146,297,896	143,429,836	163,169,927	195,981,358
Fund Equity at end of year .....	<u>\$146,297,896</u>	<u>\$143,429,836</u>	<u>\$163,169,927</u>	<u>\$195,981,358</u>	<u>\$227,498,064</u>

(1) Does not include water revenues and expenditures.

Source: Audit Reports of KPMG LLP for the fiscal years ended June 30, 2010, 2011, 2012, 2013, and 2014.

## 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 2010 TO 2014

July 1	Surplus Revenue or (Deficit)(1)	Free Cash(2)
2014	\$187,371,294	\$160,476,318
2013	168,778,825	142,176,089
2012	144,634,283	115,826,900
2011	129,703,375	102,239,071
2010	117,772,487	89,315,773

- (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 in the KPMG audited financial statements in 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. The State Treasurer is the sole trustee, and the funds are managed under contract by an investment firm 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.

The City periodically bids out cash investments to local banks to ensure that we are receiving maximum interest on idle cash. All investments are made in accordance with State law and City financial policies governing the security and liquidity of assets.

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 2½ (see "Property Tax Limitations" under 'PROPERTY TAXATION' above.) The City has not to date established any such districts.

## **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 Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

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.

If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and town may voluntarily appropriate to their system's 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.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. The funding schedule must provide that payment in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule. Pursuant to recent legislation, a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are 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 July 1 for each fiscal year.

Cost-of-living increases for retirees in 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. Legislation provides that upon local acceptance and subject to certain conditions and limitations, a municipality may establish and implement an early retirement incentive program. Any plan for such program must have been submitted to PERAC by September 27, 2010.

The annual contributions of the City to the contributory and non-contributory retirement system for the 2011 to 2015 fiscal years are set forth below:

**CITY OF CAMBRIDGE  
CONTRIBUTIONS TO CITY PENSION FUNDS  
FISCAL YEARS 2011 TO 2015**

<b>Fiscal Year</b>	<b>Contributory (1)</b>	<b>Non-contributory</b>	<b>Total</b>
2015	\$34,083,618	\$1,000,000	\$35,083,618
2014	32,176,284	1,000,000	33,176,284
2013	30,369,208	1,350,000	31,719,208
2012	30,729,303	1,350,000	32,079,303
2011	27,314,492	1,350,000	28,664,492

(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 \$250,216,274 as of January 1, 2014. In January, 1991, the City established a state-approved funding schedule, which is updated biennially. The latest study dated January 1, 2014, estimates that the City's unfunded actuarial liabilities will be eliminated by June 30, 2026.

**OTHER POST-EMPLOYMENT BENEFITS**

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis. The pay-as-you-go cost to the City for such benefits in recent years has been as follows:

**CITY OF CAMBRIDGE  
COSTS OF OTHER POST-EMPLOYMENT BENEFITS  
FISCAL YEARS 2010 TO 2014**

<b>Fiscal Year</b>	<b>Amount</b>
2014	\$22,211,000
2013	22,697,826
2012	22,548,438
2011	22,255,165
2010	23,884,547

The Governmental Accounting Standards Board ("GASB") promulgated its Statement Nos. 43 and 45 (the "GASB Statements") in June 2004, which, for the first time, required public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits that they provide to employees and retirees may establish a trust fund for the purpose of paying claims. In addition, cities and towns may establish a trust fund for the purpose of pre-funding other post-employment benefits liability in the same manner as traditional pension benefits.



The City was required to implement the GASB statements for other post-employment benefits beginning in fiscal year 2008. An actuarial valuation dated May 18, 2007 of the City's post-employment welfare benefit program was prepared for the City by The Segal Company with an updated report prepared by Gallagher Benefit Services, Inc. dated November 13, 2012 indicating that the unfunded actuarial accrued liability (the "UAAL") based on an actuarial valuation as of July 1, 2012 as of June 30, 2013 was \$553,263,217. The UAAL as of June 30, 2014 was increased moderately to \$574,109,287, based on the same assumptions as the 2012 report.

The GASB Statements provide the method for selecting the investment return assumption (discount rate). If the benefits are pre-funded, the discount rate is based on the estimated long-term investment yield on the investments expected to be used to finance the payment of benefits. A pre-funded discount rate is used when the City's funding policy is to contribute consistently an amount at least equal to the Annual Required Amount (the "ARC"), an amount equal to the normal cost of the benefits plus an amount to amortize the unfunded actuarial accrued liability relating to the benefits (the "UAAL"). If financing continues to be pay-as-you-go, the discount rate is based on the expected yield on the assets of the employer. The City's valuation report used a discount rate of 4.5%.

The City selected the pay-as-you-go (4.50% interest rate) projected unit credit cost method with figures in the next paragraph based on an Annual Required Contribution (ARC) of \$47,621,000

During fiscal year 2015, the City estimates it will pay claims and expenses (net of retiree contributions) on behalf of all retired employees of approximately \$23,388,000. Based on the methodology selected by the City using the latest actuarial report, the resulting ARC would require an additional payment by the City for fiscal year 2015 of approximately \$24,233,000.

The City accepted Chapter 32B, Section 20 of the Massachusetts General Laws which established an Other Post Employment Liability Trust by a vote of the City Council on December 21, 2009. This is an irrevocable trust fund into which contributions will be made to meet the unfunded liability. The City Council also approved a transfer from the Health Claims Trust Fund to the Other Post Employment Liability Trust of \$2,000,000 to begin the process of funding the unfunded liability, in FY10. The City made a \$1 million contribution to the Fund in Fiscal Year 2013 and a contribution of \$2,000,000 since FY14. It expects to fund at this level in future years.

A copy of the actuarial valuation report can be obtained from the City Treasurer (617) 349-4220.

For additional information relating to the City's pension system as well as certain life insurance and health care benefits for retirees, see footnotes 9 and 10 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 71 percent belong to unions or other collective bargaining groups.

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

Groups	Department	Number of Employees Represented	Contract Expires
Teamsters Local 25	City	310	6/30/17
Teachers and Administrators (Mass. Teachers Assoc.)	School	895	8/31/16
Clerical	School	51	6/30/15
Custodians (Local 1611 AFL-CIO)	School	76	6/30/15
Food Service	School	65	6/30/15
Safety Specialist	School	12	6/30/15
Paraprofessionals (affiliated with Mass. Teachers Assoc.)	School	214	8/31/15
Substitute Teachers	School	104	8/31/15
Family Resource Liaison (AFSNE)	School	15	8/31/15
International Assoc. of Firefighters	Fire	277	6/30/15
Patrol Officers	Police	222	6/30/14(1)
Superior Officers	Police	49	6/30/14(1)
Traffic Supervisors	Police	41	6/30/17
Independent Water Workers Association	Water	24	6/30/14(1)
Professional Librarians	Library	83	6/30/15
Inspectional Services (Building, Trades)	Inspectional	19	6/30/17
Childcare Workers	Human Services	33	6/30/14 (1)
Supervisors	Public Works	12	6/30/15
		2,502	

(1) Contracts under negotiation.

Source: City Personnel Department.

### Absence of Material Litigation

According to the City Solicitor, there is no litigation of any kind now pending or, to the best of her 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 the opinion of the City Solicitor, there is no pending legislation which is likely to result, either individually or in the aggregate, in final judgments against the City that would materially affect its financial position or its ability to pay its obligations.

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City of Cambridge, Massachusetts  
City Treasurer

March , 2015

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## **APPENDIX A**

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**CITY OF CAMBRIDGE, MASSACHUSETTS**

Financial Statements, Required Supplementary Information,  
and Supplemental Schedules

June 30, 2014

(With Independent Auditors' Report Thereon)



# CITY OF CAMBRIDGE, MASSACHUSETTS

## Comprehensive Annual Financial Report

June 30, 2014

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

## **Independent Auditors' Report**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for that entity, are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



### ***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Cambridge, Massachusetts, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

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

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4–14, the schedules of funding progress on page 55, the schedules of employers' contributions on page 56, and the schedule of revenues and expenditures – budgetary basis on pages 57–58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplemental statements and schedules and introductory and statistical sections are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplemental statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KPMG LLP

December 17, 2014

## **CITY OF CAMBRIDGE, MASSACHUSETTS**

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

June 30, 2014

(Unaudited)

Management of the City of Cambridge (the 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, 2014. We encourage readers to consider this information in conjunction with the transmittal letter 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 a 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 Financial 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 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 Position** – Presents all of the government's assets and liabilities, with the difference being reported as "net position". The amount of net position is widely considered a good measure of the City's financial health as increases and decreases in the City's net position serve as a useful indicator of whether the City's 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 position 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.

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 2014

(Unaudited)

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.

**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** – Includes a separate legal entity for which the City has financial accountability and provides operating subsidies. This entity, The Cambridge Health Alliance, (CHA) operates similar to a private sector business and the business-type activity described above.

Complete financial statements for the CHA can be obtained from its administrative offices located at 101 Station Landing, 5th 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.



## **CITY OF CAMBRIDGE, MASSACHUSETTS**

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

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The reconciliations are presented on the page immediately following each respective governmental fund financial statement.

The City has several governmental funds; three 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 operates 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, proprietary fund financial statements use the full accrual basis of accounting. There is no reconciliation needed between the government-wide financial statements for the business-type activity 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, the OPEB Trust Fund 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 is historical information for the City's pension and other postemployment benefit obligations and related schedules of employers' contributions.

### **Government-Wide Financial Analysis**

#### ***Statement of Net Position***

The following table reflects the condensed net position based on the statement of net position found on page 15.

The City's combined net position (governmental and business-type activities) exceeded its liabilities at June 30, 2014 by \$876.7 million (presented as net position). Of this amount, \$142.2 million was reported as "unrestricted

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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net position". Unrestricted net position represents the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

The components of net position are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (roads, sewer pipes, dams, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is \$716.5 million indicating the amount of capital debt does not exceed the net book value of the City's capital assets. Since most of the City's debt has a ten-year life, a considerable amount of the City's 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. Other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

Included within the governmental activities current and other assets are cash and investments of \$420.9 million, up 10.5% from prior year; net receivables of \$32.1 million; and \$6.0 million due from the Cambridge Health Alliance.

Governmental activities long-term liabilities include \$366.7 million in general obligation bonds and notes payable; \$18.8 million in compensated absence liabilities for unused sick and vacation leave; and \$14.7 million in future year workers' compensation, health benefits and possible judgments. The major increase in the long-term liabilities is due to an increase in other postemployment benefit obligations of \$25.4 million.

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Required Supplementary Information Management's Discussion and Analysis

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Business-type activity long-term liabilities include \$13.1 million in general obligation bonds, \$531 thousand in compensated absences and \$1.4 million in future year workers' compensation and health benefits. The net reduction of \$3.0 million in general obligation bonds compared to prior year is attributable to an aggressive ten-year repayment schedule for most debt.

### Condensed Schedule of Net Position

June 30, 2014 and 2013

(In millions)

	<b>Governmental activities</b>		<b>Business-type activity</b>		<b>Total primary government</b>	
	<b>June 30</b>		<b>June 30</b>		<b>June 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Current and other assets	\$ 460.8	422.2	13.3	11.3	474.1	433.5
Capital assets	901.8	849.1	130.7	130.9	1,032.5	980.0
Total assets	1,362.6	1,271.3	144.0	142.2	1,506.6	1,413.5
Deferred outflows	3.2	3.6	0.3	0.4	3.5	4.0
Total assets and deferred outflows	\$ 1,365.8	1,274.9	144.3	142.6	1,510.1	1,417.5
Long-term liabilities	\$ 514.7	485.7	11.9	14.8	526.6	500.5
Other liabilities	102.7	99.0	4.2	4.3	106.9	103.3
Total liabilities	\$ 617.4	584.7	16.1	19.1	633.5	603.8
Net position:						
Net investment in capital assets	\$ 598.5	553.7	118.0	114.8	716.5	668.5
Restricted	18.0	14.7	—	—	18.0	14.7
Unrestricted	132.0	121.8	10.2	8.6	142.2	130.4
Total net position	\$ 748.5	690.2	128.2	123.4	876.7	813.6

### ***Statement of Changes in Net Position***

The City's total net position increased by \$63.1 million in fiscal year 2014 of which the governmental activities net position increased \$58.3 million and the business-type activity increased \$4.8 million. The savings of \$1.1 million is attributable to the Water Treatment Plant being shut down for a six month period and not running at full capacity and the remaining is due to decreased debt service expenses.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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This summary of net changes is based upon the statement found on page 16.

**Condensed Schedule of Changes in Net Position**

June 30, 2014 and 2013

(In millions)

	<b>Governmental activities</b>		<b>Business-type activity</b>		<b>Total primary government</b>	
	<b>June 30</b>		<b>June 30</b>		<b>June 30</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues:						
Program revenues:						
Charges for services	\$ 100.4	97.3	18.5	18.3	118.9	115.6
Operating grants and contributions	25.5	23.2	—	—	25.5	23.2
Capital grants and contributions	21.7	23.8	—	—	21.7	23.8
General revenues:						
Taxes:						
Property taxes levied	326.7	315.2	—	—	326.7	315.2
Excises	23.5	22.9	—	—	23.5	22.9
Payment in lieu of taxes	7.7	7.6	—	—	7.7	7.6
Grants and contributions not restricted	58.6	31.0	—	—	58.6	31.0
Investment income	2.3	1.1	0.1	0.1	2.4	1.2
Miscellaneous	36.7	26.3	—	—	36.7	26.3
Total revenues	<u>603.1</u>	<u>548.4</u>	<u>18.6</u>	<u>18.4</u>	<u>621.7</u>	<u>566.8</u>
Expenses:						
General government	36.6	37.8	—	—	36.6	37.8
Public safety	134.2	127.8	—	—	134.2	127.8
Community maintenance and development	95.6	88.4	—	—	95.6	88.4
Human resource development	49.6	47.7	—	—	49.6	47.7
Education	220.0	185.5	—	—	220.0	185.5
Water department	—	—	13.1	14.7	13.1	14.7
Interest	9.5	9.1	—	—	9.5	9.1
Total expenses	<u>545.5</u>	<u>496.3</u>	<u>13.1</u>	<u>14.7</u>	<u>558.6</u>	<u>511.0</u>
Excess before transfers	57.6	52.1	5.5	3.7	63.1	55.8
Transfers	<u>0.7</u>	<u>0.7</u>	<u>(0.7)</u>	<u>(0.7)</u>	<u>—</u>	<u>—</u>
Change in net position	58.3	52.8	4.8	3.0	63.1	55.8
Net position – beginning	<u>690.2</u>	<u>637.4</u>	<u>123.4</u>	<u>120.4</u>	<u>813.6</u>	<u>757.8</u>
Net position – ending	\$ <u>748.5</u>	<u>690.2</u>	<u>128.2</u>	<u>123.4</u>	<u>876.7</u>	<u>813.6</u>

## CITY OF CAMBRIDGE, MASSACHUSETTS

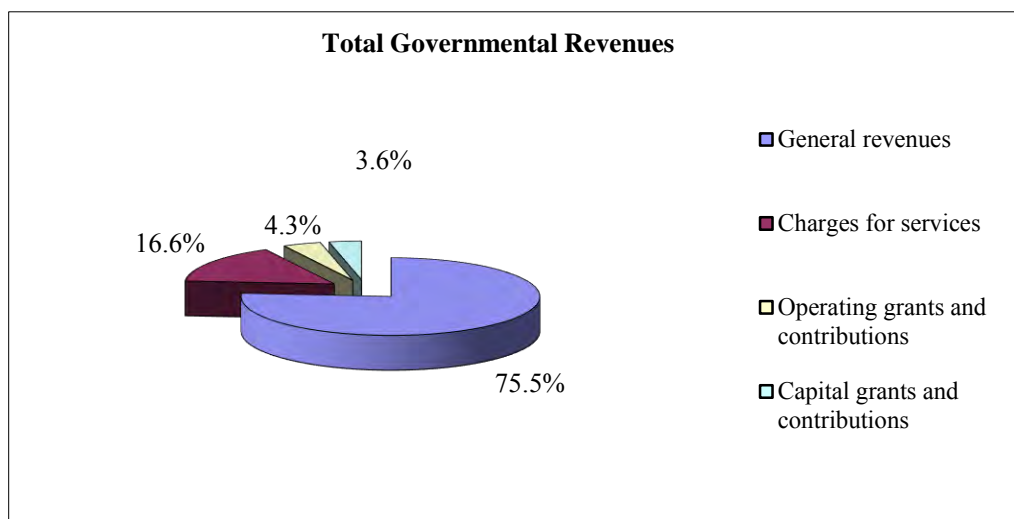
### Required Supplementary Information Management's Discussion and Analysis

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#### ***Total Revenues***

Total governmental activities revenues for the City are comprised of general revenues of \$455.7 million, charges for services \$100.4 million, operating grants and contributions \$25.5 million and capital grants and contributions of \$21.7 million.



#### ***General***

Real estate tax revenues are the City's largest revenue source at \$326.7 million representing 71.7% of general revenues. The assessed tax valuation base is \$27.1 billion up from \$25.2 billion assessed in the prior year showing a 7.7% increase mainly due to an increase in new construction.

Grants and contributions not restricted to specific programs is \$58.6 million representing 12.9% of general revenues and include state cherry sheet revenues, Massachusetts Teachers Retirement contributions and other unrestricted contributions.

#### ***Program***

Charges for services are \$100.4 million and represent a variety of department revenues. Charges for services increased \$3.1 million from the prior year. The public safety portion of \$50.0 million includes several types of permit revenues, traffic and moving violation revenues, and City garage revenues. The community maintenance and development portion of \$44.5 million includes sewer service revenues, community cable revenues, as well as, other public works type fees.

Operating grants and contributions of \$25.5 million represents several federal and state grants restricted to specific grant conditions. This amount accounts for approximately 4.3% of the total City revenues.

## **CITY OF CAMBRIDGE, MASSACHUSETTS**

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

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Capital grants and contributions of \$21.7 million include community development capital grants, state revolving grants, state school construction grants, and other capital restricted revenues. The capital grants revenue decreased by \$2.1 million because in FY13 the City received additional MWRA funding.

#### ***Expenses***

For the fiscal year ended June 30, 2014, expenses for government activities totaled \$545.6 million, which cover a range of services. On the whole, the City's expenditures increased by \$49.3 million or 9.9% over prior year. Of which \$27.3 million is attributed to the Massachusetts Teachers Retirement System (MTRS) payment made on behalf of the City by the Commonwealth. This is the first year the City has recorded these payments as education expenditures and as intergovernmental revenue which is required by GASB pronouncement 24. The remaining increase of \$22.0 million is due to increases in payroll and expenditure accruals as well as an increase in OPEB expenses.

Education continues to be one of the City's highest priorities and commitments, representing \$220.0 million or 40.3% (including MTRS expenditures) of the total governmental activities expenses.

Another important issue to the City is affordable housing and the preservation of open space. This is the twelfth year of the Community Preservation Act (CPA). This program fosters the investment into permanent affordable housing projects, preservation of historic locations, protection of open space and the restoration/creation of Parks and Recreation areas. Expenditures related to these initiatives are recorded in the Community Maintenance and Development category. During 2014, the City spent \$6.6 million from the Affordable Housing Trust to subsidize housing projects.

#### **Business-Type Activity**

Business-type activity increased net position by \$4.8 million. The main reason for the \$4.8 million increase is due to the drop off in debt service payments and the Plant shutdown for maintenance project reduced energy, supplies and salaries costs of approximately \$1.0 million.

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

As noted earlier, the City 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's governmental funds reported a combined ending fund balance of \$386.4 million. Of this amount, \$4.0 million has been categorized as nonspendable which includes permanent funds and healthcare deposits. Another \$102.9 million was restricted because the funds include grants or bonded projects that are controlled by external sources. Finally, \$113.2 million has been committed for specific purposes such as stabilization funds, health claims trust fund, parking fund, etc., for which the movement of these funds must be approved by the highest legislative level at the City, which is the City Council. The remainder of the Fund balance \$166.2 million is considered "Unassigned".



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The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance was \$166.2 million, while the total fund balance was \$227.5 million.

As a measure of liquidity, it may be useful to compare both unassigned and total fund balances to total fund expenditures. Unassigned fund balance represents 33.7% of total General Fund expenditures, while the total balance represents 46.1% of that same amount.

The capital fund is the fund that captures all the capital projects expenditures for the City. At the end of fiscal year 2014, the total fund balance was \$81.7 million. This reflects a slight decrease over the prior fiscal year of \$1.7 million. In FY14, the bond proceeds dropped by approximately 47% and capital outlays expenditures remained consistent with FY13. As a result, the capital fund balance will continue to decline as the larger projects like the MLK Elementary School progress to completion.

The affordable housing trust fund is the fund that captures all the affordable housing project expenditures for the City. At the end of fiscal year 2014, the total fund balance was \$38.5 million. This fund was established in the 90's to provide funding for housing projects to increase the supply of affordable housing units for the City.

#### ***Proprietary Fund***

The City's Proprietary Fund provides the same type of information found in the government-wide statements, but in more detail.

Net position of the Water Fund at the end of the year consisted of unrestricted net position of \$10.2 million and a net investment in capital assets of \$118.0 million.

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

The City 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. 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 Schedule of Revenues and Expenditures-Budgetary Basis, which presents financial information on the budgetary basis of accounting.

#### **Revenues and Other Financing Sources**

Fiscal year 2014 actual revenues on a budgetary basis totaled \$473.3 million. This represents an increase of \$15.4 million or 3.4% from fiscal year 2013. Property taxes are the single largest revenue source, representing

## CITY OF CAMBRIDGE, MASSACHUSETTS

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

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approximately 68.5% of general fund revenues, net of abatements. Sewer use receipts comprise the City's next largest revenue source, representing 8.8%.

#### ***Expenditures***

During fiscal year 2014, total expenditures increased by \$17.3 million or 3.7% on a budgetary basis as compared to fiscal year 2013 at \$471.3 million which was mainly due to 2.5% cost of living increase, 5% increase in health insurance, and 5.85% increase in related to pensions.

#### ***Capital Asset and Debt Administration***

##### **Capital Assets**

As of June 30, 2014, the City's capital assets of its governmental activities and business-type activity amounted to \$1.0 billion (net of depreciation). The City's capital assets include land, buildings, improvements, machinery and equipment, open space, road and highways.

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 park improvements and City building renovations.

Additional information on the City's capital assets can be found in note 5.

##### **Debt**

At year-end, the City had \$364.4 million in outstanding bonds and notes compared to \$371.8 million last year.

	<b>Governmental activities</b>		<b>Business-type activity</b>		<b>Totals</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	(In millions)					
General obligation bonds and notes payable \$	351.7	356.3	12.7	15.5	364.4	371.8

The City maintains bond ratings with Fitch Ratings of AAA, Moody's Investors Service Inc. of Aaa, and Standard & Poor's Corporation of AAA.

Additional information on the City's debt can be found in note 8.

## **CITY OF CAMBRIDGE, MASSACHUSETTS**

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#### ***Economic Factors and Next Year's Budgets and Rates***

The City's tax levy increased \$12.9 million, or 3.7%, to \$341.4 million in fiscal year 2015. Despite this increase, the City's excess tax capacity, an extremely important indication of the City's financial health, increased from \$117.5 million in FY 14 to \$134.0 million in FY 15, a 14.01% increase.

The FY 15 operating budget increased by 2.91% over the FY 14 adjusted budget. The increase is attributable to a 2.0% increase of employee salary costs, 4% increase in employee health insurance, and a 5.85% increase in employee pension costs. The capital budget of \$32.0 million is a planned decrease of approximately \$61 million from the prior year based upon the Five-Year Public Investment Plan.

#### ***Future Pronouncements***

GASB has issued several new standards, which have future effective dates. The City is currently evaluating the impact of these statements on the City's financial statements.

#### ***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 Position

June 30, 2014

Assets and Deferred Outflows of Resources	Primary government			Component unit
	Governmental activities	Business-type activity	Total	
Cash and investments	\$ 420,257,232	8,219,866	428,477,098	252,234,682
Cash and investments held by trustees	600,000	—	600,000	17,376,837
Receivables, net:				
Property taxes	4,307,833	—	4,307,833	—
Motor vehicle excise	932,467	—	932,467	—
Tax title and possessions	3,322,878	—	3,322,878	—
Intergovernmental	7,853,841	—	7,853,841	—
Other	15,704,453	5,069,027	20,773,480	33,308,375
Other assets	1,886,542	—	1,886,542	32,791,839
Internal balances	(32,723)	32,723	—	—
Due from component unit	5,995,000	—	5,995,000	—
Capital assets:				
Nondepreciable	448,084,749	45,611,162	493,695,911	9,252,755
Depreciable, net	453,722,815	85,134,900	538,857,715	138,681,292
Total assets	1,362,635,087	144,067,678	1,506,702,765	483,645,780
Deferred outflows of resources:				
Related to debt refundings	3,186,825	294,312	3,481,137	—
Total assets and deferred outflows of resources	\$ 1,365,821,912	144,361,990	1,510,183,902	483,645,780
<b>Liabilities</b>				
Warrants and accounts payable	\$ 20,211,348	869,454	21,080,802	27,037,671
Accrued liabilities:				
Tax abatements	5,400,000	—	5,400,000	—
Accrued payroll	14,598,544	99,335	14,697,879	12,418,529
Accrued interest	4,687,480	238,858	4,926,338	—
Other	4,703,281	—	4,703,281	9,448,987
Unearned revenue	—	—	—	2,154,098
Due to primary government	—	—	—	5,995,000
Long-term liabilities:				
Due within one year:				
Bonds and notes payable	39,734,164	2,540,000	42,274,164	60,501
Capital leases	—	—	—	1,529,748
Due to third parties	—	—	—	35,234,711
Compensated absences	6,847,000	186,000	7,033,000	15,437,534
Landfill	25,000	—	25,000	—
Judgments and claims	6,476,000	311,000	6,787,000	—
Pollution remediation	—	—	—	—
Due in more than one year:				
Bonds and notes payable	326,933,521	10,514,735	337,448,256	501,856
Capital leases	—	—	—	2,088,868
Due to third parties	—	—	—	19,284,792
Compensated absences	11,961,000	345,000	12,306,000	—
Landfill	150,000	—	150,000	—
Judgments and claims	8,231,000	1,040,000	9,271,000	—
Other postemployment benefit obligation	161,338,998	—	161,338,998	46,612,337
Pollution remediation	6,060,300	—	6,060,300	—
Total liabilities	\$ 617,357,636	16,144,382	633,502,018	177,804,632
<b>Net Position</b>				
Net investment in capital assets	\$ 598,532,113	117,985,639	716,517,752	137,758,074
Restricted for:				
Community preservation	13,706,526	—	13,706,526	—
Expendable permanent funds	1,491,104	—	1,491,104	—
Nonexpendable permanent funds	2,170,328	—	2,170,328	—
Other purposes	600,000	—	600,000	4,361,535
Unrestricted	131,964,205	10,231,969	142,196,174	163,721,539
Total net position	\$ 748,464,276	128,217,608	876,681,884	305,841,148

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Activities

Year ended June 30, 2014

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net position			Component unit
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			
					Governmental activities	Business-type activity	Total	
Primary government:								
Governmental activities:								
General government	\$ 36,588,647	421,352	—	—	(36,167,295)	—	(36,167,295)	
Public safety	134,185,406	49,919,980	—	74,577	(84,190,849)	—	(84,190,849)	
Community maintenance and development	95,640,484	44,521,761	5,771,273	21,606,367	(23,741,083)	—	(23,741,083)	
Human resource development	49,606,417	4,578,908	8,834,605	—	(36,192,904)	—	(36,192,904)	
Education	220,006,395	945,028	10,869,967	—	(208,191,400)	—	(208,191,400)	
Interest on long-term debt	9,537,632	—	—	—	(9,537,632)	—	(9,537,632)	
Total governmental activities	545,564,981	100,387,029	25,475,845	21,680,944	(398,021,163)	—	(398,021,163)	
Business-type activity:								
Water	13,127,587	18,507,650	—	—	—	5,380,063	5,380,063	
Total business-type activity	13,127,587	18,507,650	—	—	—	5,380,063	5,380,063	
Total primary government	\$ 558,692,568	118,894,679	25,475,845	21,680,944	(398,021,163)	5,380,063	(392,641,100)	
Component unit:								
Cambridge Public Health Commission	\$ 556,271,550	290,982,152	245,936,781	33,249,815				13,897,198
Total component units	\$ 556,271,550	290,982,152	245,936,781	33,249,815				13,897,198
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 326,755,052	—	326,755,052	—
Excises					23,510,611	—	23,510,611	—
Payments in lieu of taxes					7,759,252	—	7,759,252	—
Grants and contributions not restricted					58,572,275	—	58,572,275	—
Investment income					2,367,520	111,084	2,478,604	1,048,724
Miscellaneous					36,691,219	—	36,691,219	696,900
Transfers					705,575	(705,575)	—	—
Total general revenues and transfers					456,361,504	(594,491)	455,767,013	1,745,624
Change in net position					58,340,341	4,785,572	63,125,913	15,642,822
Net position – beginning					690,123,935	123,432,036	813,555,971	290,198,326
Net position – ending					\$ 748,464,276	128,217,608	876,681,884	305,841,148

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Balance Sheet – Governmental Funds

June 30, 2014

<b>Assets</b>	<b>General</b>	<b>Capital fund</b>	<b>Affordable Housing Trust fund</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
Cash and investments	\$ 260,516,932	87,219,100	35,403,927	37,117,273	420,257,232
Cash and investments held by trustees	—	—	600,000	—	600,000
Receivables, net:					
Property taxes	4,307,833	—	—	—	4,307,833
Motor vehicle excise	932,467	—	—	—	932,467
Tax title and possessions	3,322,878	—	—	—	3,322,878
Intergovernmental	—	4,757,014	—	3,096,827	7,853,841
Departmental and other	12,453,076	—	2,758,093	493,284	15,704,453
Total receivables	21,016,254	4,757,014	2,758,093	3,590,111	32,121,472
Other assets	1,886,542	—	—	—	1,886,542
Due from other funds	—	739,969	—	—	739,969
Due from component unit	5,995,000	—	—	—	5,995,000
Total assets	<u>\$ 289,414,728</u>	<u>92,716,083</u>	<u>38,762,020</u>	<u>40,707,384</u>	<u>461,600,215</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
Liabilities:					
Warrants and accounts payable	\$ 7,863,533	11,003,086	286,664	1,058,065	20,211,348
Accrued liabilities:					
Tax abatements	3,600,000	—	—	—	3,600,000
Judgments and claims	6,476,000	—	—	—	6,476,000
Accrued payroll	14,473,543	16,508	—	108,493	14,598,544
Other	4,658,546	—	—	44,735	4,703,281
Due to other funds	32,723	—	—	739,969	772,692
Total liabilities	<u>37,104,345</u>	<u>11,019,594</u>	<u>286,664</u>	<u>1,951,262</u>	<u>50,361,865</u>
Deferred Inflows of Resources:					
Unavailable revenue	24,812,319	—	—	70,651	24,882,970
Fund balances:					
Nonspendable	1,806,542	—	—	2,170,328	3,976,870
Restricted	—	81,696,489	600,000	20,649,199	102,945,688
Committed	59,468,937	—	37,875,356	15,865,944	113,210,237
Unassigned	166,222,585	—	—	—	166,222,585
Total fund balances	<u>227,498,064</u>	<u>81,696,489</u>	<u>38,475,356</u>	<u>38,685,471</u>	<u>386,355,380</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 289,414,728</u>	<u>92,716,083</u>	<u>38,762,020</u>	<u>40,707,384</u>	<u>461,600,215</u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

**Reconciliation of the Governmental Funds Balance Sheet to the  
Statement of Net Position**

June 30, 2014

Total fund balance – governmental funds	\$ 386,355,380
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	901,807,564
Adjust deferred revenues to record revenues on an accrual basis	24,882,970
Capitalized loss on debt refunding in the government-wide statements that is not capitalized in the governmental funds	3,186,825
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, net	366,667,685
Accrued interest on bonds	4,687,480
Compensated absences	18,808,000
Landfill	175,000
Judgments and claims	8,231,000
Tax abatements	1,800,000
Other postemployment benefits	161,338,998
Pollution remediation	6,060,300
	<hr/>
	567,768,463
	<hr/>
Net position of governmental activities	\$ <u><u>748,464,276</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, 2014

	<b>General</b>	<b>Capital fund</b>	<b>Affordable Housing Trust fund</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
Revenues:					
Real and personal property taxes	\$ 327,998,703	—	—	—	327,998,703
Excises:					
Hotel/motel/meals	16,525,182	—	—	—	16,525,182
Motor vehicles	7,230,474	—	—	—	7,230,474
Payments in lieu of taxes	7,759,252	—	—	—	7,759,252
Intergovernmental	58,572,275	21,680,944	—	25,475,845	105,729,064
Investment income	1,621,623	25,397	630,735	89,765	2,367,520
Sewer use charges	41,690,417	—	—	—	41,690,417
Departmental and other	47,891,799	13,468,364	526,391	32,614,124	94,500,678
Total revenues	<u>509,289,725</u>	<u>35,174,705</u>	<u>1,157,126</u>	<u>58,179,734</u>	<u>603,801,290</u>
Expenditures:					
Current:					
General government	33,234,730	—	—	261,828	33,496,558
Public safety	112,495,641	—	—	1,472,578	113,968,219
Community maintenance and development	40,570,532	—	6,626,130	2,919,972	50,116,634
Human resource development	32,860,663	—	—	8,111,424	40,972,087
Education	176,930,223	—	—	12,318,772	189,248,995
Judgments and claims	52,394	—	—	—	52,394
State and district assessments	47,682,872	—	—	—	47,682,872
Capital outlays	—	82,643,958	—	—	82,643,958
Debt service	49,668,909	—	—	—	49,668,909
Total expenditures	<u>493,495,964</u>	<u>82,643,958</u>	<u>6,626,130</u>	<u>25,084,574</u>	<u>607,850,626</u>
Excess (deficiency) of revenues over expenditures	<u>15,793,761</u>	<u>(47,469,253)</u>	<u>(5,469,004)</u>	<u>33,095,160</u>	<u>(4,049,336)</u>
Other financing sources (uses):					
Premium on debt issuance	4,102,740	—	—	—	4,102,740
Issuance of debt	—	34,900,000	—	—	34,900,000
Transfers in	20,292,430	10,863,364	8,240,000	—	39,395,794
Transfers out	(8,672,225)	—	—	(30,017,994)	(38,690,219)
Total other financing (uses) sources	<u>15,722,945</u>	<u>45,763,364</u>	<u>8,240,000</u>	<u>(30,017,994)</u>	<u>39,708,315</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>31,516,706</u>	<u>(1,705,889)</u>	<u>2,770,996</u>	<u>3,077,166</u>	<u>35,658,979</u>
Fund balance – beginning	<u>195,981,358</u>	<u>83,402,378</u>	<u>35,704,360</u>	<u>35,608,305</u>	<u>350,696,401</u>
Fund balance – ending	<u>\$ 227,498,064</u>	<u>81,696,489</u>	<u>38,475,356</u>	<u>38,685,471</u>	<u>386,355,380</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, 2014

Net change in fund balances – total governmental funds	\$ 35,658,979
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, (\$80,397,730) exceeded depreciation expense (\$27,739,909)	52,657,821
Revenues are recorded on an accrual basis	(601,543)
Proceeds of long-term debt (\$34,900,000) increase long-term liabilities in the statement of net position, but are included in the operating statement of the governmental funds. Repayment of bond principal, including amounts to defease long-term debt, (\$39,476,619) is an expenditure the governmental funds, but reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded payments.	4,576,619
Premiums received are revenues in the governmental funds, but are increases to long-term liabilities, net of amortization, in the statement of net position	(2,492,592)
Deferred loss on refunding is amortized in the statement of activities and is not reported in the governmental funds	(380,711)
Other postemployment benefits expense reported in the statement of activities does require the use of current financial resources, and therefore, is not reported as an expenditure in the governmental funds	(25,410,000)
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) offset by the increase in pollution remediation (\$4,282,620), noncurrent claims (\$922,000), accrued interest (\$102,612) and compensated absences (\$386,000)	(5,668,232)
Change in net position of governmental activities	\$ 58,340,341

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Net Position – Proprietary Fund

June 30, 2014

	<b>Enterprise fund Water fund</b>
Assets:	
Current assets:	
Cash and cash equivalents	\$ 8,219,866
Receivables, net	5,069,027
Due from other funds	32,723
Total current assets	<u>13,321,616</u>
Noncurrent assets:	
Capital assets:	
Nondepreciable	45,611,162
Depreciable, net	85,134,900
Total noncurrent assets	<u>130,746,062</u>
Total assets	144,067,678
Deferred outflows of resources:	
Related to debt refundings	<u>294,312</u>
Total assets and deferred outflows of resources	<u><u>\$ 144,361,990</u></u>
Liabilities:	
Current liabilities:	
Warrants and accounts payable	\$ 869,454
Accrued liabilities:	
Claims	311,000
Compensated absences	186,000
Accrued payroll	99,335
Interest	238,858
Current portion of long-term debt	2,540,000
Total current liabilities	<u>4,244,647</u>
Noncurrent liabilities:	
Bonds payable	10,514,735
Accrued liabilities:	
Claims	1,040,000
Compensated absences	345,000
Total noncurrent liabilities	<u>11,899,735</u>
Total liabilities	<u><u>\$ 16,144,382</u></u>
Net position:	
Net investment in capital assets	\$ 117,985,639
Unrestricted	10,231,969
Total net position	<u><u>\$ 128,217,608</u></u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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

Year ended June 30, 2014

	<b>Enterprise fund</b>
	<b>Water fund</b>
Operating revenues:	
Charges for services	\$ 18,507,650
Total operating revenues	<u>18,507,650</u>
Operating expenses:	
Administration	3,148,462
Service and support programs	6,095,717
Depreciation	<u>3,325,714</u>
Total operating expenses	<u>12,569,893</u>
Operating income	<u>5,937,757</u>
Nonoperating revenue (expense):	
Investment earnings – other	111,084
Interest expense	<u>(557,694)</u>
Nonoperating expense	<u>(446,610)</u>
Income before transfers	5,491,147
Transfers to other funds	<u>(705,575)</u>
Change in net position	4,785,572
Total net position – beginning	<u>123,432,036</u>
Total net position – ending	<u><u>\$ 128,217,608</u></u>

See accompanying notes to basic financial statements.

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Statement of Cash Flows – Proprietary Fund

Year ended June 30, 2014

	<b>Enterprise fund Water fund</b>
Cash flows from operating activities:	
Cash received from customers	\$ 17,792,655
Cash paid to vendors	(5,649,290)
Cash paid to employees	(3,403,903)
Net cash provided by operating activities	<u>8,739,462</u>
Cash flows from noncapital financing activities:	
Transfers	<u>(705,575)</u>
Net cash used in noncapital financing activities	<u>(705,575)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(3,149,190)
Interest paid on debt	(806,104)
Repayment of long-term debt	(2,840,000)
Net cash used in capital and related financing activities	<u>(6,795,294)</u>
Cash flows from investing activities:	
Investment income	<u>111,084</u>
Net cash provided by investing activities	<u>111,084</u>
Increase in cash and cash equivalents	1,349,677
Cash and cash equivalents, beginning of year	<u>6,870,189</u>
Cash and cash equivalents, end of year	<u><u>\$ 8,219,866</u></u>
Reconciliation of operating income to cash provided by operating activities:	
Operating income	\$ 5,937,757
Reconciliation of operating income to net cash provided by operating activities:	
Depreciation	3,325,714
Amortization of deferred loss on refunding	98,104
Changes in operating assets and liabilities:	
Accounts receivable	(714,995)
Other liabilities	92,882
Net cash provided by operating activities	<u><u>\$ 8,739,462</u></u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Fiduciary Net Position

June 30, 2014

<b>Assets</b>	<b>Employee retirement plan (as of December 31, 2013)</b>	<b>OPEB Trust fund</b>	<b>Agency funds</b>
Cash and cash equivalents	\$ 11,662,802	2,200,864	5,692,046
Dividend and interest receivable	1,150,882	—	—
Contributions receivable:			
City of Cambridge	4,932,596	—	—
Cambridge Health Alliance	3,036,475	—	—
Other	403,858	—	—
Other assets	2,031,697	—	—
Investments, at fair value:			
Fixed income securities	89,897,736	1,695,325	—
Equities	379,485,677	1,639,524	—
Pooled investments:			
Fixed income	54,404,846	—	—
Real estate	93,236,028	—	—
Domestic equities	79,258,185	—	—
International equities	185,804,956	—	—
International fixed income	50,239,335	—	—
Alternative	93,968,893	—	—
Total investments	1,026,295,656	3,334,849	—
Cash collateral on security lending	61,975,625	—	—
Total assets	<u>1,111,489,591</u>	<u>5,535,713</u>	<u>5,692,046</u>
<b>Liabilities</b>			
Accrued liabilities	898,974	—	—
Guarantee deposits	—	—	5,692,046
Due to brokers for securities purchased	1,908,869	—	—
Cash collateral on security lending	61,975,625	—	—
Total liabilities	<u>64,783,468</u>	<u>—</u>	<u>5,692,046</u>
<b>Net Position</b>			
Held in trust for pension benefits and other purposes	<u>\$ 1,046,706,123</u>	<u>5,535,713</u>	<u>—</u>

See accompanying notes to basic financial statements.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2014

	<b>Employee retirement plan (as of December 31, 2013)</b>	<b>OPEB Trust fund</b>
Additions:		
Contributions:		
Employers	\$ 33,815,176	2,000,000
Plan members	21,321,041	—
Other systems	2,084,646	—
Commonwealth of Massachusetts	350,642	—
Total contributions	<u>57,571,505</u>	<u>2,000,000</u>
Investment earnings:		
Interest and dividends	16,282,984	114,790
Securities lending income	520,408	—
Net appreciation in the fair value of investments	164,834,128	91,598
Less:		
Management fees	(6,141,233)	(458)
Borrower rebates and fees under securities lending program	(268,556)	—
Net investment earnings	<u>175,227,731</u>	<u>205,930</u>
Total additions	<u>232,799,236</u>	<u>2,205,930</u>
Deductions:		
Benefits	57,977,695	—
Refunds of contributions	3,215,427	—
Other systems	1,582,279	—
Administrative expenses	986,283	—
Total deductions	<u>63,761,684</u>	<u>—</u>
Change in net position	169,037,552	2,205,930
Net position, beginning of year	<u>877,668,571</u>	<u>3,329,783</u>
Net position, end of year	<u><u>\$ 1,046,706,123</u></u>	<u><u>5,535,713</u></u>

See accompanying notes to basic financial statements.



## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

#### (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, has full authority for operations of the school system and appoints 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) *Retirement System*

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 Retirement Board. The System provides pension benefits to retired City, Cambridge Housing Authority, Cambridge Redevelopment Authority and Cambridge Health Alliance 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 ended December 31, 2013. The System does not issue stand alone financial statements. The System is included in the City's fiduciary fund financial statements.

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

The Cambridge Health Alliance (CHA) 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, is able to impose its will on the organization, and is responsible for the appointment of the hospital's board of trustees. 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:

CHA is a body politic and corporate and public instrumentality of the Commonwealth of Massachusetts (the Commonwealth) established by Chapter 147 of the Acts of 1996. CHA is

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

governed by a nineteen member board, all of whom are appointed by the City Manager. CHA is responsible for the implementation of public health programs in the City.

Complete financial statements for the CHA for its fiscal year ended June 30, 2014 are available from its offices on 101 Station Landing, 5th 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 position 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*, that 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 Nonagency fiduciary fund financial statements. The agency fund has no basis of accounting and only reports assets and liabilities. 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

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements 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 related fund 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 matured or are expected to be paid with expendable available financial resources.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods 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.

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

The *capital fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

The *affordable housing trust fund* accounts for financial resources to be used for the acquisition or construction of affordable housing units.

*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 System, which accumulates resources for pension benefit payments to retired City employees.

The OPEB trust fund is an irrevocable trust fund established for other postemployment benefits. The assets are appropriated from the General Fund and accumulate to reduce the unfunded actuarial liability of health care and other postemployment benefits. This fund is currently not used for payments of benefits.

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 9. 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 the business-type activity are reported in the government-wide financial statements as "internal balances."

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

**(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) Deferred Inflows and Outflows**

The City accounts for certain transactions that result in the consumption or acquisition of resources in one period that are applicable to future periods as deferred outflows and inflows, respectively, to distinguish them from assets and liabilities. For fiscal year 2014, the City has reported deferred outflows pertaining to its debt refunding transactions in the government-wide statements and a deferred inflow related to unavailable revenue in the governmental fund statements.

**(h) 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	5–15

**(i) 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).

**(j) 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

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

reported as liabilities in the applicable governmental activities, business-type activity, or proprietary fund type statement of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight line method. Issue costs, other than prepaid insurance, if any, are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and bond issuance costs in the operating statement, 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 general government expenditures.

#### **(k) Net Position and Fund Balance**

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

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

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

*Unrestricted:* Remaining net position not considered invested in capital assets, net of related debt or restricted.

For purposes of net position classification, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

The flow of expenditures for unrestricted resources is to use the committed when possible first and then the unassigned when needed.

The Unrestricted/Unassigned Fund balance policy adopted by the City Council is as follows:

- General Fund (GAAP) balance as of June 30 of each year is equal to or greater than 15% of the ensuing fiscal year's operating revenue.

The responsibility for tracking this policy is with the City Treasurer who estimates the surplus or deficit for the current year and prepares a projection for the year-end unassigned general fund balance. Any anticipated balance in excess of the targeted maximum unassigned balance maybe budgeted to reduce the ensuing year's property tax levy, transferred to stabilization fund, or fund one-time capital projects.

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

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This policy is reviewed annually during the City's Annual Budget and Public Investment Program process.

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

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

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

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

*Assigned:* Amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted or committed.

*Unassigned:* Amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City.

#### **(l) *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.

#### **(m) *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, 2014, 100% of the landfill site had been used and has not accepted solid waste for several years. 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. This estimate is subject to change due to inflation, deflation, technology or applicable laws, and regulations. The total liability is reported in the statement of net position.

#### **(n) *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



## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

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

#### (a) Deposits

State and local statutes place certain limitations on the nature of deposits and investments available to the City. The City's policy requires full collateralization on all demand deposit accounts including checking accounts, certificates of deposit and money market accounts.

#### Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. As of June 30, 2014, the bank balances of uninsured and uncollateralized deposits are as follows:

Primary government	\$	167
Discretely presented component unit (CHA)		<u>22,550,484</u>
	\$	<u><u>22,550,651</u></u>

#### (b) Investments

The City's investment program is operated by the City Treasurer in conformance with all applicable federal and state requirements, including MGL c. 44, Sections 54 and 55. The objective is to obtain a high level of income while also following the principles of security, liquidity, and yield.

Investments of General Fund available cash balances consist of fully collateralized certificates of deposit with local banking institutions for duration of 6-9 months 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 with the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

The City's investment portfolio for trust funds is designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints and the City's liquidity requirements. The portfolio is managed with the objective of exceeding the average of three-month U.S. Treasury Bill rates for equivalent period. The investments for trust funds include collateralized certificate of deposits, U.S. Government Agencies, and units in the MMDT for durations between 12-48 months.

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

## **CITY OF CAMBRIDGE, MASSACHUSETTS**

### **Notes to Basic Financial Statements**

June 30, 2014

**(i) System Investment Policy**

The provisions of Massachusetts General Laws (M.G.L.) c. 32, sec 3(2) govern the System's investment practice.

Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec 23(3), the "Prudent Person" rule.

The System has retained an investment consultant to work with the Retirement Board in a fiduciary capacity to assure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

**(ii) OPEB Investment Policy**

The provisions of Massachusetts General Laws (M.G.L.) c. 44 sec 54 allows investment in securities listed on the Commonwealth's approved securities listing. The OPEB investment portfolio is managed by the City's Investment committee. The portfolio consists of 48% equities (securities from approved state listing) and 52% Fixed securities and certificates of deposit.

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2014

### (iii) Interest Rate Risk

The following is a listing of the primary government's fixed income investments and related maturity schedule (in years) as of June 30, 2014:

Investment type	Fair value	Less than 1	1 – 5	6 – 10	More than 10
City:					
Money market/MMDT	\$ 272,691,291	272,691,291	—	—	—
Certificates of deposit	82,140,047	56,947,531	19,077,162	5,078,928	1,036,426
Corporate fixed income	5,527,925	—	—	3,518,327	2,009,598
U.S. agencies	17,280,457	—	4,683,231	7,335,700	5,261,526
Subtotal city	377,639,720	329,638,822	23,760,393	15,932,955	8,307,550
System (as of December 31, 2013):					
Cash collateral pool	61,975,625	61,975,625	—	—	—
U.S. treasury notes and bonds	8,116,741	—	5,086,491	1,466,699	1,563,551
U.S. agencies	3,088,316	482,824	1,462,756	1,142,736	—
Domestic corporate	65,279,044	991,857	17,912,557	36,733,546	9,641,084
Asset-backed:					
CMOs	5,454,157	—	400,226	670,232	4,383,699
Other	7,959,476	—	2,770,370	685,000	4,504,106
Pooled fixed-income investments	104,644,181	—	—	104,644,181	—
Subtotal system	256,517,540	63,450,306	27,632,400	145,342,394	20,092,440
OPEB Trust:					
Money market	15,792	15,792	—	—	—
Certificates of deposit	1,685,935	—	1,079,791	239,127	367,017
Corporate fixed income	682,063	—	—	349,365	332,698
U.S. agencies	1,013,262	—	793,895	219,367	—
Subtotal OPEB Trust	3,397,052	15,792	1,873,686	807,859	699,715
Total	\$ 637,554,312	393,104,920	53,266,479	162,083,208	29,099,705
Discretely presented component unit (CHA):					
Money market	\$ 230,698,747	230,698,747	—	—	—
MMDT	17,814,282	17,814,282	—	—	—
Total discretely presented component unit (CHA)	\$ 248,513,029	248,513,029	—	—	—

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2014

The City and the System's guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The manager of each fixed income portfolio is responsible for determining the maturity and commensurate returns of their portfolio.

The collateralized mortgage obligations (CMOs) held by the System are highly sensitive to changes in interest rates.

### (iv) Credit Risk

The City and the System allow investment managers to apply discretion under the "Prudent Person" rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

The primary government's fixed income investments as of June 30, 2014 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale:

Investment type	Fair value	AAA	AA	A	BBB	BB	Less than BB	Not rated
City:								
Money market/MMDT	\$ 272,691,291	—	—	—	—	—	—	272,691,291
Certificates of deposit	82,140,047	—	—	—	—	—	—	82,140,047
Corporate fixed income	5,527,925	1,396,389	3,518,327	100,250	—	512,959	—	—
U.S. agencies	17,280,457	17,280,457	—	—	—	—	—	—
Subtotal city	377,639,720	18,676,846	3,518,327	100,250	—	512,959	—	354,831,338
System (as of December 31, 2013):								
Cash collateral pool	61,975,625	—	—	—	—	—	—	61,975,625
U.S. Treasury notes and bonds	8,116,741	8,116,741	—	—	—	—	—	—
U.S. agencies	3,088,316	—	910,627	—	—	—	—	2,177,689
Domestic corporate	65,279,044	820,915	2,868,990	6,562,294	8,330,568	21,873,467	24,346,915	475,895
Asset-backed:								
CMOs	5,454,157	2,726,467	444,080	477,823	362,628	166,035	—	1,277,124
Other	7,959,476	3,455,370	—	508,494	—	—	—	3,995,612
Pooled fixed-income investments	104,644,181	—	—	—	—	—	—	104,644,181
Subtotal system	256,517,540	15,119,493	4,223,697	7,548,611	8,693,196	22,039,502	24,346,915	174,546,126
OPEB Trust:								
Money market	15,792	—	—	—	—	—	—	15,792
Certificates of deposit	1,685,935	—	—	—	—	—	—	1,685,935
Corporate fixed income	682,063	—	349,365	250,625	—	82,073	—	—
U.S. agencies	1,013,262	1,013,262	—	—	—	—	—	—
Subtotal OPEB Trust	3,397,052	1,013,262	349,365	250,625	—	82,073	—	1,701,727
Total	\$ 637,554,312	34,809,601	8,091,389	7,899,486	8,693,196	22,634,534	24,346,915	531,079,191
Discretely presented component unit (CHA):								
Money market	\$ 230,698,747	Not rated						
MMDT	17,814,282	Not rated						
Total discretely presented component unit (CHA)	\$ 248,513,029							

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

#### (v) Concentration Risk

The System has no individual investments, at fair value, that exceed 5% of the System's net position held in trust for pension benefits as of December 31, 2013.

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

#### (vi) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System's asset allocation model which serves as a proxy for a foreign currency policy, limits the amount of foreign currency exposure to 19% of the System's total investments. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies. Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2012, there were no open forward currency contracts.

Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented below.

Currency:

International equity pooled funds (various currencies)	\$ 185,804,956
International fixed income pooled funds (various currencies)	<u>50,239,335</u>
	<u>\$ 236,044,291</u>

#### (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. Leaning 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 ½" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2 ½ limits the total levy to an amount not greater than 2 ½% of the total assessed value of all taxable property within the City. Secondly, the tax levy

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2014

cannot increase by more than 2 ½% of the prior year's levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2 ½ can be overridden by a Citywide referendum.

### (5) Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

#### *Primary Government*

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 165,407,775	—	—	165,407,775
Construction in progress	<u>244,188,978</u>	<u>74,266,029</u>	<u>(35,778,033)</u>	<u>282,676,974</u>
Total capital assets not being depreciated	<u>409,596,753</u>	<u>74,266,029</u>	<u>(35,778,033)</u>	<u>448,084,749</u>
Capital assets being depreciated:				
Buildings and improvements	378,233,956	18,727,316	—	396,961,272
Improvements – nonbuilding	99,171,809	622,041	—	99,793,850
Furniture and equipment	63,742,167	15,642,916	—	79,385,083
Infrastructure	<u>281,296,046</u>	<u>6,917,461</u>	<u>—</u>	<u>288,213,507</u>
Total capital assets being depreciated	<u>822,443,978</u>	<u>41,909,734</u>	<u>—</u>	<u>864,353,712</u>
Less accumulated depreciation for:				
Buildings and improvements	(127,941,760)	(11,162,176)	—	(139,103,936)
Improvements – nonbuilding	(27,683,183)	(3,952,145)	—	(31,635,328)
Furniture and equipment	(47,155,528)	(3,839,156)	—	(50,994,684)
Infrastructure	<u>(180,110,517)</u>	<u>(8,786,432)</u>	<u>—</u>	<u>(188,896,949)</u>
Total accumulated depreciation	<u>(382,890,988)</u>	<u>(27,739,909)</u>	<u>—</u>	<u>(410,630,897)</u>
Total capital assets being depreciated, net	<u>439,552,990</u>	<u>14,169,825</u>	<u>—</u>	<u>453,722,815</u>
Governmental activities capital assets, net	<u>\$ 849,149,743</u>	<u>88,435,854</u>	<u>(35,778,033)</u>	<u>901,807,564</u>

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2014

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

Governmental activities:

General government	\$ 714,871
Public safety	4,119,231
Community maintenance and development	14,702,740
Human resource development	2,057,942
Education	6,145,125
Total depreciation expense – governmental activities	<u>\$ 27,739,909</u>

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activity:				
Capital assets not being depreciated:				
Land	\$ 39,764,325	—	—	39,764,325
Construction in progress	5,099,681	3,011,813	(2,264,657)	5,846,837
Total capital assets not being depreciated	<u>44,864,006</u>	<u>3,011,813</u>	<u>(2,264,657)</u>	<u>45,611,162</u>
Capital assets being depreciated:				
Buildings and improvements	81,252,878	—	—	81,252,878
Furniture and equipment	6,706,464	137,377	—	6,843,841
Infrastructure	39,531,366	2,264,657	—	41,796,023
Total capital assets being depreciated	<u>127,490,708</u>	<u>2,402,034</u>	<u>—</u>	<u>129,892,742</u>
Less accumulated depreciation for:				
Buildings and improvements	(24,120,737)	(2,059,156)	—	(26,179,893)
Furniture and equipment	(2,059,407)	(462,646)	—	(2,522,053)
Infrastructure	(15,251,984)	(803,912)	—	(16,055,896)
Total accumulated depreciation	<u>(41,432,128)</u>	<u>(3,325,714)</u>	<u>—</u>	<u>(44,757,842)</u>
Total capital assets being depreciated, net	<u>86,058,580</u>	<u>(923,680)</u>	<u>—</u>	<u>85,134,900</u>
Business-type activity capital assets, net	<u>\$ 130,922,586</u>	<u>2,088,133</u>	<u>(2,264,657)</u>	<u>130,746,062</u>



# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2014

### (6) Receivables and Unearned Revenue

#### (a) *Receivables*

Receivables as of year-end for the government's individual major funds and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	Government funds					Enterprise fund
	General	Capital fund	Affordable Housing Trust fund	Other governmental funds	Total governmental funds	Water fund
Receivables:						
Property taxes	\$ 4,585,923	—	—	—	4,585,923	—
Motor vehicle taxes	3,441,943	—	—	—	3,441,943	—
Other taxes	3,692,087	—	—	—	3,692,087	—
Intergovernmental	—	7,326,529	—	3,096,827	10,423,356	—
Other	12,733,296	—	6,140,149	493,284	19,366,729	5,120,229
Gross receivables	24,453,249	7,326,529	6,140,149	3,590,111	41,510,038	5,120,229
Less allowance for uncollectibles	3,436,995	2,569,515	3,382,056	—	9,388,566	51,202
Net total receivables	\$ 21,016,254	4,757,014	2,758,093	3,590,111	32,121,472	5,069,027

#### (b) *Unearned Revenue*

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

	Unavailable	Unearned	Total
Delinquent taxes receivable (General Fund)	\$ 11,968,638	—	11,968,638
Due from component units	5,995,000	—	5,995,000
Other	6,919,332	—	6,919,332
Total unavailable/unearned revenue for governmental funds	\$ 24,882,970	—	24,882,970

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2014

**(7) Receivable and Payable Balances between Funds and Component Unit**

Individual fund receivable and payable balances at June 30, 2014, are as follows:

<b>Interfund balances</b>	<b>Receivable</b>	<b>Payable</b>
General fund – payable to water fund – for bond premium transfer	\$ —	32,723
Capital fund – receivable from other governmental funds – for capital items	739,969	—
Enterprise fund – receivable from general fund for bond premium	32,723	—
Other governmental funds – community development block grant payable to capital fund – for capital items	—	739,969
Balance at June 30, 2014	<u>\$ 772,692</u>	<u>772,692</u>

Receivable and payable balances between the primary government and CHA at June 30, 2014 are as follows:

<b>Discrete component unit balances</b>	<b>Receivable</b>	<b>Payable</b>
Primary government:		
General	\$ 5,995,000	—
Discretely presented component unit:		
CHA	—	5,995,000
Balance at June 30, 2014	<u>\$ 5,995,000</u>	<u>5,995,000</u>

In 1998, the City issued \$30 million of general obligation hospital bonds. The proceeds were provided to the CHA for the construction of an ambulatory care center. CHA 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. In 2007, the City refunded a portion of the original general obligation hospital bond. As of June 30, 2014, the amount outstanding on hospital related debt is \$5,995,000.

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2014

### (8) Long-Term Obligations

Following is a summary of the governmental activities long-term obligations of the City as of June 30, 2014:

	<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 obligation bonds:							
General purpose, serial maturities through February 15, 2034	1/15/04 to 2/18/14	2.0%–5.0%	\$ 240,984,868	18,500,000	19,447,252	240,037,616	20,047,252
Urban redevelopment, serial maturities through February 15, 2024	1/15/04 to 2/18/14	2.0%–5.0%	17,705,500	3,500,000	4,480,000	16,725,500	3,625,500
Schools, serial maturities through February 1, 2018	2/1/08	3.0%–3.25%	2,360,835	—	472,167	1,888,668	472,167
Sewer, serial maturities through February 25, 2024	1/15/04 to 2/18/14	2.0%–5.0%	82,814,247	12,900,000	12,967,573	82,746,674	13,333,021
Hospital, serial maturities through February 1, 2018	3/15/07	4.0%	7,495,000	—	1,500,000	5,995,000	1,500,000
Sub-total general obligation bonds			<u>351,360,450</u>	<u>34,900,000</u>	<u>38,866,992</u>	<u>347,393,458</u>	<u>38,977,940</u>
Notes payable:							
Section 108 HUD notes payable, serial maturities through August 1, 2014	9/14/06	5.07%	205,000	—	35,000	170,000	170,000
Note payable serial maturities through July 1, 2021	4/20/00 to 6/30/01	2.00%	4,703,302	—	574,627	4,128,675	586,224
Sub-total notes payable			<u>4,908,302</u>	<u>—</u>	<u>609,627</u>	<u>4,298,675</u>	<u>756,224</u>
Total governmental obligation bonds and notes payable			<u>\$ 356,268,752</u>	<u>34,900,000</u>	<u>39,476,619</u>	<u>351,692,133</u>	<u>39,734,164</u>
Add (deduct):							
Unamortized bond premium						14,975,552	
Current portion of long-term debt						(39,734,164)	
						<u>326,933,521</u>	
Other long-term obligations:							
Judgments and claims			\$ 13,795,000	39,377,400	38,465,400	14,707,000	6,476,000
Compensated absences			18,422,000	19,475,400	19,089,400	18,808,000	6,847,000
Landfill postclosure care costs			200,000	—	25,000	175,000	25,000
Other postemployment benefits			135,928,998	47,621,000	22,211,000	161,338,998	—
Pollution remediation			1,777,680	7,971,712	3,689,092	6,060,300	—
Total other governmental long-term obligations			<u>\$ 170,123,678</u>	<u>114,445,512</u>	<u>83,479,892</u>	<u>201,089,298</u>	<u>13,348,000</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2014

Following is a summary of the business-type activity long-term obligations of the City as of June 30, 2014:

	<u>Date of issue</u>	<u>Interest rates</u>	<u>beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
General obligation bonds:							
General purpose, serial maturities through August 1, 2019	1/15/04 to 3/15/07	2.5% – 5.0%	\$ 15,520,000	—	2,840,000	12,680,000	2,540,000
Total business-type bonds payable			<u>\$ 15,520,000</u>	<u>—</u>	<u>2,840,000</u>	12,680,000	<u>2,540,000</u>
Add (deduct):							
Unamortized bond premium						374,735	
Current portion of long-term debt						<u>(2,540,000)</u>	
						<u>10,514,735</u>	
Other long-term obligations:							
Judgments and claims			\$ 1,634,000	3,759,455	4,042,455	1,351,000	311,000
Compensated absences			<u>524,000</u>	<u>438,000</u>	<u>431,000</u>	<u>531,000</u>	<u>186,000</u>
Total other long-term obligations			<u>\$ 2,158,000</u>	<u>4,197,455</u>	<u>4,473,455</u>	<u>1,882,000</u>	<u>497,000</u>

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2014

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

General obligation bonds are backed by the full faith and credit of the City. The annual debt service requirements of the City's general obligation governmental bonds and notes payable outstanding as of June 30, 2014, are as follows:

	Principal		Interest		Total	
	G/O bonds	Notes	G/O bonds	Notes	G/O bonds	Notes
Year ending June 30:						
2015	\$ 38,977,940	756,224	11,639,350	80,581	50,617,290	836,805
2016	35,377,228	598,057	10,466,204	64,440	45,843,432	662,497
2017	33,693,736	610,130	9,400,061	52,369	43,093,797	662,499
2018	31,565,246	622,445	8,371,517	40,053	39,936,763	662,498
2019	26,963,758	635,010	7,397,185	27,489	34,360,943	662,499
2020 – 2024	109,650,550	1,076,809	23,797,602	27,348	133,448,152	1,104,157
2025 – 2029	54,305,000	—	8,277,407	—	62,582,407	—
2030 – 2034	16,860,000	—	1,311,738	—	18,171,738	—
	<u>\$ 347,393,458</u>	<u>4,298,675</u>	<u>80,661,064</u>	<u>292,280</u>	<u>428,054,522</u>	<u>4,590,955</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. At June 30, 2014, the principal and interest amount outstanding is \$4,128,675 and \$287,970 respectively.

Principal retirement of governmental funds has been reflected in the basic financial statements as debt service expenditures of approximately \$38.4 million and education expenditures of approximately \$0.5 million totaling \$38.9 million of principal costs.

In February 2014, the City issued \$34,900,000 in general obligation bonds to fund various capital purchases and improvements throughout the City. Interest on the general obligation bonds is due semiannually on each February 15 and August 15, with principal payments due each February 15 until maturity in fiscal 2034.

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 approximately \$123,500 in subsidies during 2014 and expects to receive subsidies totaling approximately \$467,400 through fiscal 2023. Loan payments commenced on February 1, 2005 and end on July 15, 2022, with interest rates ranging from 0% to 4.0%.

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the State Municipal Finance Oversight Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit, but are subject to other limitations.

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

As of June 30, 2014, the City may issue approximately \$1.0 billion additional general obligation debt under the normal debt limit. The City has approximately \$17.0 million of debt exempt from the debt limit.

The annual debt service requirements of the City's water enterprise fund as of June 30, 2014 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2015	\$ 2,540,000	572,301	3,112,301
2016	2,420,000	446,501	2,866,501
2017	2,420,000	325,501	2,745,501
2018	2,420,000	204,501	2,624,501
2019	2,420,000	83,501	2,503,501
2020	460,000	11,501	471,501
	<u>\$ 12,680,000</u>	<u>1,643,806</u>	<u>14,323,806</u>

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

In 2012, the CHA purchased space for \$850,000 which was previously rented through an operating lease agreement. Of the total purchase price, \$680,000 was financed through a note payable to the seller. The note is to be amortized over 10 years with monthly payments of \$7,047 at an interest rate of 4.5%. The balance on this note payable at June 30, 2014 is \$562,357.

#### (9) Retirement Plan

##### (a) Plan Description

The City contributes to the 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:

- (i) City of Cambridge
- (ii) Cambridge Redevelopment Authority
- (iii) Cambridge Housing Authority
- (iv) Cambridge Health Alliance

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

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

the service of the System, a fourth member appointed by the Manager 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:

- (i) Fixed income securities are stated at quoted market value.
- (ii) Equity securities are stated at quoted market value.
- (iii) Real estate funds are stated at partner's account value based upon the appraised value of the underlying investments.
- (iv) Venture capital funds are stated at the lower of contributed cost or fair value.
- (v) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (vi) Alternative investments are stated at partner's account or unit value.

#### **(c) Membership**

Membership in the System consisted of the following at January 1, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,893
Terminated plan members entitled to, but not receiving benefits	1,041
Terminated plan members with a vested right to a deferred or immediate benefit	113
Active plan members	3,332
Total membership	6,379
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% to 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

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

on active covered payroll. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's and CHA's actual contributions equaled their required contributions to the System for the years ended June 30, 2014, 2013, and 2012, were \$26,244,963, \$24,765,692, and \$25,125,788, respectively, and \$5,931,321, \$5,603,515, and \$5,293,826, respectively.

The Commonwealth reimburses the System for a portion of the benefits payments for cost of living increases granted before July 1998.

**(e) Legally Required Reserve Accounts**

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2013 are as follows:

Description	Amount	Purpose
Annuity savings fund	\$ 237,535,292	Active members' contribution balance
Annuity reserve fund	61,085,992	Retired members' contribution account
Military service credit fund	4,592	Members' contribution account while on military leave
Pension reserve fund	733,436,600	Amounts appropriated to fund future retirement benefits
Pension fund	14,643,647	Remaining net position
	<u>\$ 1,046,706,123</u>	

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

**(f) Securities Lending**

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

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

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2013. 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



## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

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, 2013, 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, 2013 were \$268,556.

At December 31, 2013, the fair value of securities loaned by the System amounted to \$60,608,750 against which was held cash collateral of \$61,975,625.

For loans having collateral other than cash, the related collateral securities are not recorded as assets in the statement of fiduciary net position, 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.

**(g) *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. The Commonwealth paid \$27.3 million and \$26.7 million on behalf of the City in fiscal year 2014 and 2013 respectively. The 2014 amount is reported as intergovernmental revenue and education expense in the General Fund.

**(h) *Administrative Costs***

The System's administrative costs are funded from investment earnings.

**(i) *Funded Status and Funding Progress***

The funded status of the System as of January 1, 2012, the most recent actuarial valuation, is as follows:

Actuarially accrued liability (AAL)	\$ 1,070,070,414
Actuarial value of plan assets	<u>832,296,715</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 237,773,699</u>
Funded ratio (actuarial value of plan assets/AAL)	77.8%
Covered payroll (active plan members)	\$ 217,086,299
UAAL as a percentage of covered payroll	109.5%

In the January 1, 2012 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8% investment rate of return, projected salary increases of 4% per year in 2012 and 2013 and 4.75% per year thereafter, and cost of living adjustments of 3% of first \$14,000 of retirement income. The actuarial value of assets was determined using the difference between the expected return and the actual investment return on a market value basis is

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

recognized over a five-year period. The System's unfunded actuarial accrued liability is being amortized as increasing amortization for remaining unfunded liability. The remaining amortization period is 17 years from July 1, 2012 for remaining unfunded liability.

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

#### **(10) Other Postemployment Benefit Disclosures**

In addition to the pension benefits described in note 9, the City provides postemployment healthcare and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. As of the valuation date, approximately 2,356 retirees and 2,823 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The City sponsors and participates in an agent multi-employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

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

Groups 1, 2 and 4 retirees, including teachers, with at least 10 years of creditable service are eligible for retirement at age 55 or they may retire after a total of 20 years creditable service regardless of age. Retirees on ordinary or accidental disability retirement are eligible at any age while ordinary disability requires 10 years of creditable service. The surviving spouse is eligible to receive both pre – and post-retirement death benefits, as well as medical and prescription drug coverage.

##### **(a) Funding Policy**

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

##### **(b) Annual OPEB Cost and Net OPEB Obligation**

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2014

projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of July 1, 2012 rolled forward to July 1, 2013:

Annual Required Contribution (ARC)	\$ 47,638,000
Interest on net OPEB obligation	6,117,000
Adjustment to ARC	<u>(6,134,000)</u>
Annual OPEB cost	47,621,000
Contributions made	<u>(22,211,000)</u>
Change in net OPEB obligation	25,410,000
Net OPEB obligation – beginning of year	<u>135,928,998</u>
Net OPEB obligation – end of year	<u><u>\$ 161,338,998</u></u>

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

Fiscal year ended	Annual OPEB cost	Percentage of OPEB cost contributed	Net OPEB obligation
2014	\$ 47,621,000	46.64%	\$ 161,338,998
2013	45,097,000	50.33	135,928,998
2012	49,369,000	45.67	113,529,824
2011	46,624,000	47.73	86,709,262
2010	44,892,610	53.20	62,340,427

**(c) Funded Status and Funding Progress**

The funded status of the plan, based on an actuarial valuation as of July 1, 2012 and rolled forward to July 1, 2013, as of June 30, 2014 was as follows:

Actuarially accrued liability (AAL)	\$ 579,645,000
Actuarial value of plan assets	<u>5,535,713</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 574,109,287</u></u>
Funded ratio (actuarial value of plan assets/AAL)	1.0%
Covered payroll (active plan members)	\$ 177,411,993
UAAL as a percentage of covered payroll	323.6%

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

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

In January 2009, the Commonwealth adopted Chapter 479, which amends Chapter 32B and allows local municipalities to establish an OPEB liability trust fund and a funding schedule for the trust fund. On December 21, 2009, the City Council approved the establishment of an irrevocable OPEB trust fund and \$2 million was transferred to the fund. During fiscal years 2014 and 2013, the City transferred an additional \$2 million and \$1 million to the trust fund respectively. The City Council has approved a \$2 million transfer to the trust fund in the fiscal year 2015 budget and has committed to that funding level for future years out.

#### **(d) *Actuarial Methods and Assumptions***

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

In the July 1, 2012 actuarial valuation rolled forward to July 1, 2013, the projected unit credit cost method was used and the actuarial accrued liability is being amortized over a period of 25 years on a closed basis and is calculated assuming a level percentage of projected payroll.

As of July 1, 2012 valuation rolled forward to July 1, 2013, the discount rate was 4.5%. In general, the discount rate is to be equal to the long term rate of return of the assets paying retiree costs.

As of July 1, 2012 valuation rolled forward to July 1, 2013, the healthcare cost trend rates begin with 8.5% and decrease 0.5% annually to an ultimate rate of 5.0%. The healthcare cost trend rates as of July 1, 2012 rolled forward to July 1, 2013 are based on current market conditions and updated normative trend data and studies.

As of July 1, 2012 valuation rolled forward to July 1, 2013, the payroll growth rate was 3.5%. This assumption should represent long-term expectations of the City's payroll growth. Therefore, recent salary increase rates, current economic environment, and the prior increases were considered. In addition, 3.5% appears to be a reasonable long-term rate of return for the City. This assumption does not affect the liability of the plan, but does affect the amortization of the unfunded actuarial accrued liability and, consequently, the annual costs.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2014

As of July 1, 2012 valuation rolled forward to July 1, 2013, the inflation rate was 3%. This assumption should represent long-term increases in salary rates and healthcare costs.

As of July 1, 2012 valuation rolled forward to July 1, 2013, future retirees electing spouse coverage is based on the employees' current coverage election. In other words, employees in the current census data with spouse coverage are assumed to have spouse coverage at retirement.

As of July 1, 2012 valuation rolled forward to July 1, 2013, the percent of participants assumed to not be Medicare eligible at 65 was 7%.

Current and future retirees contribute an amount based on the costs or premiums of the plan they elect.

**(11) Transfers**

Transfers and their purposes during the year ended June 30, 2014 were as follows:

	<b>Governmental funds</b>				
	<b>General</b>	<b>Capital</b>	<b>Affordable Housing Trust fund</b>	<b>Other</b>	<b>Enterprise fund water</b>
Capital – to fund capital expenditures	\$ (8,672,225)	8,672,225	—	—	—
Parking – reimbursement of administrative costs and other eligible City expenditures	19,546,855	2,125,000	—	(21,671,855)	—
Cemetery – reimbursement of operational costs to fund renovations of administration, buildings and grounds	40,000	—	—	(40,000)	—
Capital – reimbursement of eligible CDBG program costs	—	66,139	—	(66,139)	—
Water – reimbursement of administrative costs	705,575	—	—	—	(705,575)
Affordable housing fund – from CPA Fund	—	—	8,240,000	—	—
CPA Fund – to affordable housing fund	—	—	—	(8,240,000)	—
<b>Total</b>	<b>\$ 11,620,205</b>	<b>10,863,364</b>	<b>8,240,000</b>	<b>(30,017,994)</b>	<b>(705,575)</b>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2014

**(12) Fund Balance Classification Details**

The components of fund balance for the City's governmental funds as of June 30, 2014 are as follows.

	<u>General</u>	<u>Capital fund</u>	<u>Affordable Housing Trust fund</u>	<u>Other governmental funds</u>
Fund balances:				
Nonspendable:				
Deposits	\$ 1,806,542	—	—	—
Nonexpendable permanent funds	—	—	—	2,170,328
Restricted:				
Property and Development	—	23,376,122	—	9,784,550
Streets and Sidewalks	—	7,431,230	—	—
Parks and Recreation	—	3,125,573	—	3,851,325
Sewer Projects	—	14,981,930	—	—
Library	—	62,615	—	—
Schools	—	30,075,683	—	—
General Government	—	2,639,499	—	—
Affordable Housing	—	—	600,000	—
Community Preservation	—	—	—	—
CDBG Funds	—	—	—	—
Other City Grants Fund:				
Parks and Recreation	—	—	—	—
General Government	—	—	—	315,233
Human Services	—	3,837	—	1,612,673
School Grants Fund Federal/State	—	—	—	3,594,314
Expendable permanent funds	—	—	—	1,491,104
Committed:				
Parking Fund	—	—	—	15,865,944
Health Claims	19,206,514	—	—	—
Budget Stabilization	25,612,423	—	—	—
Affordable Housing	—	—	37,875,356	—
Subsequent year's expenditures	14,650,000	—	—	—
Unassigned	166,222,585	—	—	—
Total fund balances	\$ <u>227,498,064</u>	81,696,489	38,475,356	38,685,471

***Commitments and Contingencies***

The City has \$5.1 million in encumbrances for purchase orders and contracts in the General Fund, \$78.9 million in the Capital Fund, \$3.1 million in the Affordable Housing Trust Fund, and \$2.9 million in the Other Governmental Funds. Encumbrances in the Proprietary Fund are not material.

## CITY OF CAMBRIDGE, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2014

#### (13) 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 property and casualty, workers' compensation and unemployment claims.

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. The amount of settlements did not exceed insurance coverage for premium based health insurance elections for fiscal years ended June 30, 2014, 2013, and 2012.

Active employees contribute at least 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 are currently enrolled in indemnity plans and 15% for those who enroll in HMO type plans. The City does not carry stop-loss insurance.

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved.

Changes in the self insurance liability for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Judgments and accrued claims, beginning of year	\$ 15,429,000	12,621,000
Incurred claims	43,136,855	44,925,702
Less payments of claims attributable to events of both current and prior fiscal years	<u>(42,507,855)</u>	<u>(42,117,702)</u>
Judgments and accrued claims, end of year	<u>\$ 16,058,000</u>	<u>15,429,000</u>

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

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

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information

June 30, 2014

(Unaudited)

**Schedules of Funding Progress**  
(Dollars in thousands)

<b>Pension</b>						
<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/c)</b>
January 1, 2012	\$ 832,297	1,070,070	237,773	77.8%	\$ 217,086	109.5%
January 1, 2010	796,016	949,908	153,892	83.8	232,842	66.1
January 1, 2008	766,031	833,034	67,003	92.0	231,770	28.9
January 1, 2006	632,059	740,320	108,261	85.4	201,088	53.8
January 1, 2004	569,500	655,107	85,607	86.9	184,254	46.5
January 1, 2002	516,947	578,050	61,103	89.4	167,303	36.5
January 1, 2000	424,606	510,973	86,367	83.1	140,489	61.5
<b>OPEB</b>						
<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/c)</b>
July 1, 2013	\$ 5,535	579,645	574,110	1.0%	\$ 177,412	323.6%
July 1, 2012	3,330	556,593	553,263	0.6	170,517	324.5
July 1, 2011	2,177	613,189	611,012	0.4	166,594	366.8
July 1, 2010	2,099	588,268	586,169	0.4	162,473	360.8
January 1, 2009 (1)	1,986	624,815	622,829	0.3	156,520	397.9
January 1, 2009	—	598,995	598,995	—	152,151	393.7
December 31, 2006	—	602,697	602,697	—	155,456	387.7

- (1) The January 1, 2009 actuarial valuation included a projection as of June 30, 2010. The actuarial value of assets represents the fair value of OPEB assets as of June 30, 2010.

Future cost of living increase assumed by the City.

See independent auditors' report.



**CITY OF CAMBRIDGE, MASSACHUSETTS**

Required Supplementary Information

June 30, 2014

(Unaudited)

**Schedule of Employers' Contributions – Pension**

(Dollars in thousands)

	<b><u>Annual required contribution</u></b>	<b><u>Percentage contributed</u></b>
Year ended December 31:		
2013	\$ 33,815	100 %
2012	31,963	100
2011	32,213	100
2010	28,554	100
2009	27,728	100
2008	26,891	100
2007	28,067	100
2006	25,220	100
2005	24,577	100
2004	23,978	100

**Schedule of Employers' Contributions – OPEB**

(Dollars in thousands)

	<b><u>Annual required contribution</u></b>	<b><u>Percentage contributed</u></b>
Year ended June 30:		
2014	\$ 47,638	46.6 %
2013	44,937	50.5
2012	49,096	45.9
2011	46,346	48.0
2010	44,704	53.4
2009	39,272	53.4
2008	37,486	45.7

See independent auditors' report.

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Schedule of Revenues and Expenditures – Budgetary Basis  
Required Supplementary Information  
General Fund – Budget and Actual  
Year ended June 30, 2014  
(Unaudited)  
(with comparative actual amounts for 2013)

	<b>2014 Original budget</b>	<b>2014 Final budget</b>	<b>2014 Actual</b>	<b>Variance favorable (unfavorable)</b>	<b>2013 Actual</b>
Revenues:					
Property taxes	\$ 328,544,945	328,544,945	328,544,945	—	316,947,770
Provisions for tax abatements and adj.	(4,544,945)	(4,544,945)	(4,544,945)	—	(4,447,770)
Payments in lieu of tax receipts	6,700,000	6,700,000	7,759,252	1,059,252	7,553,728
Hotel/motel/meals excise tax	14,605,730	14,605,730	16,525,182	1,919,452	15,909,648
Intergovernmental	31,899,472	31,899,472	31,264,954	(634,518)	31,035,786
Sewer use	40,620,700	40,620,700	41,690,417	1,069,717	40,019,569
Motor vehicle excise	6,355,981	6,355,981	7,230,474	874,493	6,833,482
Investment income	500,000	500,000	655,691	155,691	602,337
Other	23,385,793	23,316,168	44,148,161	20,831,993	43,429,852
Total revenues	<u>448,067,676</u>	<u>447,998,051</u>	<u>473,274,131</u>	<u>25,276,080</u>	<u>457,884,402</u>
Expenditures:					
Current:					
General government	50,464,999	48,411,184	34,003,093	14,408,091	35,066,184
Public safety	113,169,635	114,851,383	113,514,462	1,336,921	107,621,265
Community maintenance and development	40,872,675	43,321,183	42,037,825	1,283,358	40,880,958
Human resource development	33,691,170	34,232,185	33,450,978	781,207	32,763,418
Education	150,989,445	151,064,445	150,885,765	178,680	144,616,558
Judgments and claims	200,000	200,000	52,394	147,606	75,633
State and district assessments	49,351,777	49,351,786	47,682,872	1,668,914	46,660,306
Debt service:					
Principal	38,429,825	38,429,825	38,429,825	—	35,925,892
Interest	11,286,425	11,286,425	11,246,334	40,091	10,402,622
Total expenditures	<u>488,455,951</u>	<u>491,148,416</u>	<u>471,303,548</u>	<u>19,844,868</u>	<u>454,012,836</u>
Excess (deficiency) of revenues over expenditures	<u>(40,388,275)</u>	<u>(43,150,365)</u>	<u>1,970,583</u>	<u>45,120,948</u>	<u>3,871,566</u>
Other financing sources (uses):					
Operating transfers in (out):					
Special revenue funds	21,011,020	21,034,520	19,546,855	(1,487,665)	19,203,155
Capital projects funds	(2,508,000)	(2,708,000)	(8,672,225)	(5,964,225)	(6,223,000)
Trust funds	(1,773,330)	(1,773,330)	(1,773,330)	—	(850,430)
Enterprise fund	705,575	705,575	705,575	—	705,575
Total other financing sources (uses)	<u>17,435,265</u>	<u>17,258,765</u>	<u>9,806,875</u>	<u>(7,451,890)</u>	<u>12,835,300</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<u>(22,953,010)</u>	<u>(25,891,600)</u>	<u>11,777,458</u>	<u>37,669,058</u>	<u>16,706,866</u>
Other budget items:					
Free cash appropriations	21,000,000	23,938,590			
Prior year deficits raised	(46,990)	(46,990)			
Overlay surplus	2,000,000	2,000,000			
Total other budget items	<u>22,953,010</u>	<u>25,891,600</u>			
Net budget and actual	<u>\$ —</u>	<u>—</u>			

See accompanying independent auditors' report.

See accompanying notes to required supplementary information.

# CITY OF CAMBRIDGE, MASSACHUSETTS

## Notes to Required Supplementary Information – Schedule of Revenues and Expenditures

Year ended June 30, 2014

(Unaudited)

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:

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).

Encumbrances and continuing appropriations, which are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).

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, 2014:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>
As reported on a budgetary basis:	\$ 473,274,131	471,303,548	9,806,875
Adjustments:			
Revenues to modified accrual basis	8,708,273	—	—
Expenditures, encumbrances and accruals, net	—	(5,114,905)	—
On-behalf contribution for teachers pension	27,307,321	27,307,321	—
Reclassification:			
Premium on debt issuance	—	—	4,102,740
Transfers not reported on a Budgetary/GAAP basis	—	—	1,813,330
As reported on a GAAP basis	<u>\$ 509,289,725</u>	<u>493,495,964</u>	<u>15,722,945</u>

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Supplemental Statements and Schedules

June 30, 2014

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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
General government:			
Mayor:			
Salaries and wages	\$ 418,155	388,641	29,514
Other ordinary maintenance	111,130	110,543	587
Travel and training	29,500	28,009	1,491
Total Mayor	<u>558,785</u>	<u>527,193</u>	<u>31,592</u>
City Manager:			
Salaries and wages	1,849,200	1,849,064	136
Other ordinary maintenance	517,650	494,043	23,607
Travel and training	38,700	30,159	8,541
Total City Manager	<u>2,405,550</u>	<u>2,373,266</u>	<u>32,284</u>
City Council:			
Salaries and wages	1,585,970	1,585,950	20
Other ordinary maintenance	41,900	40,742	1,158
Travel and training	59,855	31,871	27,984
Total City Council	<u>1,687,725</u>	<u>1,658,563</u>	<u>29,162</u>
City Clerk:			
Salaries and wages	1,059,235	965,610	93,625
Other ordinary maintenance	56,110	42,277	13,833
Travel and training	4,420	375	4,045
Total City Clerk	<u>1,119,765</u>	<u>1,008,262</u>	<u>111,503</u>
Law:			
Salaries and wages	1,507,695	1,460,653	47,042
Other ordinary maintenance	443,300	407,606	35,694
Travel and training	12,245	9,551	2,694
Total law	<u>1,963,240</u>	<u>1,877,810</u>	<u>85,430</u>
Finance:			
Salaries and wages	10,018,570	9,473,314	545,256
Other ordinary maintenance	2,965,010	2,786,082	178,928
Travel and training	245,970	182,512	63,458
Extraordinary expenditures	62,800	60,000	2,800
Total finance	<u>13,292,350</u>	<u>12,501,908</u>	<u>790,442</u>
Employment benefits:			
Salaries and wages	23,333,389	10,393,591	12,939,798
Other ordinary maintenance	844,755	663,742	181,013
Travel and training	30,000	14,331	15,669

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2014

	<b>Budget</b>	<b>Actual</b>	<b>Variance positive (negative)</b>
Total employment benefits	24,208,144	11,071,664	13,136,480
General services:			
Salaries and wages	\$ 231,440	225,632	5,808
Other ordinary maintenance	501,255	391,457	109,798
Total general services	732,695	617,089	115,606
Election commission:			
Salaries and wages	992,260	961,663	30,597
Other ordinary maintenance	214,255	214,019	236
Travel and training	2,270	60	2,210
Total election commission	1,208,785	1,175,742	33,043
Public celebrations:			
Salaries and wages	491,740	491,699	41
Other ordinary maintenance	405,280	387,849	17,431
Travel and training	1,125	630	495
Total public celebrations	898,145	880,178	17,967
Reserve:			
Other ordinary maintenance	24,500	—	24,500
Total reserve	24,500	—	24,500
Animal commission:			
Salaries and wages	296,845	296,810	35
Other ordinary maintenance	14,505	14,458	47
Travel and training	150	150	—
Total animal commission	311,500	311,418	82
Total general government	48,411,184	34,003,093	14,408,091
Public safety:			
Fire:			
Salaries and wages	41,313,915	40,883,663	430,252
Other ordinary maintenance	1,913,860	1,859,682	54,178
Travel and training	954,500	938,218	16,282
Extraordinary expenditures	110,000	109,994	6
Total fire	44,292,275	43,791,557	500,718
Police:			
Salaries and wages	44,504,565	44,501,602	2,963
Other ordinary maintenance	2,682,850	2,632,638	50,212
Travel and training	291,500	241,494	50,006
Extraordinary expenditures	432,048	395,188	36,860

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2014

	<b>Budget</b>	<b>Actual</b>	<b>Variance positive (negative)</b>
Total police	47,910,963	47,770,922	140,041
Traffic and parking:			
Salaries and wages	\$ 7,507,475	7,314,727	192,748
Other ordinary maintenance	3,303,040	3,283,833	19,207
Travel and training	42,500	37,698	4,802
Extraordinary expenditures	82,000	61,623	20,377
Total traffic and parking	10,935,015	10,697,881	237,134
Police review and advisory board:			
Salaries and wages	72,540	72,450	90
Other ordinary maintenance	700	519	181
Travel and training	3,000	2,623	377
Total police review and advisory board	76,240	75,592	648
Inspectional services:			
Salaries and wages	3,029,540	3,029,476	64
Other ordinary maintenance	140,680	92,591	48,089
Travel and training	10,425	8,588	1,837
Extraordinary expenditures	10,000	—	10,000
Total inspectional services	3,190,645	3,130,655	59,990
License:			
Salaries and wages	968,810	909,936	58,874
Other ordinary maintenance	57,435	53,237	4,198
Travel and training	4,725	3,726	999
Total license	1,030,970	966,899	64,071
Weights and measures:			
Salaries and wages	129,915	129,884	31
Other ordinary maintenance	7,280	7,279	1
Travel and training	2,745	2,736	9
Extraordinary expenditures	—	—	—
Total weights and measures	139,940	139,899	41
Electrical:			
Salaries and wages	1,537,780	1,452,519	85,261
Other ordinary maintenance	1,276,460	1,135,861	140,599
Travel and training	1,670	1,394	276
Extraordinary expenditures	25,000	24,531	469
Total electrical	2,840,910	2,614,305	226,605

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2014

	<b>Budget</b>	<b>Actual</b>	<b>Variance positive (negative)</b>
Emergency communications:			
Salaries and wages	\$ 4,266,365	4,169,277	97,088
Other ordinary maintenance	148,210	141,201	7,009
Travel and training	15,850	14,503	1,347
Extraordinary expenditures	4,000	1,771	2,229
Total emergency communications	4,434,425	4,326,752	107,673
Total public safety	114,851,383	113,514,462	1,336,921
Community maintenance and development:			
Public works:			
Salaries and wages	21,363,635	20,988,831	374,804
Other ordinary maintenance	12,984,815	12,272,101	712,714
Travel and training	329,030	186,607	142,423
Extraordinary expenditures	675,000	674,152	848
Total public works	35,352,480	34,121,691	1,230,789
Community development:			
Salaries and wages	5,176,228	5,155,066	21,162
Other ordinary maintenance	423,284	421,510	1,774
Travel and training	36,428	36,063	365
Extraordinary expenditures	—	—	—
Total community development	5,635,940	5,612,639	23,301
Historical commission:			
Salaries and wages	577,710	568,064	9,646
Other ordinary maintenance	54,430	53,779	651
Travel and training	800	699	101
Total historical commission	632,940	622,542	10,398
Conservation commission:			
Salaries and wages	122,670	122,617	53
Other ordinary maintenance	1,000	812	188
Travel and training	900	660	240
Total conservation commission	124,570	124,089	481
Peace commission:			
Salaries and wages	132,665	132,647	18
Other ordinary maintenance	10,325	6,995	3,330
Travel and training	1,850	—	1,850
Total peace commission	144,840	139,642	5,198



**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2014

	<b>Budget</b>	<b>Actual</b>	<b>Variance positive (negative)</b>
Cable television:			
Salaries and wages	\$ 521,790	521,775	15
Other ordinary maintenance	905,173	893,292	11,881
Travel and training	3,450	2,155	1,295
Total cable television	1,430,413	1,417,222	13,191
Total community maintenance and development	43,321,183	42,037,825	1,283,358
Human resource development:			
Library:			
Salaries and wages	6,966,630	6,966,230	400
Other ordinary maintenance	2,178,115	2,159,608	18,507
Travel and training	51,650	51,369	281
Total library	9,196,395	9,177,207	19,188
Human services:			
Salaries and wages	20,332,423	19,998,037	334,386
Other ordinary maintenance	2,989,397	2,762,450	226,947
Travel and training	78,100	69,207	8,893
Extraordinary expenditures	25,000	23,908	1,092
Total human services	23,424,920	22,853,602	571,318
Women's commission:			
Salaries and wages	222,555	157,628	64,927
Other ordinary maintenance	9,535	9,535	—
Travel and training	1,025	731	294
Total women's commission	233,115	167,894	65,221
Human rights commission:			
Salaries and wages	245,180	215,008	30,172
Other ordinary maintenance	3,000	1,522	1,478
Travel and training	1,200	928	272
Total human rights commission	249,380	217,458	31,922
Veterans benefits:			
Salaries and wages	271,975	233,801	38,174
Other ordinary maintenance	54,900	50,193	4,707
Travel and training	801,500	750,823	50,677
Total veterans benefits	1,128,375	1,034,817	93,558
Total human resource development	34,232,185	33,450,978	781,207

**CITY OF CAMBRIDGE, MASSACHUSETTS**

General Fund

Schedule of Expenditures – Budgetary Basis

Year ended June 30, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance positive (negative)</u>
Education:			
Salaries and wages	\$ 123,167,661	123,044,420	123,241
Other ordinary maintenance	25,937,325	25,905,363	31,962
Travel and training	1,109,979	1,087,098	22,881
Extraordinary expenditures	262,813	262,217	596
Debt:			
Principal payments	472,167	472,167	—
Interest payments	114,500	114,500	—
Total education	<u>151,064,445</u>	<u>150,885,765</u>	<u>178,680</u>
Judgments and claims	<u>200,000</u>	<u>52,394</u>	<u>147,606</u>
Debt retirement:			
Principal payments	38,429,825	38,429,825	—
Interest payments	11,286,425	11,246,334	40,091
Total debt retirement	<u>49,716,250</u>	<u>49,676,159</u>	<u>40,091</u>
State and district assessments:			
MBTA assessment	8,988,060	8,988,055	5
MWRA assessment	21,346,815	21,224,419	122,396
Other State assessments	12,516,911	10,970,398	1,546,513
Cambridge Health Alliance	6,500,000	6,500,000	—
Total state and district assessments	<u>49,351,786</u>	<u>47,682,872</u>	<u>1,668,914</u>
Total general fund expenditures	<u>\$ 491,148,416</u>	<u>471,303,548</u>	<u>19,844,868</u>

See accompanying independent auditors' report.

## **CITY OF CAMBRIDGE, MASSACHUSETTS**

### **Other Governmental Funds**

June 30, 2014

### **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.

#### **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's 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, 2014

Assets	Special revenue					Permanent funds	Total
	Community development block grant	School grants	Parking fund	Community preservation act	Other grants		
Cash and short-term investments	\$ 452,675	1,423,648	15,613,434	13,749,255	2,216,829	3,661,432	37,117,273
Accounts receivable	170,000	—	252,510	70,651	123	—	493,284
Due from other governments	190,294	2,579,671	—	—	326,862	—	3,096,827
Total assets	<u>\$ 812,969</u>	<u>4,003,319</u>	<u>15,865,944</u>	<u>13,819,906</u>	<u>2,543,814</u>	<u>3,661,432</u>	<u>40,707,384</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>							
Warrants payable	\$ 52,832	371,602	—	74,298	559,333	—	1,058,065
Accrued liabilities	20,168	37,403	—	39,082	56,575	—	153,228
Due to other funds	739,969	—	—	—	—	—	739,969
Total liabilities	<u>812,969</u>	<u>409,005</u>	<u>—</u>	<u>113,380</u>	<u>615,908</u>	<u>—</u>	<u>1,951,262</u>
Deferred Inflows of Resources:							
Unavailable revenue	<u>—</u>	<u>—</u>	<u>—</u>	<u>70,651</u>	<u>—</u>	<u>—</u>	<u>70,651</u>
Fund balances:							
Nonspendable	—	—	—	—	—	2,170,328	2,170,328
Restricted	—	3,594,314	—	13,635,875	1,927,906	1,491,104	20,649,199
Committed	<u>—</u>	<u>—</u>	<u>15,865,944</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,865,944</u>
Total fund balances	<u>—</u>	<u>3,594,314</u>	<u>15,865,944</u>	<u>13,635,875</u>	<u>1,927,906</u>	<u>3,661,432</u>	<u>38,685,471</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 812,969</u>	<u>4,003,319</u>	<u>15,865,944</u>	<u>13,819,906</u>	<u>2,543,814</u>	<u>3,661,432</u>	<u>40,707,384</u>

See accompanying independent auditors' report.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

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

Year ended June 30, 2014

	<b>Special revenue</b>						
	<b>Community development block grant</b>	<b>School grants</b>	<b>Parking fund</b>	<b>Community preservation act</b>	<b>Other grants</b>	<b>Permanent funds</b>	<b>Total</b>
Revenues:							
Intergovernmental	\$ 1,424,104	10,869,967	—	4,347,169	8,834,605	—	25,475,845
Investment income	—	—	51,465	16,482	3,181	18,637	89,765
Other:							
Permits	—	—	672,627	—	—	—	672,627
Fines	—	—	10,385,456	—	—	—	10,385,456
Charges for services	—	—	10,472,519	—	—	—	10,472,519
Miscellaneous	—	1,579,162	101,975	8,581,278	580,065	241,042	11,083,522
Total revenues	<u>1,424,104</u>	<u>12,449,129</u>	<u>21,684,042</u>	<u>12,944,929</u>	<u>9,417,851</u>	<u>259,679</u>	<u>58,179,734</u>
Expenditures:							
General government	—	—	—	12,677	81,241	167,910	261,828
Public safety	—	—	—	—	1,472,578	—	1,472,578
Community maintenance and development	895,947	—	—	1,419,827	604,198	—	2,919,972
Human services	462,018	—	—	—	7,649,406	—	8,111,424
Education	—	12,318,772	—	—	—	—	12,318,772
Total expenditures	<u>1,357,965</u>	<u>12,318,772</u>	<u>—</u>	<u>1,432,504</u>	<u>9,807,423</u>	<u>167,910</u>	<u>25,084,574</u>
Excess (deficiency) of revenues over expenditures	66,139	130,357	21,684,042	11,512,425	(389,572)	91,769	33,095,160
Other financing sources (uses):							
Transfers from other funds	—	—	—	—	—	—	—
Transfers to other funds	(66,139)	—	(21,671,855)	(8,240,000)	—	(40,000)	(30,017,994)
Excess of revenues over expenditures and transfers	—	130,357	12,187	3,272,425	(389,572)	51,769	3,077,166
Fund balances at beginning of year	—	3,463,957	15,853,757	10,363,450	2,317,478	3,609,663	35,608,305
Fund balances at end of year	<u>\$ —</u>	<u>3,594,314</u>	<u>15,865,944</u>	<u>13,635,875</u>	<u>1,927,906</u>	<u>3,661,432</u>	<u>38,685,471</u>

See accompanying independent auditors' report.

**CITY OF CAMBRIDGE, MASSACHUSETTS**

**Supplemental Statements and Schedules**

**June 30, 2014**

**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, 2014

<b>Assets</b>	<b>Balance at June 30, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2014</b>
Contract Bids	\$ 113,214	—	—	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	229,119	254,214	195,605	287,728
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	140,465	5,203,929	5,349,045	(4,651)
Cambridge Fire Detail	86,236	1,248,362	1,252,583	82,015
Dog Licenses	10,657	—	—	10,657
Sporting Licenses	2,390	—	—	2,390
Constable Fees	216,652	141,848	144,451	214,049
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	13,631	64,248	—	77,879
Accident and life Insurance	978,920	325,433	295,097	1,009,256
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	23,528	—	—	23,528
Retirement Office Payroll	716,146	515,709	625,990	605,865
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	925,593	824,428	663,778	1,086,243
Excise Registry Fees	13,857	—	—	13,857
3 Bigelow Contingency Fund	87,512	7,432	7,319	87,625
Retroactive Wages	6	—	—	6
Land Court Fees	55,608	—	—	55,608
Choke Program	1,182	—	—	1,182
Payroll Checks	64,992	—	—	64,992
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	265,329	—	—	265,329
Stop Payments	22,667	—	—	22,667
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Water Department Deposits	474,160	108,600	41,275	541,485
Salem State Reading Spec. Prog	501	—	—	501
Citizens Bank Cks June 2012	299,267	4,547,291	4,147,431	699,127
Parking Garage Deposits	—	22,400	4,000	18,400
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	228	—	—	228
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-Three Mt. Auburn Rents	2,028	—	—	2,028
Police – Recovered Cash	442	—	—	442
Police – Found Cash	3,098	—	—	3,098
Firearms Recordkeeping Fund	14,658	10,787	9,200	16,245
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	25,901	—	—	25,901
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	(66,204)	—	2,283	(68,487)
Robert Chambers Settlement	7,799	—	—	7,799
<b>Total</b>	<b>\$ 5,155,422</b>	<b>13,274,681</b>	<b>12,738,057</b>	<b>5,692,046</b>

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Combining Statement of Changes in Assets and Liabilities – Agency Funds  
Year ended June 30, 2014

<b>Liabilities</b>	<b>Balance at June 30, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2014</b>
Guarantee deposits and amounts due other:				
Contract Bids	\$ 113,214	—	—	113,214
Plans	2,065	—	—	2,065
Tree Removals	485	—	—	485
Driveways	229,119	254,214	195,605	287,728
Sidewalk Openings	150	—	—	150
In Lieu of Bond	70,945	—	—	70,945
License Commission	10,149	—	—	10,149
Cambridge Police Detail	140,465	5,203,929	5,349,045	(4,651)
Cambridge Fire Detail	86,236	1,248,362	1,252,583	82,015
Dog Licenses	10,657	—	—	10,657
Sporting Licenses	2,390	—	—	2,390
Constable Fees	216,652	141,848	144,451	214,049
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	13,631	64,248	—	77,879
Accident and life Insurance	978,920	325,433	295,097	1,009,256
Medicare	2,804	—	—	2,804
Car Seat Program	1,539	—	—	1,539
Deferred Compensation	1,410	—	—	1,410
Legal Fees	23,528	—	—	23,528
Retirement Office Payroll	716,146	515,709	625,990	605,865
Continental Casualty	12,407	—	—	12,407
Teacher Insurance Reimbursement	4,940	—	—	4,940
Teachers Retirement	925,593	824,428	663,778	1,086,243
Excise Registry Fees	13,857	—	—	13,857
3 Bigelow Contingency Fund	87,512	7,432	7,319	87,625
Retroactive Wages	6	—	—	6
Land Court Fees	55,608	—	—	55,608
Choke Program	1,182	—	—	1,182
Payroll Checks	64,992	—	—	64,992
Retirement Checks	14,693	—	—	14,693
Unclaimed Checks	265,329	—	—	265,329
Stop Payments	22,667	—	—	22,667
Sewer Abatement Appraisal Fee	10,495	—	—	10,495
Water Department Deposits	474,160	108,600	41,275	541,485
Salem State Reading Spec. Prog	501	—	—	501
Citizens Bank Cks June 2012	299,267	4,547,291	4,147,431	699,127
Parking Garage Deposits	—	22,400	4,000	18,400
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	228	—	—	228
Levangie/J.P. Construction Co.	1,681	—	—	1,681
Forty-three Mt. Auburn Rents	2,028	—	—	2,028
Police – Recovered Cash	442	—	—	442
Police – Found Cash	3,098	—	—	3,098
Firearms Recordkeeping Cash	14,658	10,787	9,200	16,245
Cambport Roadways Plan Fund	38	—	—	38
Tenant – 199 Prospect St.	25,901	—	—	25,901
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	(66,204)	—	2,283	(68,487)
Robert Chambers Settlement	7,799	—	—	7,799
<b>Total</b>	<b>\$ 5,155,422</b>	<b>13,274,681</b>	<b>12,738,057</b>	<b>5,692,046</b>

See accompanying independent auditors' report.



**CITY OF CAMBRIDGE, MASSACHUSETTS**

**Supplemental Statements and Schedules**

June 30, 2014

**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, 2014.

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes  
June 30, 2014

	<b>Uncollected June 30, 2013</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, 2014</b>
Real estate taxes:								
2006	\$ —	—	—	—	—	—	—	—
2007	—	—	—	—	—	—	—	—
2008	—	—	—	—	—	—	—	—
2009	1,447	—	—	—	—	—	—	1,447
2010	—	—	(1,665)	—	110,334	(108,802)	133	—
2011	8,527	—	(51,480)	—	55,847	(4,495)	128	8,527
2012	13,526	—	(75,010)	(8,054)	113,595	(46,863)	2,806	—
2013	2,397,975	—	(292,840)	(708,474)	540,438	(1,933,702)	(395)	3,002
2014	—	307,107,291	(1,216,809)	—	483,383	(303,176,102)	(88,012)	3,109,751
Total real estate	\$ 2,421,475	307,107,291	(1,637,804)	(716,528)	1,303,597	(305,269,964)	(85,340)	3,122,727

Years with no beginning uncollected balances or activity are not presented.

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes  
June 30, 2014

	<b>Uncollected June 30, 2013</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, 2014</b>
Personal property taxes:								
1998	\$ 25	—	(25)	—	—	—	—	—
2002	38	—	(25)	—	—	—	—	13
2003	24,146	—	(4,945)	—	—	—	1	19,202
2004	15,623	—	(3,170)	—	—	—	—	12,453
2005	44,242	—	(22,230)	—	—	—	34	22,046
2006	87,612	—	(73,483)	—	—	(126)	—	14,003
2007	63,409	—	(47,272)	—	—	(30)	—	16,107
2008	83,585	—	(59,445)	—	—	(771)	1,043	24,412
2009	94,264	—	(67,986)	—	—	(873)	6,255	31,660
2010	121,885	—	(80,393)	—	—	(353)	(1)	41,138
2011	141,561	—	(380)	—	—	(6,953)	1	134,229
2012	340,735	—	(365)	—	760	(59,930)	(34)	281,166
2013	442,318	—	(440)	—	12,558	(116,860)	(60)	337,516
2014	—	22,077,895	(202,196)	—	371	(21,481,289)	(41,534)	353,247
Total personal property	1,459,443	22,077,895	(562,355)	—	13,689	(21,667,185)	(34,295)	1,287,192
Other	107,475	—	—	—	—	—	68,529	176,004
Property taxes	\$ 3,988,393	329,185,186	(2,200,159)	(716,528)	1,317,286	(326,937,149)	(51,106)	4,585,923

Years with no beginning uncollected balances or activity are not presented.

**CITY OF CAMBRIDGE, MASSACHUSETTS**  
Schedule of Gross Real Estate, Personal Property, and Motor Vehicle Excise Taxes  
June 30, 2014

	<b>Uncollected June 30, 2013</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, 2014</b>
Motor vehicle excise taxes:								
1986	\$ 2,648	—	—	—	—	(5)	(1)	2,642
1987	57,357	—	—	—	—	(43)	—	57,314
1988	71,856	—	—	—	—	(51)	—	71,805
1989	76,386	—	—	—	—	(42)	1	76,345
1990	68,056	—	—	—	—	(64)	1	67,993
1991	51,225	—	—	—	—	(55)	—	51,170
1992	51,681	—	—	—	—	(51)	—	51,630
1993	48,851	—	—	—	—	(39)	—	48,812
1994	51,648	—	—	—	—	(39)	—	51,609
1995	56,056	—	(128)	—	128	(194)	1	55,863
1996	55,346	—	—	—	—	(55)	—	55,291
1997	47,588	—	—	—	—	(16)	—	47,572
1998	62,675	—	—	—	—	(433)	—	62,242
1999	109,545	—	—	—	—	(214)	1	109,332
2000	170,663	—	(25)	—	—	(257)	1	170,382
2001	212,669	—	(84)	—	—	(645)	—	211,940
2002	194,400	—	(78)	—	—	(1,497)	1	192,826
2003	172,708	—	(34)	—	—	(772)	(2)	171,900
2004	143,854	—	—	—	—	(788)	(461)	142,605
2005	118,481	—	(45)	—	—	(1,714)	125	116,847
2006	107,596	—	(713)	—	—	(1,826)	29	105,086
2007	143,067	—	(166)	—	33	(4,389)	68	138,613
2008	128,049	—	(537)	—	13	(6,603)	(4)	120,918
2009	113,220	—	(463)	—	148	(9,052)	(1)	103,852
2010	137,420	—	(2,025)	—	2,296	(16,416)	4	121,279
2011	155,388	53	(2,811)	—	2,049	(22,454)	(3)	132,222
2012	218,770	57	(9,383)	—	6,627	(76,805)	(271)	138,995
2013	796,769	652,394	(67,071)	—	62,864	(1,198,064)	(408)	246,484
2014	—	6,387,960	(164,191)	—	41,880	(5,747,836)	561	518,374
Total motor vehicle	\$ 3,623,972	7,040,464	(247,754)	—	116,038	(7,090,419)	(358)	3,441,943

Years with no beginning uncollected balances or activity are not presented.

See accompanying independent auditors' report.

## CITY OF CAMBRIDGE, MASSACHUSETTS

## Schedule of Bonds and Notes Payable

Year ended June 30, 2014

	Interest rates	Issue dates	Final maturity date	Balance June 30, 2013	Additions	Retired	Balance June 30, 2014
Inside debt limit:							
Hospital Series B 2007 Bonds	3.65	3/15/2007	2/1/2018	\$ 7,495,000	—	1,500,000	5,995,000
Fiber Optic Network Infrastructure	2.5%-3.3%	1/15/2004	1/1/2014	35,000	—	35,000	—
Fire Station Renovations	2.5%-3.3%	1/15/2004	1/1/2014	15,000	—	15,000	—
War Memorial Renovations	2.5%-3.3%	1/15/2004	1/1/2014	120,000	—	120,000	—
Building Renovations	2.5%-3.3%	1/15/2004	1/1/2014	50,000	—	50,000	—
Library Construction	2.5%-4.25%	1/15/2004	1/1/2024	435,000	—	435,000	—
Russell Donnelly Field Improvements	2.5%-3.3%	1/15/2004	1/1/2014	910,000	—	910,000	—
Yerxa Road Underpass	2.5%-3.3%	1/15/2004	1/1/2014	125,000	—	125,000	—
Cambridge Street Improvements	2.5%-3.3%	1/15/2004	1/1/2014	150,000	—	150,000	—
Sewer Reconstruction	2.5%-3.3%	1/15/2004	1/1/2014	940,000	—	940,000	—
Harvard Square Enhancements	3%-4%	2/1/2005	1/1/2015	400,000	—	200,000	200,000
Gold Star Pool Improvements	3%-4%	2/1/2005	1/1/2015	220,000	—	110,000	110,000
Library Construction	3%-4%	2/1/2005	1/1/2025	2,100,000	—	700,000	1,400,000
Area 4 Park Improvements	3%-4%	2/1/2005	1/1/2015	400,000	—	200,000	200,000
Russell Field Improvements	3%-4%	2/1/2005	1/1/2015	670,500	—	345,000	325,500
Cambridge Street Improvements	3%-4%	2/1/2005	1/1/2015	470,000	—	235,000	235,000
Porter Square Enhancements	3%-4%	2/1/2005	1/1/2015	460,000	—	230,000	230,000
Yerxa Road Underpass	3%-4%	2/1/2005	1/1/2015	440,000	—	220,000	220,000
MWPAT Loan	N/A	11/23/2004	8/1/2014	553,158	—	273,874	279,284
MWPAT Loan	N/A	11/23/2004	8/1/2014	422,801	—	209,515	213,286
MWPAT Loan	N/A	11/23/2004	8/1/2014	29,033	—	14,385	14,648
Sewer Reconstruction	3%-4%	2/1/2005	1/1/2015	3,104,500	—	1,545,000	1,559,500
Police Station Acquisition/Renovations	3.50%-4.25%	2/1/2006	1/1/2026	12,250,000	—	1,750,000	10,500,000
Library Construction	3.50%-4.25%	2/1/2006	1/1/2026	5,600,000	—	800,000	4,800,000
West Cambridge Youth Center	3.50%-4.25%	2/1/2006	1/1/2016	900,000	—	300,000	600,000
Building Renovations	3.50%-4.25%	2/1/2006	1/1/2016	300,000	—	100,000	200,000
Yerxa Road Underpass	3.50%-4.25%	2/1/2006	1/1/2016	300,000	—	100,000	200,000
Open Space Improvements	3.50%-4.25%	2/1/2006	1/1/2016	150,000	—	50,000	100,000
Porter Square Enhancements	3.50%-4.25%	2/1/2006	1/1/2016	240,000	—	80,000	160,000
Sewer Reconstruction	3.50%-4.25%	2/1/2006	1/1/2016	3,060,000	—	1,020,000	2,040,000
Building Renovations	4.0%	2/15/2007	2/1/2017	260,000	—	65,000	195,000
Police Station Acquisition/Renovations	4.0%	2/15/2007	2/1/2027	11,900,000	—	850,000	11,050,000
West Cambridge Youth Center	4.0%	2/15/2007	2/1/2017	3,200,000	—	800,000	2,400,000
Area 4 Park Improvements	4.0%	2/15/2007	2/1/2017	200,000	—	50,000	150,000
Yerxa Road Underpass	4.0%	2/15/2007	2/1/2017	440,000	—	110,000	330,000
Harvard Square Enhancements	4.0%	2/15/2007	2/1/2017	600,000	—	150,000	450,000
Sewer Reconstruction	4.0%	2/15/2007	2/1/2017	1,360,000	—	340,000	1,020,000
CRLS Renovations	3.0%-4.0%	2/1/2008	2/1/2028	3,750,000	—	250,000	3,500,000
War Memorial Renovations	3.0%-3.25%	2/1/2008	2/1/2018	6,112,982	—	1,222,598	4,890,384
Police Station Acquisition/Renovations	3.0%-4.0%	2/1/2008	2/1/2028	6,070,000	—	400,000	5,670,000
West Cambridge Youth Center	3.0%-3.25%	2/1/2008	2/1/2018	2,940,000	—	590,000	2,350,000
Library Construction	3.0%-4.0%	2/1/2008	2/1/2028	20,335,000	—	1,360,000	18,975,000
War Memorial Renovations	3.0%-3.25%	2/1/2008	2/1/2018	2,360,835	—	472,167	1,888,668
Harvard Square Enhancements	3.0%-3.25%	2/1/2008	2/1/2018	300,000	—	60,000	240,000
Sewer Reconstruction	3.0%-3.25%	2/1/2008	2/1/2018	3,106,183	—	625,235	2,480,948
Fire Station Renovations	2.0%-4.0%	3/15/2009	3/15/2019	600,000	—	100,000	500,000
Library Construction	2.0%-4.375%	3/15/2009	3/15/2029	8,455,000	—	530,000	7,925,000
Building Renovations	2.0%-4.0%	3/15/2009	3/15/2019	300,000	—	50,000	250,000
CRLS Renovations	2.0%-4.375%	3/15/2009	3/15/2029	24,000,000	—	1,500,000	22,500,000
Replacement of Radio System	2.0%-4.0%	3/15/2009	3/15/2019	300,000	—	50,000	250,000
Sewer Reconstruction	2.0%-4.0%	3/15/2009	3/15/2019	2,880,000	—	480,000	2,400,000
War Memorial Renovations (MSBA)	2.0%	6/25/2009	11/1/2019	1,470,000	—	210,000	1,260,000
CRLS Renovations	2.0%-3.0%	2/15/2010	2/15/2030	21,250,000	—	1,250,000	20,000,000
Sewer Reconstruction	2.0%-3.5%	2/15/2010	2/15/2020	4,840,000	—	695,000	4,145,000
Yerxa Road Underpass Construction	2.0%-3.75%	2/15/2010	2/15/2020	210,000	—	30,000	180,000
War Memorial Renovations	2.0%-4.0%	2/15/2011	2/15/2021	135,000	—	20,000	115,000
Building Renovations	2.0%-4.0%	2/15/2011	2/15/2021	1,200,000	—	150,000	1,050,000
Replacement of Radio System	2.0%-4.0%	2/15/2011	2/15/2021	4,960,000	—	620,000	4,340,000
Old Police Station Renovation	2.0%-4.5%	2/15/2011	2/15/2031	3,600,000	—	200,000	3,400,000
CRLS Renovations	2.0%-4.5%	2/15/2011	2/15/2031	14,525,000	—	810,000	13,715,000
Harvard Square Enhancements	2.0%-4.0%	2/15/2011	2/15/2021	1,700,000	—	150,000	1,550,000
Danehy Park Improvements	2.0%-4.0%	2/15/2011	2/15/2021	560,000	—	70,000	490,000
Kendall Square Improvements	2.0%	2/15/2011	2/15/2016	300,000	—	100,000	200,000

**CITY OF CAMBRIDGE, MASSACHUSETTS**

Schedule of Bonds and Notes Payable

Year ended June 30, 2014

	<b>Interest rates</b>	<b>Issue dates</b>	<b>Final maturity date</b>	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Retired</b>	<b>Balance June 30, 2014</b>
Sewer Reconstruction	2.0%–4.0%	2/15/2011	2/15/2021	\$ 12,000,000	—	1,500,000	10,500,000
CRLS Renovations (MSBA)	2.0%	7/12/2011	11/1/2021	5,351,886	—	594,654	4,757,232
Building Renovations	2.0%	2/15/2012	2/15/2022	1,800,000	—	200,000	1,600,000
Old Police Station Renovation	2.0%–3.0%	2/15/2012	2/15/2032	10,005,000	—	530,000	9,475,000
Elementary School Renovations (Design)	2.0%	2/15/2012	2/15/2022	2,400,000	—	600,000	1,800,000
Refinancing Bonds (2004, 2005, 2006)	1.9%	3/22/2012	1/1/2024	24,725,000	—	—	24,725,000
Street / Sidewalk Reconstruction	2.0%	2/15/2012	2/15/2024	900,000	—	100,000	800,000
Open Space Improvements	2.0%	2/15/2012	2/15/2022	1,170,000	—	130,000	1,040,000
Kendall Square Improvements	2.0%	2/15/2012	2/15/2022	270,000	—	30,000	240,000
Harvard Square Tunnel Improvements	2.0%	2/15/2012	2/15/2022	1,800,000	—	200,000	1,600,000
Sewer Reconstruction	2.0%	2/15/2012	2/15/2022	18,315,000	—	2,035,000	16,280,000
MWPAT Loan (Gross Pay) CW-10-04)	—	6/13/2012	7/15/2022	10,083,572	—	1,001,564	9,082,008
King School Renovations	2.0%–3.0%	2/19/2013	2/15/2033	33,000,000	—	1,650,000	31,350,000
Old Police Station Renovations	2.0%–3.0%	2/19/2013	2/15/2033	4,070,000	—	205,000	3,865,000
Acquisitions of Fire Vehicles	2.0%–3.0%	2/19/2013	2/15/2033	1,245,000	—	125,000	1,120,000
City Hall Roof Replacement	2.0%–3.0%	2/19/2013	2/15/2033	1,000,000	—	100,000	900,000
Street / Sidewalk Reconstruction	2.0%–3.0%	2/19/2013	2/15/2023	1,000,000	—	100,000	900,000
Harvard Square Tunnel Improvements	2.0%–3.0%	2/19/2013	2/15/2023	1,500,000	—	150,000	1,350,000
Danahy Park Improvements	2.0%–3.0%	2/19/2013	2/15/2023	1,540,000	—	155,000	1,385,000
Kendall Square Improvements	2.0%–3.0%	2/19/2013	2/15/2023	500,000	—	50,000	450,000
Sewer Reconstruction	2.0%–3.0%	2/19/2013	2/15/2023	21,405,000	—	2,145,000	19,260,000
MWRA Loan	—	2/25/2013	2/25/2018	715,000	—	143,000	572,000
King School Renovations	3.125–5.0%	2/18/2014	2/25/1934	—	18,500,000	—	18,500,000
Kendall Square Improvements	5.0%	2/18/2014	2/15/2024	—	1,000,000	—	1,000,000
Street / Sidewalk Reconstruction	5.0%	2/18/2014	2/15/2024	—	1,000,000	—	1,000,000
Harvard Square Tunnel Improvements	5.0%	2/18/2014	2/15/2024	—	1,000,000	—	1,000,000
Cambridge Common Improvements	5.0%	2/18/2014	2/15/2024	—	500,000	—	500,000
Sewer Reconstruction	5.0%	2/18/2014	2/25/2024	—	12,900,000	—	12,900,000
Total inside debt limit				<u>351,360,450</u>	<u>34,900,000</u>	<u>38,866,992</u>	<u>347,393,458</u>
Outside debt limit:							
Water:							
Automated Meter Reading System	2.5%–3.3%	1/15/2004	1/1/2014	300,000	—	300,000	—
Automated Meter Reading System	3%–4%	2/1/2005	1/1/2015	240,000	—	120,000	120,000
Water Series C 2007 Bonds	4%–5.0%	3/15/2007	8/1/2019	14,980,000	—	2,420,000	12,560,000
Total water				<u>15,520,000</u>	<u>—</u>	<u>2,840,000</u>	<u>12,680,000</u>
HUD Sec 108 Notes	5.07%	9/14/2006	8/1/2014	205,000	—	35,000	170,000
Housing Trust Fund:							
Note payable	2.00%	6/30/2007	7/1/2021	4,703,302	—	574,627	4,128,675
Total outside debt limit				<u>20,428,302</u>	<u>—</u>	<u>3,449,627</u>	<u>16,978,675</u>
Total debt outstanding				<u>\$ 371,788,752</u>	<u>34,900,000</u>	<u>42,316,619</u>	<u>364,372,133</u>

See accompanying independent auditors' report.

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## **APPENDIX B**



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Locke Lord Edwards  
111 Huntington Avenue  
Boston, MA 02199  
Telephone: 617-239-0100  
Fax: 617-227-4420  
www.lockelord.com

(Date of Delivery)  
Louis A. DePasquale, Treasurer  
City of Cambridge  
Cambridge, Massachusetts

\$75,465,000  
City of Cambridge, Massachusetts  
Municipal Purpose Loan of 2015 Bonds, Series A  
Dated March 19, 2015

We have acted as bond counsel to the City of Cambridge, Massachusetts (the "City") in connection with the issuance by the City of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the City contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the City and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the City, subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the City with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with all such requirements. Failure by the City to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

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

LOCKE LORD LLP

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## **APPENDIX C**

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**PROPOSED FORM OF  
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Cambridge, Massachusetts (the "City") in connection with the issuance of its \$75,465,000 General Obligation Municipal Purpose Loan of 2015 Bonds, Series A dated March \_\_, 2015 (the "Bonds"). The City covenants and agrees as follows:

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

"Owners of the Bonds" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SECTION 3. Provision of Annual Reports.**

(a) The City shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted when available separately from the balance of the Annual Report.

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

**SECTION 4. Content of Annual Reports.** The City's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the City's Official Statement dated \_\_\_\_\_, 2015 relating to the Bonds regarding (i) the revenues and expenditures of the City relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the City, (vi) pension obligations of the City, and (vii) other post-employment benefits liability of the City, and

(b) the most recently available audited financial statements of the City, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth (except for the omission, if any, of a statement of fixed assets). If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which (i) are available to the pub-

lic on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so incorporated by reference.

#### SECTION 5. Reporting of Significant Events.

(a) The City shall give notice, in accordance with provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
7. Modifications to rights of the Owners of the Bonds, if material.
8. Bond calls, if material, and tender offers.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the City.\*
13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Upon the occurrence of a Listed Event, the City shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

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

\* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City

in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

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

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

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

By:

\_\_\_\_\_  
Treasurer

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

\_\_\_\_\_  
City Auditor

[EXHIBIT A: Filing Information for the MSRB]

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



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## **APPENDIX D**

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**CITY OF CAMBRIDGE  
MASSACHUSETTS**

**\$75,465,000  
GENERAL OBLIGATION BONDS, SERIES A  
MUNICIPAL PURPOSE LOAN OF 2015**

**Time and Place of Sale**

The City of Cambridge, Massachusetts, will receive electronic bids only in accordance with this Official Notice of Sale until 11:00 a.m. (Eastern Standard Time) on Tuesday, March 3, 2015, for the purchase of the following described general obligation Bonds of the City dated March 19, 2015. The Bonds will mature on February 15 each year as specified below.

<b>Due February 15</b>	<b>Principal Amount</b>	<b>Due February 15</b>	<b>Principal Amount</b>
2016	\$5,585,000	2026*	\$ 2,050,000
2017	5,585,000	2027*	2,050,000
2018	5,585,000	2028*	2,050,000
2019	5,585,000	2029*	2,050,000
2020	5,585,000	2030*	2,050,000
2021	5,515,000	2031*	2,050,000
2022	5,385,000	2032*	2,050,000
2023	5,385,000	2033*	2,050,000
2024	5,380,000	2034*	2,050,000
2025	5,375,000	2035*	2,050,000

\*Callable maturities may be combined into one or two Term Bonds.

In the case of a malfunction of the Electronic Bidding Systems (as defined below), facsimile bids will be allowed, as more fully described below in "Bidding Rules."

**Form and Payment of Bonds**

Principal of the Bonds will be payable on February 15 of the years in which the Bonds mature. Interest will be payable semiannually on February 15 and August 15, commencing August 15, 2015. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

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. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Only System" in the preliminary official statement.)

So long as DTC or its nominee, Cede & Co., is the Bondowner, payments of principal and semiannual interest on the Bonds will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described in the preliminary official statement.

**Serial Bonds, Term Bonds and Mandatory Sinking Fund Redemption**

Bidders may provide in the bid form for all of the Bonds to be issued as serial Bonds or may designate consecutive annual principal amounts of the Bonds to be combined into not more than two Term Bonds. In the event that a bidder chooses to specify a Term Bond, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity of such Term Bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth in the amortization schedule above. Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from among the Bonds of

the maturity being redeemed.

### **Optional Redemption**

The Bonds that mature or are subject to mandatory sinking fund redemption on or before February 15, 2025, are not subject to optional redemption prior to their stated maturities. The Bonds that mature on and after February 15, 2026, will be subject to redemption beginning February 15, 2025, in whole or in part at any time, at the option of the City, upon payment of 100% of the par amount of principal so 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 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 purpose. 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 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.

### **Legal Opinion**

The approving opinion of the firm of Locke Lord LLP, as successor by merger to Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel, with respect to this issue shall be furnished to the successful bidder at the expense of the City. The legal opinion will state that the Bonds constitute valid general obligations of the City. The original opinion of Bond Counsel and copies of the supporting documents incident to the Bonds will be available for inspection at the offices of the City Treasurer.

### **Bidding Rules**

Notice is hereby given that electronic (as explained below) proposals will be received via PARITY (the "Electronic Bidding Systems"), in the manner described below, until 11:00 a.m. Eastern Standard Time, on Tuesday, March 3, 2015. Bids may be submitted electronically via PARITY in accordance with this Notice until 11:00 a.m. Eastern Standard Time, but no bid will be received after the time for receiving bids specified above. The City is using PARITY as a communication mechanism to conduct the electronic bidding for the sale of the Bonds, as described herein. No other form of electronic bid or provider of electronic bidding services will be accepted. For purposes of the bidding process, the time as maintained by PARITY shall constitute the official time with respect to all bids submitted. To the extent any instructions or directions set forth in PARITY conflict with this Notice, the terms of this Notice shall control. An electronic bid made in accordance with the Notice of Sale shall be deemed an offer to purchase the Bonds in accordance with the terms provided in the Notice of Sale and shall be binding upon the bidder.

Each bidder submitting an electronic bid agrees (i) that it is solely responsible for all arrangements with PARITY, (ii) that PARITY is not acting as the agent of the City, and (iii) that the City is not responsible for ensuring or verifying bidder compliance with any of the procedures of PARITY. The City assumes no responsibility for, and each bidder expressly assumes the risks of and responsibility for, any incomplete, inaccurate or untimely bid submitted by such bidder through PARITY. Each bidder shall be solely responsible for making necessary arrangements to access the Electronic Bidding System for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale. Neither the City nor the Electronic Bidding System shall have any duty or obligation to provide or assure such access to any bidder, and neither the City nor PARITY shall be responsible for proper operation of, or have any liability for, any delays or interruptions of, or any damages caused by, PARITY. For further information about PARITY, potential bidders may contact John Krause at Government Finance Group, the City's Financial Advisor, at (703) 768-7336 or PARITY at (212) 404-8102.

In the event of a malfunction of the Electronic Bidding System, facsimile transmission bids will be accepted up to 12:00 p.m., Eastern Standard Time, on the Date of Sale in order to be considered. Bid forms may be obtained from the City or its Financial Advisor (see Additional Information, below). Bidders

choosing to submit bids in the case of a malfunction by facsimile transmission shall use the following telecopier number for such transmission: (617) 349-4307 (Attention: Louis DePasquale). Transmissions received after the deadline shall be rejected. It is the responsibility of the bidder to ensure that the bid is legible, that the bid is received prior to 12:00 p.m., Eastern Standard Time, and that the bid is sent to the telecopier number set forth above. Illegible transmissions will not be accepted. The City's financial advisor, Government Finance Group, will verify receipt of each bid submitted through facsimile transmission by contacting each bidder by telephone once the bid has been received. The City's Financial Advisor will in no instance correct, alter or in any way change bids submitted through facsimile transmission. Neither the City or its Financial Advisor will be responsible for bids submitted by facsimile transmission not received in accordance with the provisions of this Official Notice of Sale. Bidders electing to submit bids via facsimile transmission will bear full and complete responsibility for the transmission of such bid. Each bid must be unconditional.

Bidders may only bid to purchase all of the Bonds. Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in multiples of  $\frac{1}{8}$  or  $\frac{1}{32}$  of 1 percent, but shall not state (a) more than one interest rate for any Bonds having like maturity, or (b) any interest rate which exceeds the interest rate stated for any other Bonds by more than 3 percentage points. **No bid of less than par or more than 110 percent of par** and accrued interest to date of delivery will be considered.

### **Basis of Awarding Bonds**

The City reserves the right to reject any and all bids and to reject any bid not complying with this Official Notice of Sale, and so far as permitted by law, to waive any irregularity with respect to any proposal. Unless all bids are rejected, the Bonds will be awarded to the bidder complying with this Official Notice of Sale and submitting a bid, which provides the lowest net effective interest cost to the City. Such interest rate shall be determined on a true interest cost (TIC) basis, which shall mean that rate which, as of the delivery date, discounts semi-annually all future payments of principal as set forth above and interest on the Bonds to the price bid. In the event there is more than one proposal specifying the lowest such rate, the Bonds will be awarded to the bidder whose proposal is selected by the City Treasurer by lot from among all such proposals.

### **Change of Bid Date and Closing Date**

The City expects to take bids on the bonds on March 3, 2015. However, the City reserves the right to postpone, from time to time, the date established for the receipt of bids and will undertake to notify registered prospective bidders via notification published on Thomson Municipal Monitor ("TM3") ([www.tm3.com](http://www.tm3.com)). Prospective bidders may request notification by facsimile transmission of any such changes in the date or time for the receipt of bids by so advising, and furnishing their facsimile numbers to the City at 617-349-4300, Eastern Standard Time, two days prior to the date fixed for the receipt of bids.

A postponement of the bid date will be announced via TM3 newswire not later than 4:00 p.m., Eastern Standard Time, on the last business day prior to any announced date for receipt of bids, and an alternative sale date and time will be announced via TM3 newswire by 12:00 Noon, Eastern Standard Time, two business days prior to such alternative date for receipt of bids.

The Bonds, in definitive form, will be delivered to The Depository Trust Company in New York, New York on or about March 19, 2015.

### **Interest Calculation**

Each bid shall be accompanied by a statement of the true interest cost offered in its bid statement in accordance with the above method of calculation (computed at six decimal places), but such statement shall not be considered to be part of the bid.

### **Delivery of the Bonds: Closing Certificates**

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that he or she shall be furnished, without cost, with: (a) the approving opinion of the firm of Locke Lord LLP, as successor by merger to Edwards Wildman Palmer LLP, substantially in the form presented in Appendix B to the Preliminary Official Statement dated February 25, 2015; (b) a certificate in form satisfactory to said firm, dated as of the date of delivery of the Bonds and receipt of payment thereof, to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened affecting the validity of the Bonds or the power of the City to levy and collect taxes to pay them; (c) a certificate of the City Treasurer and City Auditor to the effect that, to the best of their knowledge and belief, both as of the date of sale and of the date of delivery of the Bonds, the Official Statement referred to below does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; and (d) a Continuing Disclosure Certificate in the form described in the Preliminary Official Statement.

The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)

(3) of the Code.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any bond, nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the City; provided, however that the City assumes no responsibility for any CUSIP Service Bureau or other charge that may be imposed for the assignment of such numbers.

#### **Certificate of Successful Bidder**

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the City a certificate acceptable to Bond Counsel generally to the effect that (i) as of March 3, 2015 (the "Sale Date"), the successful bidder had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

#### **Continuing Disclosure**

In order to assist bidders in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the City will undertake to provide annual reports and notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement.

#### **Official Statement**

The City will furnish the successful bidder, without cost, electronic copies of the Final Official Statement within seven business days from the date of the award of sale, as specified in Rule 15c2-12 of the Securities and Exchange Commission. Additional printed copies will be made available at the successful bidder's request and expense. The City assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement to anyone other than the successful bidder.

#### **Additional Information**

Additional information concerning the City of Cambridge and the Bonds is contained in the Preliminary Official Statement dated February 24, 2015 to which the prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. The Preliminary Official Statement has been deemed final by the City except for the omission of the reoffering prices, interest rates, and other terms of the Bonds depending on such matters, and the identity of the underwriters, but is subject to change without notice and to completion or amendment in a Final Official Statement. Electronic copies of the Preliminary Official Statement for the Bonds may be obtained from Louis A. DePasquale, City Treasurer, City Hall, First Floor, Cambridge, Massachusetts 02139 (Telephone 617-349-4220) or from the City's financial advisor, John Krause, Government Finance Group, 2306 Wilkinson Place, Alexandria, VA 22306 (Telephone: 703-768-7336). Within seven business days following the award of the Bonds and receipt of necessary information from the successful bidder, copies of the Final Official Statement will be made available to the successful bidder as noted above.

/s/ Louis A. DePasquale  
City Treasurer  
City of Cambridge, Massachusetts

This form is provided for bidders only in the case there is  
a malfunction of the Electronic Bidding System

## FACSIMILE BID FORM

City of Cambridge, Massachusetts

**\$75,465,000**

General Obligation Bonds, Series A

Municipal Purpose Loan of 2015

Mr. Louis A. DePasquale  
City Treasurer  
City Hall  
795 Massachusetts Avenue  
Cambridge, MA 02139  
FAX: 617-349-4307

Dear Mr. DePasquale:

Subject to the provisions an in accordance with the terms of the Notice of Sale dated February 24, 2015, which is hereby made a part of this proposal, we hereby offer to purchase all of the \$75,465,000 City of Cambridge, Massachusetts, General Obligation Municipal Purpose Loan of 2015 Bonds, Series A Book-Entry Only, dated March 19, 2015, described in the Notice of Sale, and to pay the City \$75,465,000, plus a premium (not less than par or more than 110 percent of par) of \$\_\_\_\_\_ plus accrued interest, if any, on said Bonds to the date of their delivery, provided that the Bonds maturing in the years, of each February 15, set forth below shall bear interest from the dated date until maturity at the respective rates per annum stated in the following table for serial bonds:

Year	Amount	Rate (%)	Year	Amount	Rate (%)
2016	\$5,585,000		2026+	\$2,050,000	
2017	5,585,000		2027+	2,050,000	
2018	5,585,000		2028+	2,050,000	
2019	5,585,000		2029+	2,050,000	
2020	5,585,000		2030+	2,050,000	
2021	5,515,000		2031+	2,050,000	
2022	5,385,000		2032+	2,050,000	
2023	5,385,000		2033+	2,050,000	
2024	5,380,000		2034+	2,050,000	
2025	5,375,000		2035+	2,050,000	

+ Callable maturities may be combined into one or two term bonds.

\$\_\_\_\_\_ Term Bonds maturing on February 15, \_\_\_\_\_, at \_\_\_\_\_% per annum

\$\_\_\_\_\_ Term Bonds maturing on February 15, \_\_\_\_\_, at \_\_\_\_\_% per annum

As provided in the abovementioned, our computation of the True Interest Cost (TIC) as a percentage is \_\_\_\_\_% and Net Interest Cost is \$\_\_\_\_\_.

The undersigned hereby acknowledges the receipt of and the opportunity to examine the Preliminary Official Statement accompanying the said Notice of Sale. The City and Government Finance Group are not responsible for errors in bids submitted in this manner.

By: \_\_\_\_\_

Telephone: \_\_\_\_\_

Address: \_\_\_\_\_

Fax: \_\_\_\_\_



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