Consent Agenda #11
of February 2, 1998

Summary of
Economic, Financial, and Debt Information

prepared in connection with

CITY OF CAMBRIDGE, MASSACHUSETTS

$9,905,000

GENERAL OBLIGATION BONDS, MUNICIPAL PURPOSE LOAN OF 1997

June 1997

CITY OF CAMBRIDGE, MASSACHUSETTS

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SECTION I: SUMMARY OF THE BONDS & CREDIT STRENGTHS

MUNICIPAL PURPOSE LOAN OF 1997

On June 18, 1997, the City of Cambridge, Massachusetts (the "City") will accept competitive bids for the sale of $9,905,000 General Obligation Bonds - Municipal Purpose Loan of 1997, (the "Bonds"). The Bonds will be dated June 15, 1997, and will mature on June 15 in each year, as shown below:

YEAR	PRINCIPAL	YEAR	PRINCIPAL
1998	$ 1,045,000	2003	$ 940,000
1999	1,045,000	2004	940,000
2000	1,045,000	2005	935,000
2001	1,045,000	2006	935,000
2002	1,040,000	2007	935,000

This presentation is being made in connection with the City's application for a rating on the Bonds. The purpose of this document is to provide a summary of certain debt, financial, and economic information and to update the agency on changes in the City since its last bond sale ($13,390,000 General Obligation Bonds sold on June 25, 1996).

Use of Proceeds

Proceeds from the Bonds will be used for:

$3,600,000	Eastern Cambridge Youth Center
3,585,000	Central Square improvements
1,000,000	Fiber optic network infrastructure
520,000	Personal computer acquisition (City and schools)
500,000	Building renovations
500,000	Sewer reconstruction
200,000	Area 4 Youth Center
$9,905,000	**TOTAL**

Security for the Bonds

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. Massachusetts statutes direct 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." However, the total amount of a tax levy is limited by statute (Proposition 2 1/2). Local voters may vote to exempt specific subsequent bonds from the tax levy limitations. The City has *not* voted to exempt the debt service on the Bonds from these limitations.

SUMMARY OF CREDIT STRENGTHS

Over the last decade, the Boston metropolitan area and the Northeast region have experienced the extremes of economic boom and recession. Consequently, many Massachusetts local governments experienced severe economic and financial stress. During this decade, however, the City of Cambridge has demonstrated financial and economic stability. The City's history of strong financial and debt management, coupled with its stable economic base, make it well positioned to preserve and improve its strong credit quality. Some of the factors contributing to the City's strong credit position are summarized below and discussed in greater detail on the following pages.

Stable Local Economy

The economic condition and outlook of the City of Cambridge remain strong. Cambridge's sound economic performance over the last decade has largely been due to the diversity and stability of the City's employment base, which is anchored by Harvard University and the Massachusetts Institute of Technology (MIT). In addition to serving as two of the City's largest employers, these institutions have also served as magnets for the rapidly growing biotechnology sector in Cambridge. Due to the diversity of its employment base, the City's average annual unemployment rate over the last decade has been 3.8 percent, while the Commonwealth of Massachusetts and the nation have experienced average rates of 5.7 percent and 6.1 percent respectively.

The City's tax base has continued its trend of stabilization since the real estate downturn of the early 1990's. For the last two fiscal years, the City has experienced slight increases in total assessed valuation, after four years of declines. Fiscal year 1997 total assessed valuation increased by 3.3 percent over FY1996, from \$7.01 million to \$7.24 million. By sector, commercial values declined by 0.6 percent in FY1997, but have generally stabilized after double digit percentage declines in FY1993 - 1994. Residential values increased by approximately 5.6 percent from FY1996.

Strong Financial Position with Substantial Reserves

The City has continued to demonstrate financial strength during a volatile economic period for all New England credits. Despite the recent trend of declining state aid, the City has maintained a solid unreserved General Fund balance as well as other reserve funds. As of June 30, 1996, the City's cash reserves totaled in excess of \$42 million, including \$26.1 million in unreserved General Fund balance. This strong financial position is in large part due to City management's diligence in controlling expenditure growth while encouraging revenue growth within statutory limitations. Over the past five fiscal years, General Fund expenditures and operating transfers out have averaged annual growth of 3.9 percent, while General Fund revenues and operating transfers in have averaged annual growth of 4.4 percent.

Stable Management Team

The City's management team has worked together for the last fifteen years. Since assuming the City Manager's position in the early 1980's, Robert W. Healy has assembled a cohesive team of professionals. Directed by Deputy City Manager Richard C. Rossi, the staff has demonstrated a personal commitment to City service that is rare in municipal governments.

Manageable Debt Burden with Rapid Principal Repayment & Substantial User Fee Support

The City's conservative debt management is exemplified by its moderate current and projected debt ratios. Approximately 57 percent of outstanding general obligation debt is supported by user fees or state subsidy programs, keeping tax-supported debt to a minimum. The City also maintains an extremely rapid rate of retirement -- 100 percent of outstanding debt is scheduled to be retired within ten years.

The City is currently projecting approximately $190 million of general obligation debt issuance over the next five fiscal years (including this issue). Given user fee and state subsidy support for approximately 61 percent of this debt and the City's history of rapid debt retirement, the City can easily support this additional debt. As both moderate economic growth and strong financial performance continue, the City expects to maintain debt ratios that demonstrate an outstanding "ability to pay."

SECTION II: RECENT DEVELOPMENTS

Continuing developments on key issues affecting the City which have occurred since the last bond sale in June 1996 are summarized below. These developments are discussed in greater detail throughout the presentation.

Creation of Cambridge Public Health Commission

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

Per 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 books, the Commission will annually reimburse the City for the associated costs. The Department's real property was transferred from the City to the Commission via a fifty year lease agreement.

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

The Commission is proceeding with plans for a \$60 million renovation and expansion of the Cambridge Hospital. The project includes the construction of a three story 70,00 square foot ambulatory care center, a 200 space underground parking facility, and major renovations of existing facilities. Construction of these projects commenced in February, 1997. The ambulatory care center is expected to meet substantial existing and projected demand for outpatient services in the Commission's service area. Financing for the project consists of \$30 million in City general obligation bonds (to be issued in phases over the next two fiscal years), and a \$30 million equity contribution by the Commission. While the GO bonds issued for the project will be issued by the City and remain on the City's financial statements, in practice debt service will be paid by the Commission.

The City has historically provided tax support to the Cambridge Hospital and Neville Manor and has continued to do so for the Cambridge Public Health Commission. The level of future property tax support and the services to be provided by the Commission on behalf of the City are outlined in a seven year contract executed by the City and the Commission in June 1996. Under the terms of the contract, the Commission will receive $17 million less in net property tax support than if FY1996 support had been carried forward for seven years at a constant level. In FY1996, the City provided $10.896 million in property tax support to the Hospital, Neville Manor, and the Department of Public Health. In FY1997, the City provided tax support of $8.598 million to the Commission, and the Commission remitted $2 million to the City in payments-in-lieu-of taxes, resulting in net tax support of $6.598 million. In FY1998, the City has budgeted tax support of $8.598 million, and the Commission will remit payments-in-lieu-of taxes of $1 million, resulting in net tax support of $7.598 million.

Affordable Housing Initiatives and Elimination of Rent Control

On November 8, 1994, Massachusetts citizens voted to eliminate rent control statewide, effective December 31, 1996. Since the voters' decision, the City has undertaken several substantial initiatives to ensure the creation and maintenance of affordable housing in the City. In fiscal years 1996 and 1997, the City appropriated $2 million and $2.5 million respectively for its affordable housing programs. Most recently, the City budgeted approximately $4.7 million in FY1998 for affordable housing, doubling its expenditure level from the previous fiscal year. The FY1998 affordable housing appropriation is funded by $0.75 million in savings from the elimination of the rent control budget, $1.5 million from new property taxes generated by increases in assessed valuation of previously rent controlled real estate, with the balance funded from general tax revenues. In FY1997, the City estimates that it has received an additional $2 million in tax revenues due to the phased elimination of rent control. Over the next few years, the City is expected to experience additional gains in assessed valuation as the Cambridge real estate market continues to evolve in response to the elimination of rent control. (Please see chart on page 14.) As this occurs, the City will pursue policy options that seek to minimize uncertainty in the real estate market and that maximize potential gains for Cambridge citizens.

FY1998 Adopted Budget

The City's FY1998 operating budget was adopted by City Council on May 12, 1997, and calls for $252,353,360 in total City spending, a 3.8 percent increase from the FY1997 adopted budget, as adjusted for the creation of the Cambridge Public Health Commission. The budgetary increase was primarily due to a four percent cost-of-living salary increase for non-school employees, and a $3.3 million increase in school spending. In percentage terms, the City's community maintenance and development program area will receive the largest funding increase (13.8 percent) from FY1997 projected results. Other program areas also will receive funding increases from FY1997 levels, although of varying size.

Approximately 62 percent of the City's budget is expected to be funded with property taxes. The projected FY1998 tax levy is $156.7 million, a 5.8 percent increase over the actual FY1997 levy, but will not officially be established until September. One-third of the tax levy increase is expected to be covered by new construction and increased taxes from previously rent controlled property. The proposed FY1998 tax levy is projected to be approximately $8.8 million below the projected legal tax levy limit of $165.6 million.

Excess Property Tax Levy Capacity Trends

The City has continued its recent trend of growth in excess levy capacity after experiencing significant declines in FY1994 and 1995. In response to the loss of excess levy capacity, the City reduced expenditure growth. From fiscal years 1993 to 1995, annual expenditure increases on a budgetary basis averaged only 2.43 percent. Because of the City's expenditure restraint and the stabilization of its tax base, the City did not have to increase its property tax levy in FY1996 from the previous fiscal year's level. As a result, the City's excess tax levy capacity increased from $453,000 in FY1995 to $6,197,229 in FY1996. Continued growth in the tax base resulted in an excess tax levy capacity of $10.7 million in FY1997, which is expected to slightly decline in FY1998 due to a slightly higher tax levy than in previous years. Thereafter, the City's excess tax levy capacity is projected to remain between $3.1 and $8.1 million for FY1999 through FY2001, based on anticipated modest growth in assessed valuation and modest increases in the City's property tax levy.

Labor Contracts & Negotiations

Under terms of existing labor contracts, the majority of the City's collective bargaining units will receive a four percent cost-of-living increase in FY1998, with a three and one half percent increase scheduled for FY1999. Several collective bargaining units have contracts that expire on June 30, 1997; negotiations with these units are in progress. The largest of these units is the 268-member International Association of Firefighters.

SECTION III: FINANCIAL POSITION

HISTORICAL & RECENT FINANCIAL TRENDS

Fiscal Year 1996 Results

The City ended FY1996 with a General Fund surplus (GAAP basis) after operating transfers of approximately $2.2 million, increasing total fund balance to a five year high of $36.2 million. The City had anticipated using $1.5 million of unreserved General Fund balance for FY1996 operations, however because actual receipts exceeded revenue estimates, the use of unreserved fund balance was unnecessary. Although all revenue sources came in at over budgeted amounts, the City's aggressive efforts in collecting delinquent real estate and motor vehicle taxes were particularly important in achieving favorable results. Fiscal year 1996 General Fund expenditures were also less than budgeted, with budgetary savings generated across all major expenditure categories.

The City maintained its strong cash position at fiscal year-end 1996. General Fund cash was $40.4 million as of June 30, 1996, or seventeen percent of total General Fund expenditures and operating transfers out. Because of the City's strong cash and liquidity position, revenue anticipation borrowing has not been necessary for the past ten fiscal years and is not expected in future years.

Trends in General Fund Operations & General Fund Balance (GAAP Basis)

After planned General Fund balance drawdowns in FY1991 -- FY1993 due to slow economic conditions in the Northeast and declining state aid, the City has generated substantial General Fund surpluses in FY1994 -- 1996. These surpluses are the result of the City's continuing efforts to restrain General Fund expenditures. In particular, the City has held the line on expenditure increases in the general government area and community maintenance and development programs. In addition, the City has benefited from an improving regional economy, which coupled with aggressive revenue collection efforts and conservative revenue estimates, has resulted in steadily increasing General Fund revenues over the last five years. The table on the following page presents comparative data (on a GAAP basis) for the General Fund for FY1992 -- 1996.

GENERAL FUND
REVENUES, EXPENDITURES & FUND BALANCE (GAAP Basis)
FISCAL YEARS 1992 - 1996

	FY1992	FY1993	FY1994	FY1995	FY1996	% Change from FY95 to FY96
REVENUES						
Property Taxes	$ 118,108,622	$ 121,079,220	$ 141,787,234	$ 143,418,805	$ 141,530,307	-1.32%
Payments in Lieu of Taxes	2,643,079	2,588,670	2,870,519	3,073,983	3,334,571	8.48%
Hotel/Motel Excise Tax	2,359,477	2,694,058	2,823,002	3,179,026	3,261,967	2.61%
Intergovernmental	32,276,073	31,513,900	33,304,293	35,154,074	35,464,750	0.88%
Sewer Use	12,442,709	17,833,123	16,048,846	16,591,548	17,691,787	6.63%
Motor Vehicle Excise	2,526,449	3,353,825	2,923,460	3,803,920	3,494,905	-8.12%
Investment Income	1,548,691	738,873	773,149	1,769,975	2,112,448	19.35%
Other	8,215,168	10,701,955	12,892,869	13,726,021	16,169,190	17.80%
TOTAL REVENUES	$ 180,120,268	$ 190,503,624	$ 213,423,372	$ 220,717,352	$ 223,059,925	1.06%
EXPENDITURES						
General Government	$ 16,460,298	$ 18,454,613	$ 18,524,599	$ 18,218,594	$ 17,841,754	-2.07%
Public Safety	47,273,054	48,410,734	52,202,270	53,814,494	55,362,097	2.88%
Community Main. & Dev.	19,968,133	20,507,497	20,460,533	18,090,274	19,228,871	6.29%
Health (1)	970,846	1,019,412	1,390,902	1,413,148	-	-100.00%
Operating Subsidy to Cambridge Hospital & Neville Manor (2)	-	-	-	-	10,896,015	N/A
Human Resource Dev.	8,719,185	9,312,711	9,401,445	9,439,256	10,153,097	7.56%
Education	71,550,633	73,243,290	77,667,803	81,368,055	85,836,373	5.49%
Judgments & Claims	3,689,594	1,847,476	1,255,903	11,804	846,400	7070.45%
State Assessments	15,905,663	18,763,597	19,563,908	19,751,955	21,066,948	6.66%
Debt Service	6,190,661	6,684,654	5,836,941	6,084,972	7,382,872	21.33%
TOTAL EXPENDITURES	$ 190,728,067	$ 198,243,984	$ 206,304,304	$ 208,192,552	$ 228,614,427	9.81%
Surplus (Deficit)	$ (10,607,799)	$ (7,740,360)	$ 7,119,068	$ 12,524,800	$ (5,554,502)	
Operating Transfers In	14,156,551	17,950,114	6,112,447	-	16,306,040	-
Operating Transfers Out	(13,883,957)	(12,938,845)	(3,197,8·5)	(1,945,979)	(8,602,189)	342.05%
Surplus (Def.) after Transfers	$ (10,335,205)	$ (2,729,091)	$ 10,033,700	$ 10,578,821	$ 2,149,349	-79.68%
Fund Balance at Beg. of Year	$ 26,509,467	$ 16,174,262	$ 13,445,171	$ 23,478,871	$ 34,057,692	
Fund Balance at End of Year	$ 16,174,262	$ 13,445,171	$ 23,478,871	$ 34,057,692	$ 36,207,041	6.31%

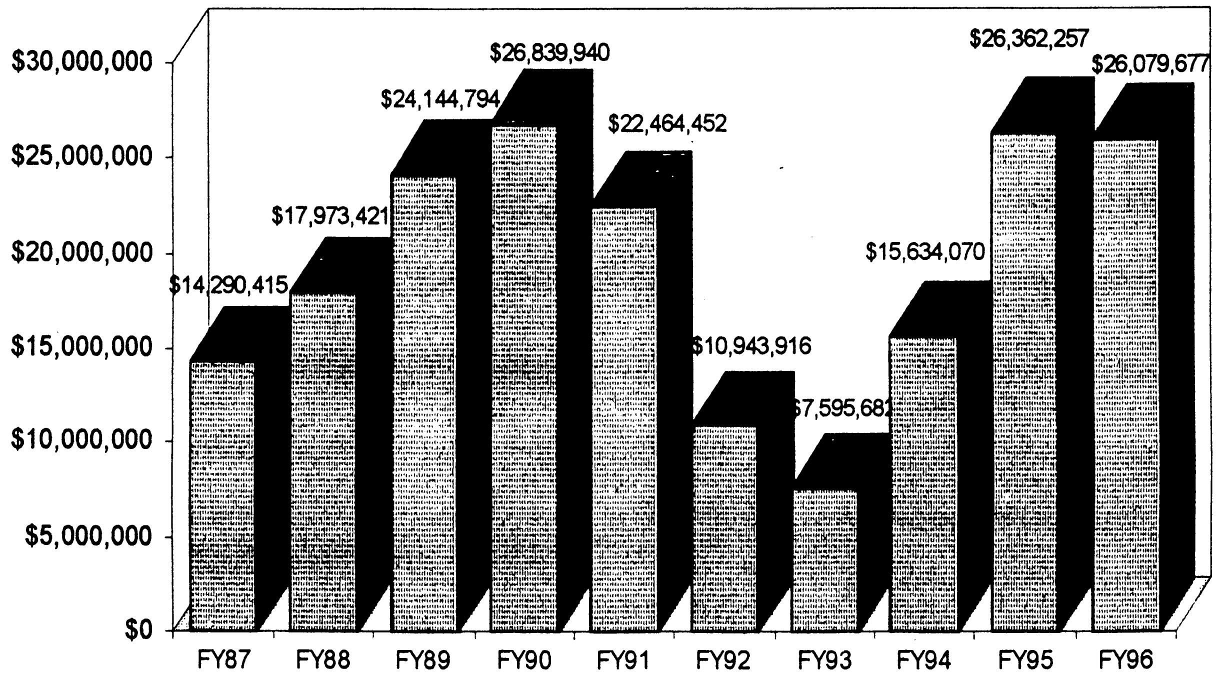
(1) The City of Cambridge has historically provided certain public health services to its residents, which were furnished by the Department of Health and Hospitals. Since the conversion of this department to the independent Cambridge Public Health Commission, the City has contracted with the Commission for these services. In FY1996, the City's payment to the Commission for these services (approximately $1.2 million) is reflected in the "Operating Subsidy to Cambridge Hospital and Neville Manor" line item.

(2) The City has historically provided tax support to the Cambridge Hospital and Neville Manor for their operations. Prior to FY1996, this tax support was reflected in the City's financial statements as an operating transfer out to the Hospital and Neville Manor enterprise funds. The amount shown as "Operating Subsidy to Cambridge Hospital and Neville Manor" in FY1996 also reflects the City's $1.2 million payment to the Cambridge Public Health Commission for public health services.

SOURCE: City of Cambridge CAFRs, FY1992 - 1996

Although the City's total General Fund balance at fiscal year-end 1996 increased by approximately 6.3 percent, *unreserved* General Fund balance declined by a slight 1.1 percent from fiscal year-end 1995. This slight decline was due to increased encumbrances and reservations of fund balance for various projects. When compared to the early 1990's, the City's recent unreserved General Fund balance levels are very strong, due to the City's continuing efforts at restraining expenditure growth over the last few fiscal years. A ten year history of the City's unreserved General Fund balance follows.

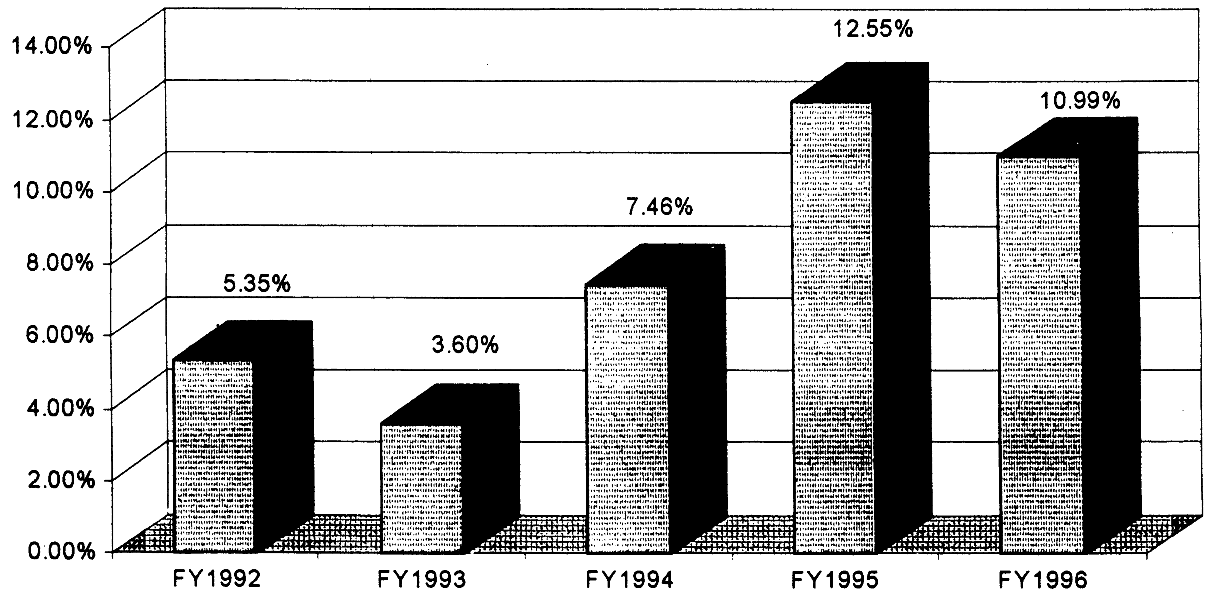
UNRESERVED GENERAL FUND BALANCE
FISCAL YEARS 1987 - 1996



SOURCE: City of Cambridge CAFRs, FY1987 - 1996

Fiscal year-end unreserved General Fund balance as a percentage of operating expenditures and transfers out declined slightly from FY1995, primarily due to increased General Fund expenditures. A five year history of this ratio is shown below.

UNRESERVED GENERAL FUND BALANCE
AS PERCENT OF OPERATING EXPENDITURES & TRANSFERS OUT
FISCAL YEARS 1992 - 1996

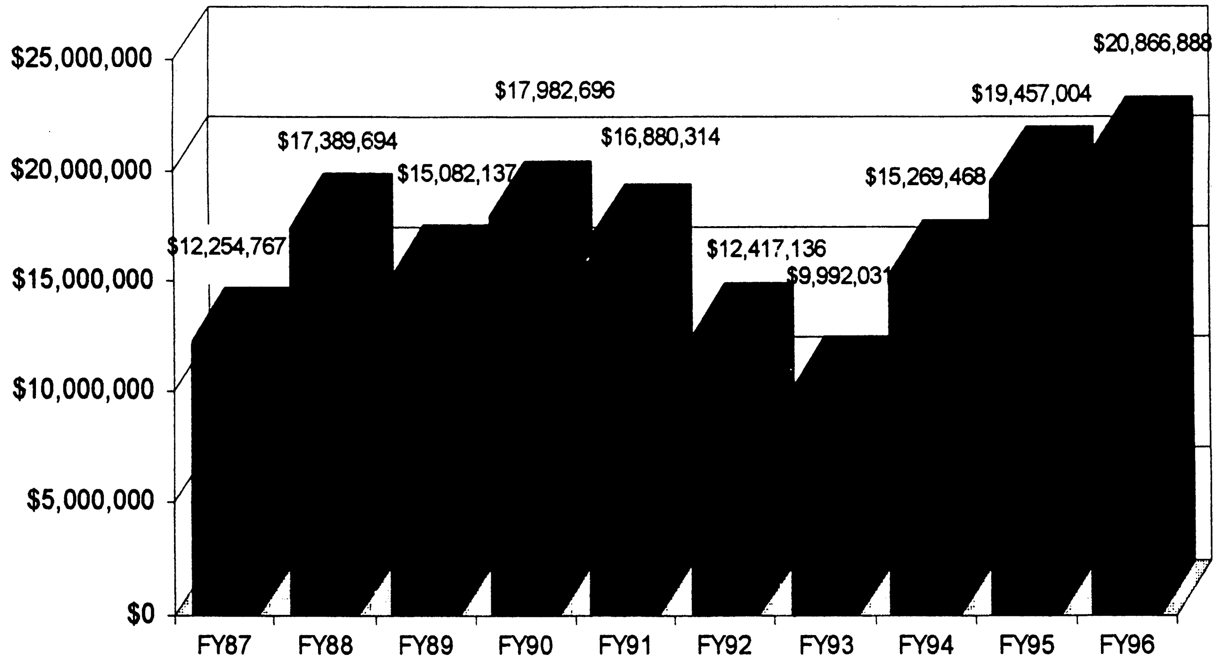


SOURCE: City of Cambridge CAFRs, FY1992 - 1996

Certified Free Cash

Another measure of reserves on hand for Massachusetts municipalities is certified free cash. This amount represents surplus revenue (subject to certain adjustments) less uncollected and overdue property taxes from prior years and is certified at the beginning of each fiscal year by the State Bureau of Accounts. The following chart presents a ten year history of certified free cash.

CERTIFIED FREE CASH
FISCAL YEARS 1987 - 1996



SOURCE: City of Cambridge, Department of Finance

Other Reserve Funds

Cambridge has long recognized the need to establish sufficient reserves to protect the City from unexpected expenses and downturns in the economy. As a result of this practice, the City's cash reserves totaled in excess of $42.3[MLC6] million as of June 30, 1996. The largest of these reserves was the "free cash" balance of approximately $20.9 million. Other reserves and balances as of June 30, 1996 are described below.

Parking Fund

The City's Parking Fund had a June 30, 1996 balance of $3.1 million.[MLC7] The parking fund consists of revenue from meter permits, meter collections, resident parking stickers, parking lots and garages, parking fines and interest earnings. These revenues are transferred to the General Fund to help fund various traffic-related City programs, as permitted under Chapter 844 of the Acts of 1970.

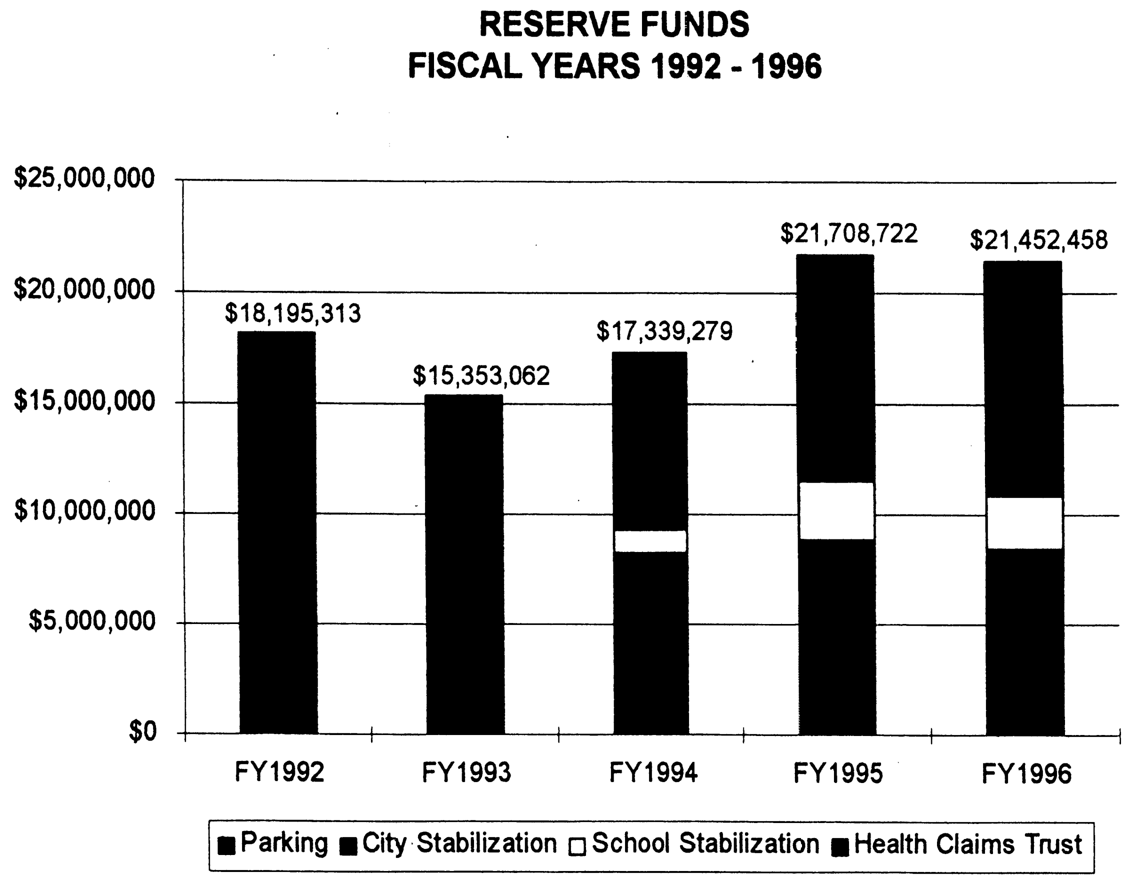
Stabilization Funds

In accordance with state law, the City maintains a Stabilization Fund that may be used for purposes for which debt would ordinarily be used. The Stabilization Fund had a June 30, 1996 balance of $5.4 million.[MLC8] In addition to the City's Stabilization Fund, the School Department established separate Stabilization Funds for early retirement expenditures and debt service in FY 1994. The balance of these funds was $2.3 million as of June 30, 1996. The combined balance of all Stabilization Funds was $7.7 million as of June 30, 1996.

Health Claims Trust Fund

The Health Claims Trust Fund was established pursuant to State law and serves as an additional insurance policy against rising employee health costs. The June 30, 1996 balance of the City's Claims Trust Fund was $10.6 million. Moneys from this fund can be used only to cover employee health care costs and, as with the Stabilization Funds, interest earned by the fund accrues to it. Employee health care deductions also are credited directly to the fund.

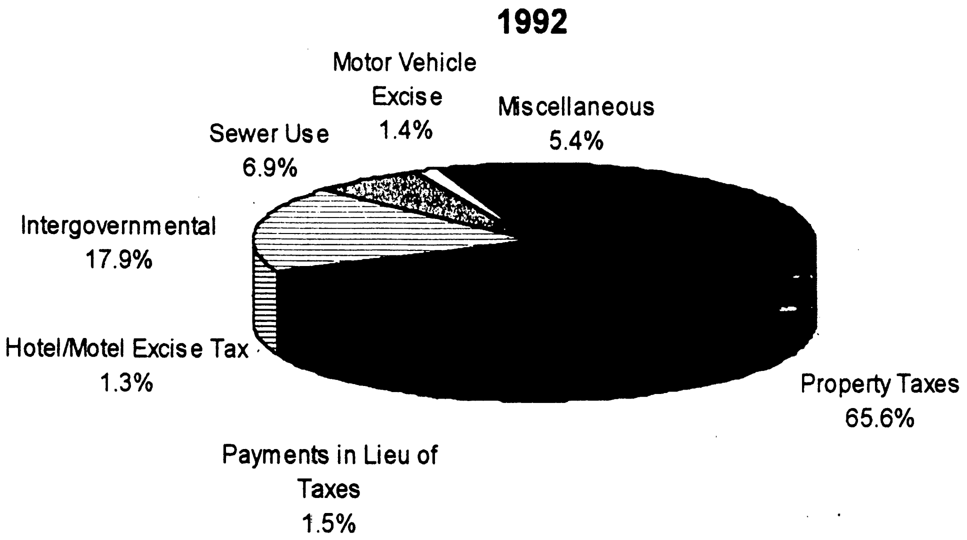
The following chart presents additional reserves, excluding certified free cash, available to the City over the past five fiscal years in the reserve funds mentioned above.

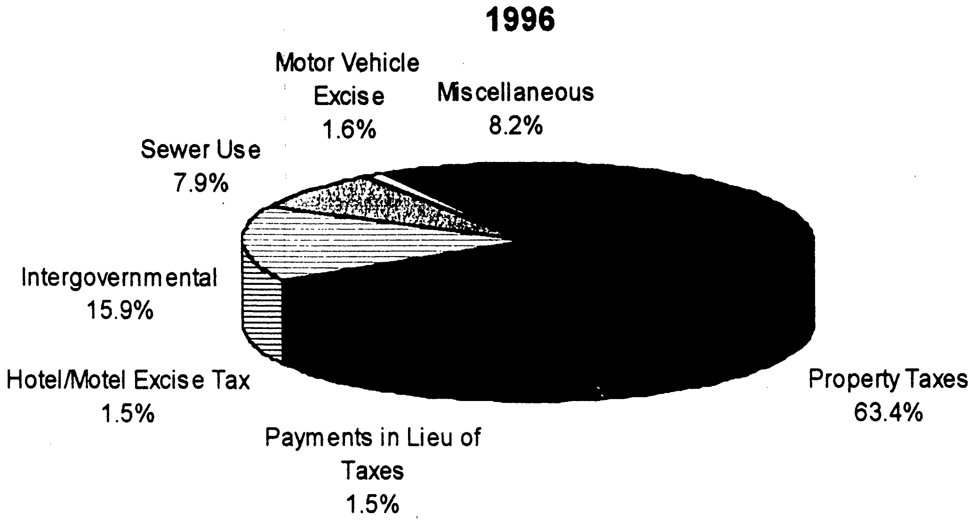


SOURCE: City of Cambridge CAFRs, FY 1992 - 1996. Based on reserved fund balance and equity at fiscal year-end. Does not include certified free cash.

The following graphs illustrate the relative stability of various revenue sources over the last five fiscal years in terms of importance to the City's budget. Like other Massachusetts municipalities, Cambridge relies significantly on property taxes to fund its operations, although the percentage of revenues from taxes declined slightly from FY1992 to FY1996. During the same period, the percentage of revenues attributable to user fees and miscellaneous charges increased, demonstrating the City's commitment to maximizing non-tax revenue sources. While intergovernmental revenues still remain a significant source of City revenues, this source has declined over the last five years, reflecting the Commonwealth's reduction in local aid during the early 1990's.

COMPARISON OF GENERAL GOVERNMENTAL REVENUES
Fiscal Years 1992 and 1996



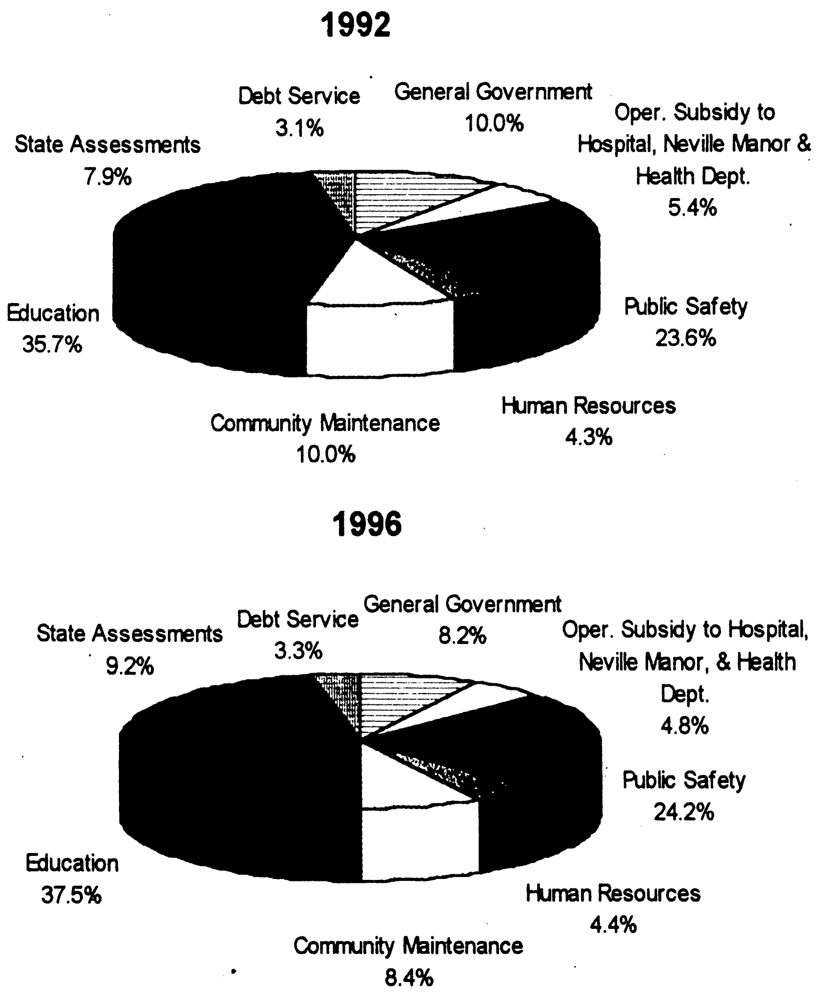


SOURCE: City of Cambridge CAFRs, Combined Statement of Revenues, Expenditures, and Changes in Fund Equity.

Note: Charts do not reflect transfers into the General Fund.

As the following graphs illustrate, general governmental expenditures by category have remained relatively stable over the past five fiscal years. While education expenditures have increased slightly as a percentage of total expenditures, general government and community maintenance and development expenditures have experienced slight decreases.

COMPARISON OF GENERAL GOVERNMENTAL EXPENDITURES
Fiscal Years 1992 and 1996



SOURCE: City of Cambridge CAFRs, Combined Statement of Revenues, Expenditures, and Changes in Fund Equity.

Notes: Charts reflect transfers from the General Fund to the Cambridge Hospital, Neville Manor, and Health Department (which are now operated by the Cambridge Public Health Commission); other transfers out are not reflected. The general government category includes expenditures for judgments and claims.

FIVE YEAR FINANCIAL OUTLOOK

The tables that follow contain five year revenue and expenditure projections for FY 1998 through FY 2002 and the assumptions used in making those projections. Excluding the Water Department, and capital expenditures, the City's operating budget is projected to experience average annual growth of 4.06 percent.

A comparison of projected tax levies versus projected tax levy limits is set forth below. Over the next two fiscal years, the City's excess tax levy capacity is expected to range between $8 and $9 million as the City experiences slight increases in new residential and commercial assessed

assessed valuation, while maintaining moderate property tax levy increases. Thereafter, the City's excess levy capacity is expected to decline slightly to between $3 and $6 million.

PROJECTED TAX LEVIES
Fiscal Years 1997 to 2002

	1997 (Actual)	1998	1999	2000	2001	2002
Levy Limit	$ 158,823,735	$ 165,642,591	$ 172,974,978	$ 179,597,235	$ 186,408,128	$ 193,418,255
Projected Levy	148,070,000	156,766,446	164,945,490	175,282,327	183,294,445	187,905,200
Excess Levy Capacity	$ 10,753,735	$ 8,876,145	$ 8,029,488	$ 4,314,908	$ 3,113,683	$ 5,513,055
Existing Residential Value	$4,342,792,938	$4,543,164,544	$4,769,847,674	$5,095,431,201	$5,161,041,966	$5,335,873,225
Growth (Loss)		131,587,189	235,487,586	40,610,765	154,831,259	266,793,661
Rent Control Growth	156,924,906	60,095,941	60,095,941	0	0	0
New Residential Value	43,446,700	35,000,000	30,000,000	25,000,000	20,000,000	20,000,000
Total Residential Value	$4,543,164,544	$4,769,847,674	$5,095,431,201	$5,161,041,966	$5,335,873,225	$5,622,666,886
Existing Commercial Value	$2,432,647,693	$2,462,908,893	$2,566,796,160	$2,735,135,968	$2,829,838,687	$2,926,435,461
Growth (Loss)		73,887,267	128,339,808	54,702,719	56,596,774	146,321,773
New Commercial Value	30,261,200	30,000,000	40,000,000	40,000,000	40,000,000	40,000,000
Total Commercial Value	$2,462,908,893	$2,566,796,160	$2,735,135,968	$2,829,838,687	$2,926,435,461	$3,112,757,234
Existing Personal Value	$ 216,151,000	$ 224,248,450	$ 227,286,028	$ 230,171,726	$ 232,913,140	$ 235,517,483
New Personal Value	19,900,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Total Personal Value	$ 236,051,000	$ 239,248,450	$ 242,286,028	$ 245,171,726	$ 247,913,140	$ 250,517,483
Total Assessed Value	$7,242,124,437	$7,575,892,284	$8,072,853,197	$8,236,052,379	$8,510,221,826	$8,985,941,603

ASSUMPTIONS:
1. Residential growth of 3% in FY1998, 5% in FY1999, 2% in FY2000, 3% in FY2001, and 5% in FY2002.
2. Commercial growth of 3% in FY1998,5% in FY1999, 2% in FY2000 & 2001, and 5% in FY2002.
3. Personal property decrease in existing value of 5% for FY1998 - 2002.

REVENUE PROJECTIONS: FISCAL YEARS 1998 TO 2002

	FY1998 Budgeted	FY1999 Projected	FY2000 Projected	FY2001 Projected	FY2002 Projected
CITY PROGRAMS:					
Real/Personal Taxes	$ 144,918,446	$ 153,097,490	$ 163,434,327	$ 172,446,445	$ 178,057,200
Motor Vehicle Excise	3,025,000	3,100,000	3,200,000	3,300,000	3,400,000
Hotel/Motel	2,706,000	2,900,000	3,000,000	3,100,000	3,200,000
Interest on Taxes	475,000	475,000	475,000	475,000	475,000
Sewer Charges	16,131,745	18,353,969	20,681,895	23,309,292	25,290,959
Water Receipts	365,450	365,450	365,450	365,450	365,450
Fees	306,540	310,000	310,000	310,000	310,000
Rentals	20,050	20,000	20,000	20,000	20,000
School Revenue	25,000	25,000	25,000	25,000	25,000
Recreation Revenue	775,555	800,000	800,000	800,000	800,000
Other Departmental	2,259,915	2,300,000	2,350,000	2,400,000	2,450,000
License/Permits	3,835,860	3,900,000	3,900,000	3,900,000	3,900,000
Fines & Forfeits	457,600	300,000	300,000	300,000	300,000
Investment Income	1,356,895	1,400,000	1,500,000	1,600,000	1,700,000
Parking Fund	11,004,315	11,000,000	11,000,000	11,000,000	11,000,000
State Aid	37,283,090	39,292,888	40,127,415	42,773,361	43,714,759
Free Cash	5,150,000	1,500,000	1,500,000	1,500,000	1,500,000
In-Lieu-of Taxes	2,300,000	2,300,000	2,300,000	2,300,000	2,300,000
CPHC In-Lieu-of Taxes	1,000,000	1,000,000	1,000,000	-	-
Solid Waste Fees	60,000	60,000	60,000	60,000	60,000
Health Trust	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000
Corporate Excise	898,000	900,000	900,000	900,000	900,000
Other Available	2,958,690	3,000,000	3,000,000	3,000,000	3,000,000
MWPAT	1,668,785	1,520,484	1,475,104	1,428,350	1,378,868
Library	83,000	85,000	85,000	85,000	85,000
Cemetery	263,000	265,000	265,000	265,000	265,000
School Stabilization	543,570	-	-	315,340	24,961
CPHC Pension Reimb	3,583,760	3,691,273	3,802,011	3,916,071	4,033,553
CPHC Debt Reimb.	1,751,580	4,657,603	3,988,060	3,015,450	2,932,800
SUBTOTAL:	$ 248,006,846	$ 259,419,157	$ 272,664,262	$ 285,709,759	$ 294,288,550
CAMBRIDGE PUBLIC HEALTH COMMISSION:					
Taxes	$ 8,598,000	$ 8,598,000	$ 8,598,000	$ 7,598,000	$ 6,598,000
WATER DEPARTMENT:	$ 8,982,385	$ 13,316,094	$ 14,814,880	$ 13,980,386	$ 12,980,451
CAPITAL:					
Taxes	$ 3,250,000	$ 3,250,000	$ 3,250,000	$ 3,250,000	$ 3,250,000
Free Cash	3,230,000	500,000	500,000	500,000	500,000
SUBTOTAL:	$ 6,480,000	$ 3,750,000	$ 3,750,000	$ 3,750,000	$ 3,750,000
GRAND TOTAL:	$ 272,067,231	$ 285,083,251	$ 299,827,142	$ 311,038,145	$ 317,617,001

EXPENDITURE PROJECTIONS: FISCAL YEARS 1998 TO 2002

	FY1998 Budgeted	FY1999 Projected	FY2000 Projected	FY2001 Projected	FY2002 Projected
CITY PROGRAMS:					
City Operating Programs	$ 86,225,185	$ 89,174,530	$ 91,187,503	$ 93,947,629	$ 96,789,057
Contrib. Pensions	11,435,905	11,778,982	12,132,352	12,496,322	12,871,212
Non-Contrib. Pensions	1,653,335	1,600,000	1,600,000	1,500,000	1,500,000
Health Insurance	9,175,950	9,726,507	10,310,097	10,928,703	11,584,425
Retirees' Health Insurance	4,182,900	4,433,374	4,699,906	4,981,901	5,280,815
City Debt Service	8,805,530	10,165,754	13,545,544	18,414,629	17,624,881
Health Commission Pensions	3,583,760	3,691,273	3,802,011	3,916,071	4,033,553
Health Commission Debt	1,751,580	4,657,603	3,988,060	3,015,450	2,932,800
Overlay	4,250,000	4,250,000	4,250,000	4,250,000	4,250,000
Prior Year Overlay	3,300,000	1,000,000	1,000,000	1,000,000	1,000,000
SUBTOTAL:	$ 134,364,145	$ 140,478,523	$ 146,515,474	$ 154,450,705	$ 157,866,743
CHERRY SHEET:					
Offset	$ 2,100,111	$ 2,519,192	$ 3,534,056	$ 3,852,397	$ 4,187,428
State Charges	7,795,615	7,990,505	8,190,268	8,395,025	8,604,900
MWRA	13,552,090	14,907,299	16,398,029	18,037,832	19,841,615
SUBTOTAL:	$ 23,447,816	$ 25,416,996	$ 28,122,353	$ 30,285,254	$ 32,633,943
SCHOOL DEPARTMENT:					
School Operating	$ 76,969,180	$ 79,603,756	$ 81,382,261	$ 83,826,589	$ 86,343,496
School Contrib. Pensions	2,385,675	2,457,245	2,530,963	2,606,891	2,685,098
School Health	6,565,000	6,958,900	7,376,434	7,819,020	8,288,161
School Debt	4,275,030	4,503,736	6,736,777	6,721,302	6,471,107
SUBTOTAL:	$ 90,194,885	$ 93,523,638	$ 98,026,435	$ 100,973,802	$ 103,787,862
CAMBRIDGE PUBLIC HEALTH COMMISSION:					
Contract For Service	$ 8,598,000	$ 8,598,000	$ 8,598,000	$ 7,598,000	$ 6,598,000
WATER DEPARTMENT:					
Water Operating	$ 4,405,214	$ 4,549,869	$ 4,657,269	$ 4,795,937	$ 4,938,765
Water Non-Contrib. Pensions	72,045	72,000	72,000	72,000	72,000
Water Contrib. Pensions	532,060	548,022	564,462	581,396	598,838
Water Health	432,300	458,238	485,732	514,876	545,769
Water Debt	3,540,766	7,687,965	9,035,416	8,016,176	6,825,079
SUBTOTAL:	$ 8,982,385	$ 13,316,094	$ 14,814,880	$ 13,980,385	$ 12,980,451
CAPITAL:	$ 6,480,000	$ 3,750,000	$ 3,750,000	$ 3,750,000	$ 3,750,000
GRAND TOTAL:	$ 272,067,231	$ 285,083,251	$ 299,827,142	$ 311,038,145	$ 317,617,001

ASSUMPTIONS FOR FINANCIAL PROJECTIONS:

Revenues

1. Sewer revenues increase annually by amount needed to fully fund sewer expenditures.
2. Water revenues increase annually by amount need to fully fund water expenditures.
3. State aid increases by 2.5% annually with adjustments for school building construction and projected reductions for charter school.
4. All other non-tax revenues show modest increases.
5. Tax levy and levy limit grow as shown on page 14.

Expenditures

1. Salaries & wages increase by 4% in FY1998, 3.5% in FY1999, 2% in FY2000, 3% in FY2001 & 2002.
2. Other ordinary expenses increase by 3% annually.
3. Travel and training expenses increase by 3% annually, with the exception of Water which remains constant.
4. Extraordinary expenses increase by $50,000 in total per year for City programs; $25,000 in total per year for School programs; and remain constant for Water programs.
5. Debt service reflects payments on outstanding bonds and bonds to be issued over projection period, as further described on pages 34-36.
6. Health insurance costs increase by 6% annually.
7. Contributory pensions increase by 3% annually.
8. State charges increase by 2.5% annually.
9. MWRA charges increase by 10% annually.
10. Cherry Sheet offset for FY1999 through FY2002 equal to $856,630 plus charter school revenue loss.

Cambridge Public Health Commission

1. For FY1998 forward, the Cambridge Public Health Commission (CPHC) is no longer a part of the City budget. However, the CPHC debt and pension liabilities are shown as expended in City programs and reimbursed by the CPHC.
2. The annual "Contract for Services" line item is equal to the projected annual tax subsidy shown under the CPHC category.

OTHER CITY FUNDS: RETIREMENT & ENTERPRISE FUNDS

Retirement Fund

An actuarial valuation conducted by an independent audit firm determined that the unfunded pension liability of the Cambridge Retirement System was $109,647,773 as of January 1, 1996, which represents a $11.5 million decrease since January 1, 1993. The study has also provided cost options available to the City under Chapter 697 of the Acts of 1987. The City has used the results of this study to begin a long-term actuarial funding of the system under Chapter 697.

Water Enterprise Fund

The Cambridge Water Department is a municipally owned and operated water utility servicing approximately 95,000 permanent residents. The Water Department operates as an agency of City government under the general direction of the City Manager who then delegates overall responsibility of the water operation to the Managing Director of the Water Department. The Water Department is also advised by the City's Water Board, which consists of five members who are appointed by the City Manager.

The City's source of water supply is the 23.6 square mile Hobbs/Stony Watershed, which is a part of the Charles River basin. The Water Department stores untreated water in two reservoirs that are located in the watershed at Lincoln and Weston. Untreated water is piped to the Fresh Pond reservoir in western Cambridge and treated at the Fresh Pond Water Treatment Facility. Treated water is then piped to the Payson Park reservoir for storage before distribution to residential and commercial users. The Water Department served 14,270 metered accounts in FY1997.

Due to projected increases in water demand and the age of the existing Fresh Pond treatment plant, the City is planning to build a new 24 mgd water treatment plant (expandable to 30 mgd) on the site of the existing plant. During construction of the new plant, the City anticipates meeting its treated water demands through a short-term supply agreement with MWRA. The current construction cost estimate is approximately $61.9 million including the purchase of water from MWRA during construction, and will be funded by general obligation bonds to be issued over a three year period starting in June 1998. The City is currently negotiating the terms of the MWRA supply agreement with MWRA representatives. The City expects to receive construction bids in fall 1997, with construction commencing in early winter. In addition to the new water treatment plant, the City also will continue making regular transmission and main improvements ranging from $0.6 million to $2.6 million per year from pay-as-you-go funds and general obligation bonds.

Debt service on general obligation bonds issued for water system improvements is fully supported by water user fees. The City also anticipates fully recovering debt service costs on the new water treatment plant through its ratepayer base. The City has raised water rates annually for the last four years, including a 7.3 percent rate increase effective April 1, 1997, and expects that additional rate increases will be necessary to support debt service for the new treatment plant. The following chart contains calculations of coverage of general obligation debt service by water user fees over the past five fiscal years. The City has maintained coverage levels in excess of 1.48x over the last five fiscal years, and in FY1996, increased coverage to 2.13x due to recent rate increases and expenditure control. More detail on general obligation bonds issued for water purposes can be found in Section V.

CAMBRIDGE WATER DEPARTMENT
COVERAGE OF GENERAL OBLIGATION DEBT SERVICE
ISSUED FOR WATER SYSTEM IMPROVEMENTS

OPERATING REVENUES	FY1996	FY1995	FY1994	FY1993	FY1992
Charges for Services	$ 9,262,252	$ 8,240,554	$ 8,136,677	$ 8,505,047	$ 8,194,289
Other	819,889	929,206	712,523	686,522	649,463
Total Operating Revenue	$ 10,082,141	$ 9,169,760	$ 8,849,200	$ 9,191,569	$ 8,843,752
OPERATING EXPENSES					
Administration	$ 2,175,079	$ 2,384,851	$ 2,225,262	$ 1,720,727	$ 1,635,847
Service & Support	1,346,570	2,669,949	2,440,713	3,438,791	2,864,138
Other	-	-	28,038	2,040	15,161
Total Operating Expenses	$ 3,521,649	$ 5,054,800	$ 4,694,013	$ 5,161,558	$ 4,515,146
NONOPERATING REV./EXP.	-	-	-	-	-
OPERATING TRANSFERS TO/FROM OTHER FUNDS	(365,050)	(365,050)	(218,050)	(245,050)	(260,800)
NET INCOME	$ 6,195,442	$ 3,749,910	$ 3,937,137	$ 3,784,961	$ 4,067,806
ANNUAL DEBT SERVICE	$ 2,912,940	$ 2,529,334	$ 2,104,750	$ 2,193,600	$ 2,028,600
COVERAGE	2.13x	1.48x	1.87x	1.73x	2.01x

SOURCE: City of Cambridge CAFRs, Combining Statement of Revenues, Expenses, and Retained Earnings.

Sewer Service

The City receives sewer treatment service from the Massachusetts Water Resources Authority (MWRA), although the City's Public Works Department is responsible for the maintenance and repair of the wastewater collection system. All costs associated with sewer service are fully recovered through user fees, including the MWRA assessment, debt service on general obligation bonds issued to finance collection system improvement costs, and all City operating costs. Unlike the Water Department, the City does not maintain a separate enterprise fund for sewer activities, and instead accounts for these functions within the General Fund. In FY1998, the City anticipates collecting sewer revenues of $16,131,745 which will cover the following sewer-related expenditures:

Finance	$ 185,000
Public Works	1,060,610
Debt Service	1,304,045
Massachusetts Water Resources Authority	13,552,090
Community Development	30,000
	$ 16,131,745

Additional information on GO debt supported by sewer fees is found in Section V.

SECTION IV: ECONOMIC PERFORMANCE

Employment Trends

Cambridge's sound economic performance over the last decade has largely been due to the diversity and overall stability of the City's employment base. Most recently, the City added approximately 3,000 jobs in 1995, bringing total employment to 103,988, its highest level in ten years. The majority of this new job growth was in the services sector, which has traditionally been the City's largest employment sector. In 1995, the services sector accounted for 65 percent of total employment, compared to 56 percent in 1986. A diverse range of professions is accounted for in this category, including higher education (Harvard & MIT), research & development (Arthur D. Little & Draper Labs), and technology (Lotus). Other important areas of employment include wholesale and retail trade and the government sector.

Over the last decade, the City has maintained its position as a center of employment in the Boston area. In 1994, Cambridge businesses, government agencies, and not-for-profit institutions employed approximately 101,000 Boston area residents. In comparison, the City's resident population was approximately 99,890 in 1994, of which approximately 73 percent were between the ages of 18 and 65 (Source: U.S. Census Bureau). Cambridge continues to be a net importer of jobs within the region. The following chart demonstrates the diversity of the City's employment base over the last decade.

EMPLOYMENT BY SECTOR

	1986	As % of Total	1995	As % of Total	% Change 1986 - 1995
Finance & Real Estate	3,270	3.4%	3,085	3.0%	-5.66%
Transportation, Communications, & Utilities	2,785	2.9%	2,147	2.1%	-22.91%
Other	193	0.2%	240	0.2%	24.35%
Manufacturing	11,331	11.7%	6,407	6.2%	-43.46%
Services	54,363	56.0%	67,204	64.6%	23.62%
Construction	1,915	2.0%	1,515	1.5%	-20.89%
Wholesale & Retail Trade	16,704	17.2%	15,843	15.2%	-5.15%
Government	6,512	6.7%	7,547	7.3%	15.89%
TOTAL	97,073	100.0%	103,988	100.0%	7.12%

SOURCE: Massachusetts Department of Employment & Training

The presence of Harvard University and Massachusetts Institute of Technology has long been an important attraction for private employers to locate in Cambridge. Over the last several years, the presence of these institutions has attracted several biotechnology and research and development firms to the City, creating a critical mass of these rapidly growing firms in Cambridge. While most of these firms are small in employment and sales, several have become relatively major employers in the City, including Genzyme and Biogen. The following table provides data on the City's major public and private employers.

PRINCIPAL PUBLIC & PRIVATE EMPLOYERS(1)
MAY 1997

RANK	EMPLOYER	NATURE OF BUSINESS	NUMBER OF EMPLOYEES
1.	Massachusetts Institute of Technology	Higher Education	7,839
2.	Harvard University	Higher Education	7,337
3.	City of Cambridge (2)	Government/Schools/Hospital	3,244
4.	Lotus Development Corp. / IBM	Computer Software	1,865
5.	Mount Auburn Hospital	Medical	1,627
6.	Bolt, Beranek & Newman, Inc.	Research and Development	1,511
7.	Federal Government	Transportation, Government	1,441
8.	Cambridge Public Health Commission	Health Services	1,325
9.	Polaroid Corporation	Photographic and Optic Equipment	1,300
10.	Draper Labs, Inc.	Research and Development	1,238
11.	Arthur D. Little, Inc.	Management Consulting	1,111
12.	Genzyme	Pharmaceutical Products	824
13.	Star Market	Retail	807
14.	Biogen	Biotechnology / R&D	780
15.	Quest Diagnostics	Clinical Testing Services	700
16.	Necco / Haviland	Confectionary Products	700
17.	Camp, Dresser, McKee	Engineering	693
18.	Commonwealth of Massachusetts	Government	659
19.	Youville Hospital	Medical	585
20.	Genetics Institute	Biotechnology / R&D	582
21.	ABT Associates (3)	Management Consulting	525
22.	Lesley College	Education	452
23.	Raytheon Engineering	Construction	440
24.	Commonwealth Energy Systems	Utility	397
25.	Monitor Company (3)	Management Consulting	375
			38,357

(1) Totals based on full time equivalents (FTEs), when available.
(2) Represents decline of 846 FTEs from May 1996 due to creation of independent Cambridge Public Health Commission.
(3) Based on May 1996 figures.

SOURCE: City of Cambridge, Department of Community Development

Due to the City's diverse employment base and the stability of its major employers, the City's unemployment rates have remained well below state and national averages over the last ten years. In 1996, the City's unemployment rate fell to pre-recessionary levels of 2.5 percent. Even at its peak in 1991, the City's unemployment rate was significantly lower than state and national averages. The following chart gives a ten year history of the City's labor force participation and unemployment rate statistics.

EMPLOYMENT & UNEMPLOYMENT TRENDS
Calendar Years 1987 to 1996

Year	Civilian Labor Force	Total Employment	Total Unemployed	*Unemployment Rates* Cambridge	Massachusetts	U.S.
1987	53,641	52,327	1,314	2.4%	3.2%	6.2%
1988	54,266	52,976	1,290	2.4%	3.3%	5.5%
1989	53,764	52,282	1,482	2.8%	4.0%	5.3%
1990	53,184	51,177	2,007	3.8%	6.0%	5.5%
1991	52,268	49,134	3,134	6.0%	9.0%	6.7%
1992	53,845	50,834	3,012	5.6%	8.5%	7.4%
1993	53,940	51,432	2,508	4.6%	6.9%	6.8%
1994	54,263	52,094	2,169	4.0%	6.0%	6.1%
1995	53,854	51,993	1,861	3.5%	5.4%	5.6%
1996	57,840	56,412	1,428	2.5%	4.3%	5.4%
Mar 1997	58,103	56,904	1,199	2.1%	4.5%	5.5%

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics

Personal Income

The most recent estimates of per capita income available at the City level are from the U.S. Bureau of Census' 1990 Decennial Census. As illustrated in the chart below, the City's per capita income levels at that time exceeded that the national average but slightly trailed the state average. As in most cities with a large university presence, the large student population in Cambridge tends to suppress income averages. More recent income estimates at the county level are available from the U.S. Bureau of Economic Analysis; however these per capita personal income estimates are not comparable to the Census numbers. In addition, they cover a much larger geographic area that has a wide range of demographic and socioeconomic characteristics.

PER CAPITA INCOME

JURISDICTION	1989	1989 PCI as % of U.S.	1989 PCI as % of Mass.	1992
Cambridge	$ 19,879	113%	89%	N/A
Boston MSA	23,746	135%	107%	24,109
Massachusetts	22,236	126%	100%	23,676
United States	17,592	100%	79%	20,105

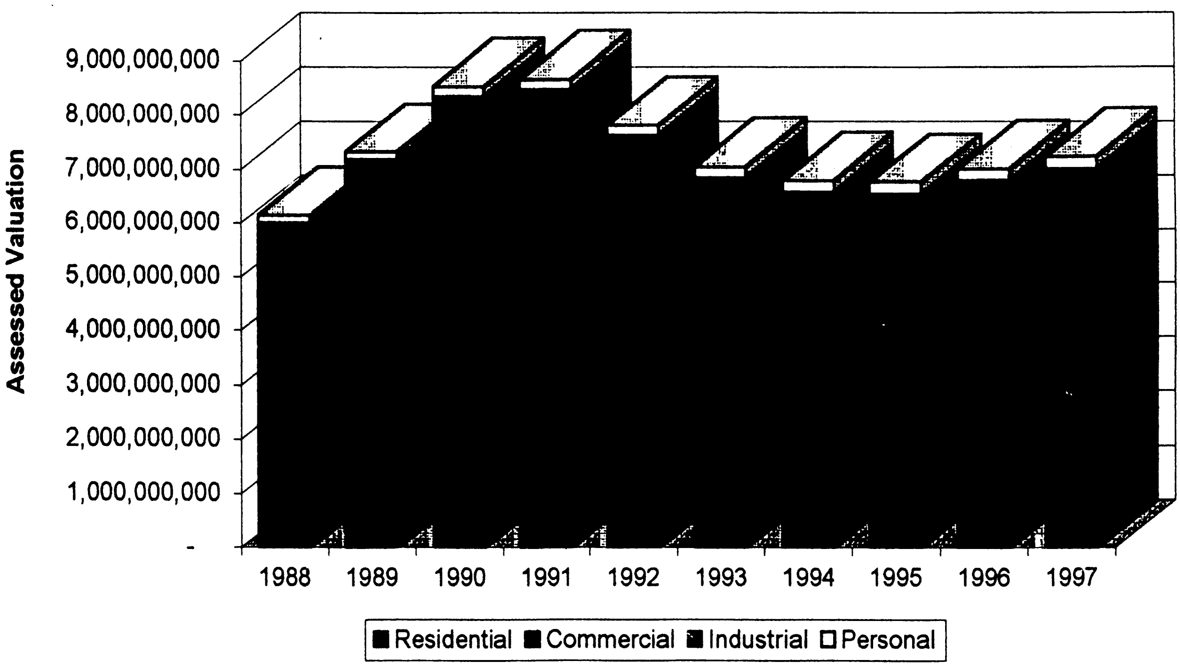
SOURCE: U.S. Bureau of Census

Assessed Valuation

The City's tax base continued its trend of stabilization, and for the second straight year, the City recorded a slight increase in total assessed valuation. Fiscal year 1997 total assessed valuation increased by 3.3 percent over FY1996, from $7.01 million to $7.24 million. By sector, commercial values declined by 0.6 percent, but have generally stabilized after double digit percentage declines in FY1993 - 1994. Residential values increased by approximately 5.6 percent from FY1996.

Due to the increase in assessed valuation, the addition of new property to the tax rolls, and to increases in non-property tax revenue sources, the City was able to slightly reduce residential property tax rates in FY1997. The residential rate was reduced to $13.02/$1,000 from $13.32/$1,000 in FY1996, while the commercial rate was increased from $34.89/$1,000 to $35.78/$1,000. Previous property tax rate increases were primarily attributable to real estate market conditions that caused a downward trend in assessments.

ASSESSED VALUATION
FISCAL YEARS FY1988 - 1997



SOURCE: City of Cambridge, Budget Office

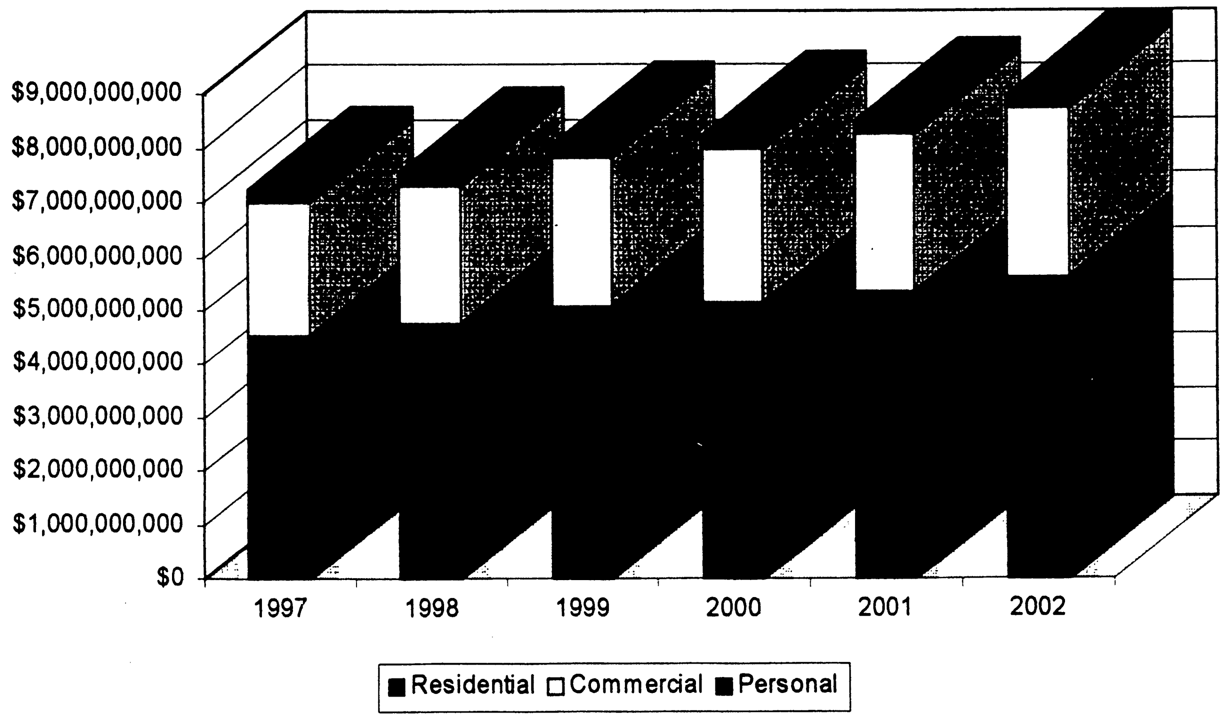
DATA USED IN CHART:

	TOTAL ASSESSED VALUATION	Residential	Commercial	Industrial	Personal	TAX RATES Residential	Comm / Ind
1988	6,147,944,260	3,601,348,760	1,903,603,980	495,991,520	147,000,000	9.79	21.15
1989	7,327,846,922	4,384,370,640	2,256,116,670	543,266,600	144,093,012	9.23	20.06
1990	8,528,769,144	4,622,780,381	3,063,332,563	674,156,200	168,500,000	9.51	18.16
1991	8,662,906,830	4,652,403,597	3,160,809,733	669,593,500	180,100,000	10.13	19.15
1992	7,813,974,272	4,154,807,343	2,850,348,329	616,718,600	192,100,000	12.21	22.90
1993	7,052,575,239	3,974,554,295	2,367,689,110	509,741,834	200,600,000	13.33	28.40
1994	6,789,993,612	4,006,668,343	2,115,765,215	453,760,054	213,800,000	13.79	32.78
1995	6,754,946,242	4,043,247,860	2,059,386,655	430,811,727	221,500,000	14.17	34.86
1996	7,010,030,307	4,301,221,539	2,033,717,005	448,051,763	227,040,000	13.32	34.89
1997	7,242,124,437	4,543,164,544	2,021,952,595	440,956,298	236,051,000	13.02	35.78

Another measure of the value of the City's tax base is the Commonwealth's estimate of equalized valuation. In order to determine appropriate relative values for the purposes of making certain distributions to and levying certain assessments on cities and towns, the Commissioner of Revenue makes his own biennial determination of the fair value of taxable property. The City's equalized valuation has risen from \$2.92 billion in FY1986 to \$7.59 billion in FY1997. By this measure, property values have risen approximately 160 percent.

The City is projecting moderate growth in both commercial and residential assessed values over the next five years, based on new construction and appreciation of values of existing property. In addition, the elimination of rent control is expected to add approximately \$120 million in valuation.

PROJECTED ASSESSED VALUATION
FISCAL YEARS 1997 - 2001



ASSUMPTIONS:
Residential growth of 3% in FY1998, 5% in FY1999, 2% in FY2000, 3% in FY2001, and 5% in FY2002.
Commercial growth of 3% in FY1998, 5% in FY1999, 2% in FY2000 & 2001, and 5% in FY2002.
Personal property decrease in existing value of 5% for FY1998 - 2002.

DATA USED IN CHART:

	RESIDENTIAL	COMMERCIAL	PERSONAL	TOTAL	PERCENT CHANGE
1997	4,543,164,544	2,462,908,893	236,051,000	7,242,124,437	3.31%
1998	4,769,847,674	2,566,796,160	239,248,450	7,575,892,284	4.61%
1999	5,095,431,201	2,735,135,968	242,286,028	8,072,853,197	6.56%
2000	5,161,041,966	2,829,838,687	245,171,726	8,236,052,379	2.02%
2001	5,335,873,225	2,926,435,461	247,913,140	8,510,221,826	3.33%
2002	5,622,666,886	3,112,757,234	250,517,483	8,985,941,603	5.59%

Major Taxpayers

The City's ten largest taxpayers account for approximately 14.6 percent of the City's tax base. Most commercial property owners in Cambridge own multiple parcels of property with many different uses and tenants, providing considerable diversification of the City's property tax revenue base.

MAJOR TAXPAYERS
FISCAL YEAR 1997

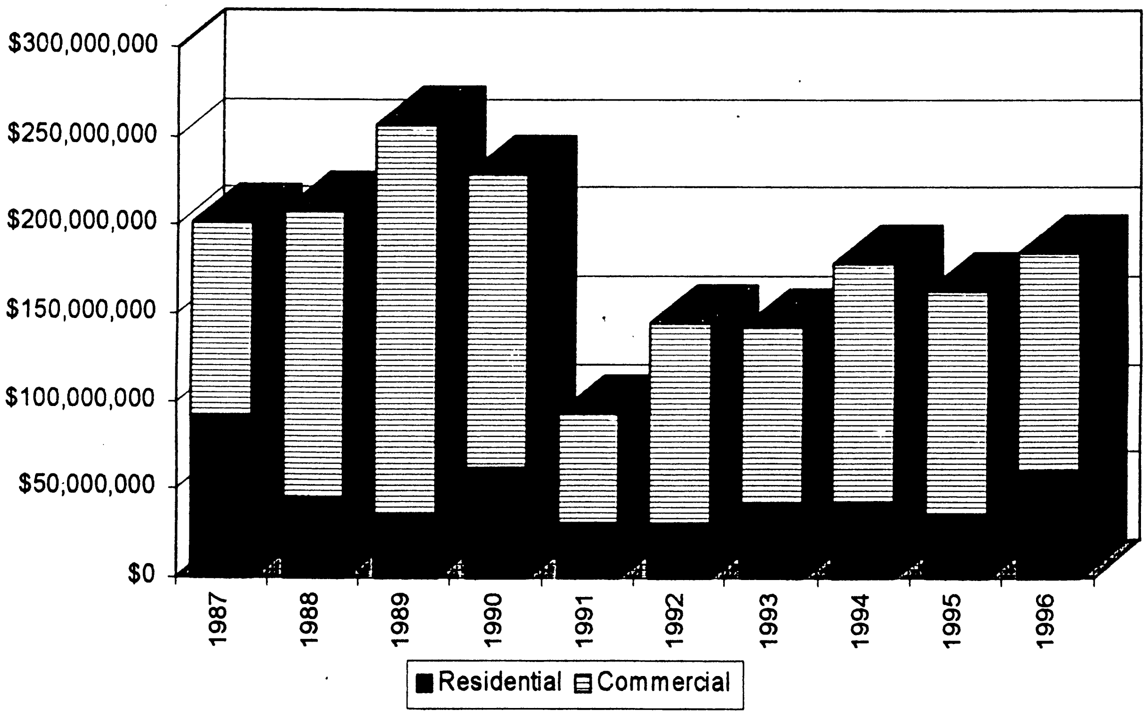
PROPERTY OWNER	BUSINESS	ASSESSED VALUATION	% OF TOTAL TAX BASE	AMOUNT OF PROPERTY TAX PAID	% OF TOTA TAX LEVY
Commonwealth Energy	Utility	$ 190,186,700	2.63%	$ 6,800,260	4.59%
Boston Properties	Commercial	165,499,400	2.29%	5,903,205	3.99%
Massachusetts Institute of Technology	Education	140,103,217	1.93%	4,478,978 (1)	3.02%
Presidents & Fellows of Harvard College	Education	109,639,721	1.51%	2,470,130 (1)	1.67%
Robert A. Jones & K. George Najarian	Commercial	95,976,600	1.33%	3,366,257	2.27%
Cambridge Side Galleria - New England Dev.	Commercial	93,726,000	1.29%	3,318,466	2.24%
Asahi Siemei Prudential Associates	Commercial	92,427,400	1.28%	3,307,052	2.23%
Spaulding & Slye Corporation	Commercial	59,203,600	0.82%	2,118,305	1.43%
The Congress Group	Commercial	57,419,800	0.79%	1,849,290	1.25%
E.M.I. Cambridge Limited Partnership	Commercial	56,757,500	0.78%	2,030,783	1.37%
TOTAL		$ 1,060,939,938	14.65%	$ 35,642,726	24.07%
TOTAL ASSESSED VALUATION -- FY1997		$ 7,242,124,437			
TOTAL TAX LEVY -- FY 1997		$ 148,070,000			

SOURCE: City of Cambridge, Budget Office.
(1) Excludes in lieu of tax payments on tax-exempt property.

Construction Activity

The City was the beneficiary of significant new construction activity during most of the 1980's. While the economic downturn had a negative impact upon the construction and improvement of commercial properties within the City from FY 1991-1993, moderate yet stable activity in this sector has since resumed. Approximately $185 million worth of building permits were filed in FY1996, reflecting a fourteen percent increase from FY1995. In FY1996, the residential sector experienced a substantial increase, due primarily to strong economic conditions in the greater Boston area. As of April 30, 1997, approximately $280 million worth of building permits were filed, the highest level recorded in fifteen years. Approximately 79 percent, or $221 million, were for commercial construction. As existing space is absorbed and the economy rebounds, moderate development will continue in the City's planned development areas, although speculative development as seen in the 1980's is highly unlikely.

BUILDING PERMITS
FISCAL YEARS 1987 - 1996



SOURCE: City of Cambridge FY1996 CAFR, Statistical Section.

DATA USED IN CHART:

	RESIDENTIAL	PERCENTAGE CHANGE	COMMERCIAL	PERCENTAGE CHANGE	TOTAL	PERCENTAGE CHANGE
1986	$ 58,559,600	52.33%	$ 74,530,400	-28.29%	$ 133,090,000	-6.53%
1987	92,562,120	58.06%	108,659,880	45.79%	201,222,000	51.19%
1988	45,810,600	-50.51%	162,419,400	49.48%	208,230,000	3.48%
1989	35,973,420	-21.47%	220,979,580	36.05%	256,953,000	23.40%
1990	61,863,480	71.97%	167,260,520	-24.31%	229,124,000	-10.83%
1991	31,007,130	-49.88%	62,953,870	-62.36%	93,961,000	-58.99%
1992	30,902,960	-0.34%	114,790,790	82.34%	145,694,000	55.06%
1993	41,510,800	34.33%	101,813,330	-11.31%	143,324,000	-1.63%
1994	42,911,787	3.37%	135,887,325	33.47%	178,799,112	24.75%
1995	35,806,540	-16.56%	126,950,460	-6.58%	162,757,000	-8.97%
1996	61,117,650	70.69%	124,087,350	-2.26%	185,205,000	13.79%

SECTION V: DEBT MANAGEMENT AND PUBLIC INVESTMENT PROGRAM

Debt Outstanding

The City's total outstanding indebtedness will be $78,139,995 as of June 30, 1997, including the current issue as shown in the chart below.

DEBT OUTSTANDING [1]
AS OF JUNE 30, 1997
(Includes current issue)

General Obligation Bonds (before current issue)	$ 53,550,870
MWPAT Loans[2]	14,684,125
Gross Direct Debt	$ 68,234,995
Current Issue	$ 9,905,000
TOTAL GROSS DIRECT DEBT	$ 78,139,995
Less:	
Self-Supporting GO Water Bonds	$ 12,211,000
Self-Supporting GO Sewer Bonds	2,115,870
Self-Supporting MWPAT Loans[2]	14,684,125
Self-Supporting Hospital Bonds	4,255,000
Self-Supporting Current Issue for Sewer	500,000
SUBTOTAL SELF-SUPPORTING	$ 33,765,995
Less:	
Commonwealth Subsidy of School Debt Service [3]	$ 10,640,390
TOTAL TAX-SUPPORTED DEBT	$ 33,733,610

(1) Excludes $995,000 HUD Section 108 loan that is being repaid with developer lease payments.
(2) Includes total principal outstanding on MWPAT loans although approximately 50 percent of total debt service will be subsidized by MWPAT.
(3) Based on outstanding amount of principal reimbursements for school projects as of June 30, 1997.
SOURCE: City Budget Office.

Approximately 57 percent of the City's total general obligation indebtedness is currently supported by various user fees and Commonwealth subsidy programs. The City has historically financed the majority of its capital improvements through limited tax general obligation bonds, including improvements for enterprise-type entities such as the Cambridge Hospital and the Water Department. However, in practice, user fees are used to repay debt service on bonds issued for enterprise projects. As described in Section III, coverage of general obligation debt issued for water and sewer purposes has been well over 1.0 times over the past five fiscal years. In addition to general obligation bonds, the City finances a portion of its sewer system improvements through Massachusetts Water Pollution Abatement Trust (MWPAT) State Revolving Fund subsidized loans. These loans are secured by the City's general obligation pledge, although sewer user charges are used to make loan repayments. The MWPAT subsidizes a portion of total loan payments; currently approximately 50 percent of outstanding loan repayments (both principal and interest) is scheduled to be repaid by MWPAT. In May, 1997, the City borrowed approximately $4.6 million from the MWPAT, of which 48 percent will be subsidized by the MWPAT.

Approximately $19.9 million of the City's outstanding general obligation bonds were issued to finance various school improvement projects. The Commonwealth currently provides on average a 90 percent reimbursement to the City of debt service costs incurred for approved projects, although this obligation is subject to annual appropriation.

Key Debt Ratios

The City's key *direct* debt ratios remain manageable. After netting out self-supporting and subsidized debt, the City's net direct debt ratios are very low and are significantly less than other Massachusetts jurisdictions and national medians.

KEY DEBT RATIOS
GROSS & NET DIRECT
(including current issue)

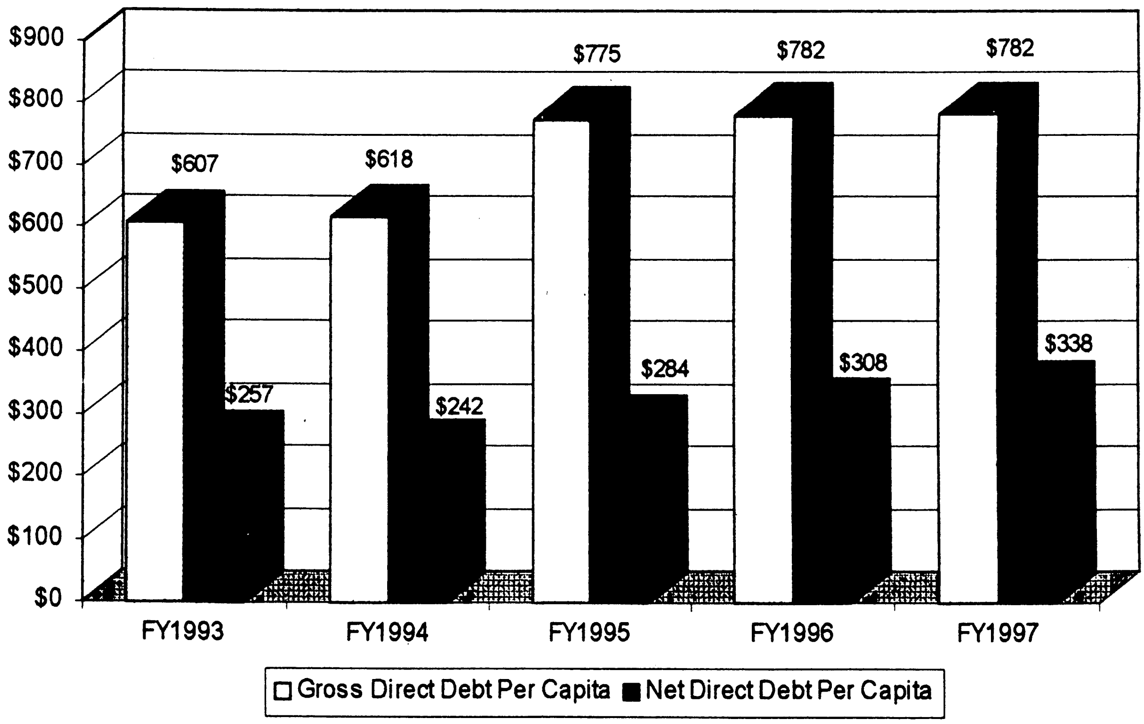
	GROSS DIRECT DEBT	NET DIRECT (TAX-SUPPORTED) DEBT
Debt Per Capita (FY1997)	$782	$338
Debt as % of Full Value (FY1997)	1.08%	0.47%
Debt Service as % of General Fund Expenditures (FY1997)	8.25%	3.18%

ASSUMPTIONS:

1. **Outstanding Debt as of June 30, 1997:** $78,139,995. Includes all GO bonds, MWPAT sewer loans, and new issue. Excludes $995,000 HUD Section 108 loan.
2. **Tax-Supported Debt as of June 30, 1997:** $33,733,610. Includes GO bonds issued for general City purposes and GO bonds issued for school purposes that are supported by property taxes and not reimbursed by the Commonwealth ($19,984,000 - 10,640,390). Excludes GO bonds issued for sewer, water, and hospital purposes and the portion of GO bonds issued for school purposes that is supported by Commonwealth subsidies.
3. **Population:** 99,890 based on 1994 U.S. Census estimate.
4. **FY1997 Market Value:** $7,242,124,437 as of January 1, 1996,
5. **Projected General Fund Expenditures for FY1997:** $223,591,350. Based on adopted FY1997 Operating Budget.
6. **Total GO Debt Service for FY1997:** $18,442,836. Includes all GO bonds and MWPAT sewer loans.
7. **Tax-Supported Debt Service for FY1997:** $7,103,018. Includes debt service on bonds issued for general City purposes and approximately 65 - 90 percent (depends on individual issue) of debt service on GO bonds issued for school purposes and that is repaid from City taxes. Excludes debt service on GO bonds that is supported by water, sewer, and hospital purposes and 10 - 35 percent of debt service on GO bonds issued for school purposes.

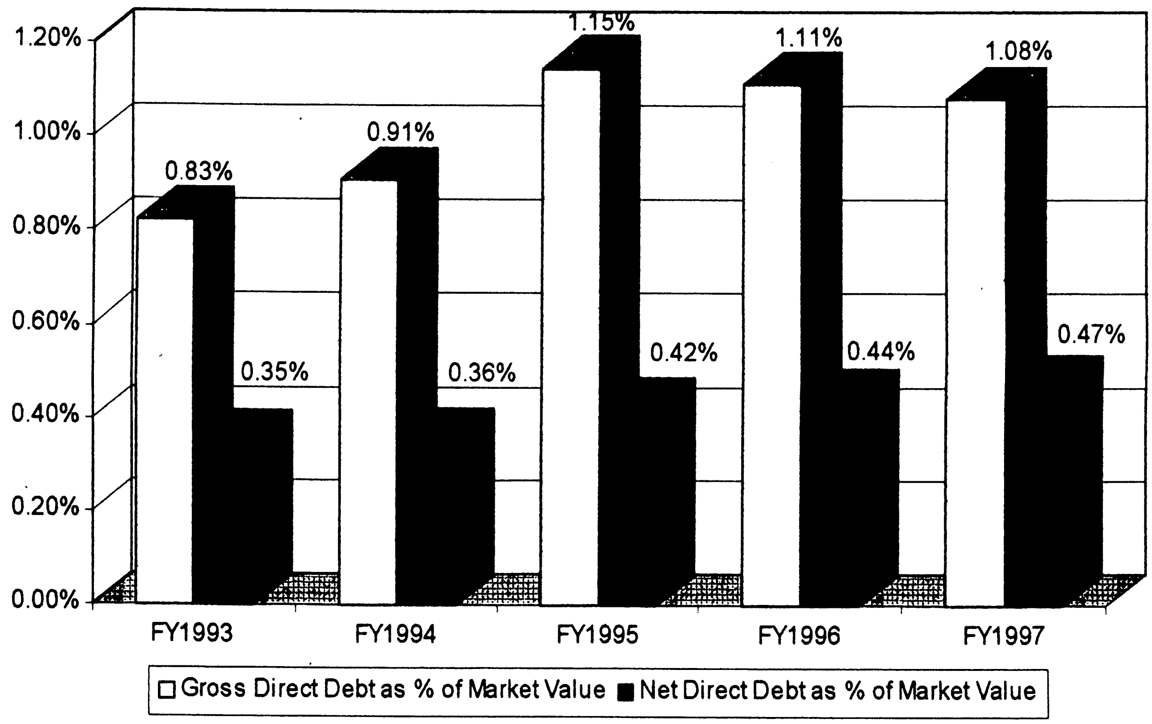
The City's absolute level of general obligation indebtedness has risen over the last five fiscal years, primarily due to general obligation financing of improvements to the sewer distribution system and various school renovations. However, the indices measuring ability to pay illustrate that the City's capacity to support its debt has been maintained, in part because a substantial portion of the City's recent financings are supported by user charges or state subsidy programs. As an indicator of this self-support, the City's net direct debt ratios have increased minimally over the past three years.

GROSS & NET DIRECT DEBT PER CAPITA(1)
Fiscal Years 1993 - 1997



(1) Net direct debt ratios exclude GO bonds issued for water, sewer, and hospital purposes. Net direct debt ratios also exclude approximately 60 percent of GO bonds issued for school purposes. Although the Commonwealth currently reimburses the City for 90 percent of debt service on approved projects, in the past, certain projects were only reimbursed at 65 percent. In addition, the City has financed certain unapproved projects with GO bonds and does not receive any Commonwealth debt service reimbursement for these projects; this debt service is fully supported by General Fund revenues. To compensate for these differences in reimbursement, 60 percent was used as an approximation of non-tax supported school debt service during FY1993 - 1996.

GROSS & NET DIRECT DEBT(1)
AS PERCENTAGE OF MARKET VALUE
Fiscal Years 1993 - 1997



(1) Net direct debt ratios exclude GO bonds issued for water, sewer, and hospital purposes. Net direct debt ratios also exclude approximately 60 percent of GO bonds issued for school purposes. Although the Commonwealth currently reimburses the City for 90 percent of debt service on approved projects, in the past, certain projects were only reimbursed at 65 percent. In addition, the City has financed certain unapproved projects with GO bonds and does not receive any Commonwealth debt service reimbursement for these projects; this debt service is fully supported by General Fund revenues. To compensate for these differences in reimbursement, 60 percent was used as an approximation of non-tax supported school debt service during FY1993 - 1996.

Overlapping Debt

In addition to the City's general obligation debt, the City's tax base also supports a portion of certain indebtedness issued by Middlesex County and two state agencies, the Massachusetts Water Resources Authority (MWRA) and the Massachusetts Bay Transportation Agency (MBTA). In December 1996, Middlesex County defaulted on the payment of $4.5 million Hospital Revenue Anticipation Notes. County expenses, including debt service on county bonds, are assessed upon cities and towns within the County in proportion to their taxable valuation as last equalized by the Commonwealth. While the County's Hospital Revenue Anticipation Notes are general obligations of the County under existing law, it is not expected that the County's default will have a material effect on the City. The City's most recent share of overlapping entities' debt is as follows:

OVERLAPPING DEBT

	LONG-TERM DEBT OUTSTANDING	PERCENT CITY SHARE	OVERLAPPING DEBT
Massachusetts Bay Transportation Authority (1)	$ 2,646,750,000	4.91%	$ 129,955,425
Massachusetts Water Resources Authority (2)	2,651,177,000	4.90%	$ 129,907,673
Middlesex County (3)	1,680,000	11.70%	196,560
			$ 260,059,658

(1) As of May 15, 1997
(2) As of June 30, 1996
(3) As of May 15, 1997

In recent years, MWRA's debt issuance has increased significantly due to its federally-mandated efforts to cleanup the Boston Harbor and the construction of sewage treatment facilities at Deer Island. This additional debt issuance is reflected in higher overall debt ratios for the City of Cambridge (when overlapping debt is included). Including overlapping debt, the City's overall gross debt per capita as of June 30, 1997 is $3,386 and its overall net debt per capita is $1,770 (excludes 90 percent of MBTA debt which is repaid by the state).

Rapidity of Principal Repayment

The City continues its commitment to rapid principal repayment of all outstanding debt by issuing serial bonds with a level principal amortization schedule. The City anticipates retiring approximately 100 percent of its outstanding general obligation debt within ten years. In the future, the City expects to maintain this ten-year amortization schedule for most general City improvements, but, as appropriate, expects to issue twenty year bonds for projects with long useful lives, such as the proposed water treatment plant, the expansion of the Hospital's ambulatory center, and the police station expansion.

RAPIDITY OF PRINCIPAL REPAYMENT(1)

MATURING WITHIN	AMOUNT MATURING	PERCENT OF DEBT OUTSTANDING
5 Years	$ 54,642,741	69.93%
10 Years	$ 78,139,995	100.00%

(1) Includes current issue. Excludes $995,000 HUD Section 108 loan with final maturity of 2014.

Public Investment Program & Projected Debt Issuance

The City of Cambridge has a strong tradition of responding to the changing demands on its infrastructure brought about by commercial growth and the changing needs and expectations of Cambridge residents. The City annually prepares a five-year Public Investment Program (PIP) which serves as the primary planning tool for scheduling the City's capital projects. This detailed program is prepared and revised annually.

The City includes its current year capital budget as part of the five year Public Investment Program. The adopted FY1998 capital budget calls for $15.3 million in capital spending. Major projects include $4.5 million for the Affordable Housing Trust Fund, half of which will be funded by property taxes, and the other half from free cash. The adopted FY1998 capital budget also calls for $2.3 million in streets and sidewalk improvements and $1.6 million in sewer improvements. Funding for the FY1998 capital budget will come largely from property taxes, free cash, and user fees, with only $1.5 million from general obligation bond proceeds.

As proposed in the FY1998 - 2002 PIP, total capital spending over the next five fiscal years is expected to total $128,107,100. This represents a 14 percent reduction from the FY1997 - 2001 PIP. The reduction in the FY1998 - 2002 PIP from the prior year is primarily due to the exclusion of the water treatment plant from the current PIP that were funded through last year's PIP.

The largest source of funds for the FY1998 - 2002 PIP is general obligation bond proceeds, accounting for approximately 55 percent of total funding. Pay-as-you-go funding, which includes free cash, property taxes, water and sewer charges, and golf course fees, accounts for approximately 26 percent of total funding. Major projects in the FY1998 - 2002 PIP include:

Public Safety -- The City anticipates investing approximately $33.4 million in public safety improvements over the next five fiscal years. Approximately $30 million is currently budgeted to fund major renovations to police headquarters, and will primarily be funded from bond proceeds.

Library -- The City anticipates investing approximately $16.7 million in the library system, the majority of which will fund an expanded main library system. Funding is expected from bond proceeds.

Parks & Recreation -- The City anticipates investing approximately $18.3 million in various parks and recreation facilities, including $7.75 million for the proposed West Cambridge Youth Center and $3.5 million for renovation of the War Memorial. Funding is expected primarily from bond proceeds.

Affordable Housing Trust Fund -- Approximately $13.5 million is budgeted to be invested in the acquisition and renovation for affordable housing stock over the next five years. The City intends to use property tax revenues (a portion of which are attributable to growth in assessed valuation due to the elimination of rent control) to fund this investment.

The following chart details the sources and uses of funds for the City's capital improvement projects over the next five fiscal years.

FY1998 - 2002 PUBLIC INVESTMENT PROGRAM
SOURCES & USES OF FUNDS

SOURCES OF FUNDS	FY1998-2002 PIP	AS PERCENT OF TOTAL
Property Taxes	$ 16,250,000	12.68%
Free Cash	7,230,000	5.64%
Parking Fund	2,480,000	1.94%
Sewer Use Charges	6,855,000	5.35%
Water Use Charges	3,000,000	2.34%
Block Grant	10,230,175	7.99%
Program Income	1,341,925	1.05%
Chapter 90 Grant	10,000,000	7.81%
General Obligation Bond Proceeds	70,520,000	55.05%
Golf Course Fees	200,000	0.16%
TOTAL	$ 128,107,100	100.00%
USES OF FUNDS		
General Government	$ 1,875,000	1.46%
Public Safety	33,440,000	26.10%
Affordable Housing Trust Fund	13,500,000	10.54%
Streets/Sidewalks/Trees	11,750,000	9.17%
Comm. Maintenance & Development	30,661,650	23.93%
Library Renovations	16,700,000	13.04%
Parks & Recreation	18,280,450	14.27%
Human Resource Development	750,000	0.59%
Education	1,150,000	0.90%
TOTAL	$ 128,107,100	100.00%

After the sale of the Series 1997 Bonds, the City will have $86,867,798 authorized but unissued debt authority available. This includes $30 million for the Hospital's ambulatory center, $24 million for sewer separation, and $26 million for various school improvements. The $86.9 million figure excludes $3.5 million that has been authorized for HUD Section 108 loans.

Projected Debt Ratios

The City annually prepares projections of its key debt ratios to ensure that the City's future ability to support debt service is as strong in the future as it is today. These projections are based on current authorized but unissued debt and the City's internal projections of future debt issues that have not yet been authorized by City Council.

As the following chart illustrates, the City anticipates issuing approximately $190 million in debt over the next five fiscal years, including this issue. This figure includes approximately $60 million for the proposed water treatment plant and related improvements, $30 million for the proposed ambulatory center, $30 million for police headquarters improvements, $25 million for various school improvements, and $16 million for library construction. Of the $190 million, approximately $74 million will be supported by user fees or state subsidies.

The City's *gross* direct debt ratios will increase substantially if all proposed projects are implemented as planned: However, the City's *net* direct debt ratios will increase by a lesser amount as approximately 61 percent of planned debt issuance is supported by user fees or state subsidies. By either measure, the City's rapid amortization schedule gives the City sufficient capacity to easily manage its aggressive capital plan.

PROJECTED DEBT ISSUANCE & IMPACT ON DEBT RATIOS
Fiscal Years 1997 to 2001

	1997	1998	1999	2000	2001	Total 1997-2001
Beginning Balance (5/1/97)						
Total G.O.	$ 77,679,995	$ 78,139,995	$ 155,081,111	$ 194,030,955	$ 205,460,896	—
Net tax supported G.O.	30,273,610	33,733,610	37,238,660	56,511,410	80,365,460	—
Issued						
Total G.O.	9,905,000	90,900,000	57,000,000	32,500,000	-	$ 190,305,000
Net tax supported G.O.	9,405,000	9,270,000	24,400,000	30,500,000	-	$ 73,575,000
Retired						
Total G.O.	(9,445,000)	(13,958,884)	(18,050,156)	(21,070,059)	(21,291,088)	(83,815,187)
Net tax supported G.O.	(5,945,000)	(5,764,950)	(5,127,250)	(6,645,950)	(8,253,550)	(31,736,700)
Ending Balance (As of 6/30)						
Total G.O.	$ 78,139,995	$ 155,081,111	$ 194,030,955	$ 205,460,896	$ 184,169,808	—
Net tax supported G.O.	33,733,610	37,238,660	56,511,410	80,365,460	72,111,910	—
Population	99,890	99,890	99,890	99,890	99,890	
Assessed Value (in millions)	$7,242,124,437	$ 7,575,892,284	$ 8,072,853,197	$ 8,236,052,379	$ 8,510,221,826	
Debt Per Capita	$782	$1,553	$1,942	$2,057	$1,844	
Net Debt Per Capita	338	373	566	805	722	
Debt as % of Assessed Value	1.08%	2.05%	2.40%	2.49%	2.16%	
Net Debt as % of Assessed Value	0.47%	0.49%	0.70%	0.98%	0.85%	

ASSUMPTIONS:

1. Population growth of zero percent.
2. Residential assessed valuation growth of 3% in FY1998 , 5% in FY1999, 2% in FY2000, and 3% in FY2001. Commercial assessed valuation growth of 3% in FY1998, 5% in FY1999, 2% thereafter.
3. Tax-supported debt includes all GO debt issued for general City purposes and 10 - 35% of GO debt issued for school purposes (depends on individual issue). Tax-supported debt excludes GO debt issued for water, sewer, and hospital purposes.
4. New debt issues are amortized over ten years, with the exception of debt to be issued for the water treatment plant, hospital ambulatory center, and proposed police station improvements which will be amortized over twenty years.

Consent Agenda #11

NOTICE OF SALE AND PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 12, 1998

February 2, 1998

NEW ISSUE
BOOK ENTRY ONLY

Moody's Investors Service, Inc.:
Standard & Poor's Corporation:
(see "Ratings")

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.

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

$42,000,000

CITY OF CAMBRIDGE
MASSACHUSETTS

GENERAL OBLIGATION BONDS

MUNICIPAL PURPOSE LOAN OF 1998

Dated: February 1, 1998 **Due: February 1, 1999–2018**

AMOUNTS, MATURITIES, INTEREST RATES, AND PRICES OR YIELDS

Year	Principal Amount	Interest Rate	Initial Yield	Year	Principal Amount	Interest Rate	Initial Yield
1999	$2,700,000	%	%	2009	$1,500,000	%	%
2000	2,700,000			2010	1,500,000		
2001	2,700,000			2011	1,500,000		
2002	2,700,000			2012	1,500,000		
2003	2,700,000			2013	1,500,000		
2004	2,700,000			2014	1,500,000		
2005	2,700,000			2015	1,500,000		
2006	2,700,000			2016	1,500,000		
2007	2,700,000			2017	1,500,000		
2008	2,700,000			2018	1,500,000		

The Bonds will be dated February 1, 1998. Principal on the Bonds will be payable on February 1 of the years in which the Bonds mature. Interest will be payable semiannually on February 1 and August 1, commencing on August 1, 1998. The Bonds maturing on or after February 1, 2009 shall be subject to redemption prior to maturity as described herein (see "Redemption").

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

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

The date of this official statement is January , 1998.

CITY OF CAMBRIDGE, MASSACHUSETTS

THE CITY COUNCIL

Kathleen Leahy Born
Henrietta Davis
Francis H. Duehay
Anthony D. Galluccio
Kenneth E. Reeves
Sheila Doyle Russell
Michael A. Sullivan
Timothy J. Toomey, Jr.
Katherine Triantafillou

CERTAIN APPOINTED OFFICIALS

Robert W. Healy, City Manager
Richard C. Rossi, Deputy City Manager
James P. Maloney, Jr., Assistant City Manager for Fiscal Affairs and Treasurer/Collector
Russell B. Higley, City Solicitor
D. Margaret Drury, City Clerk
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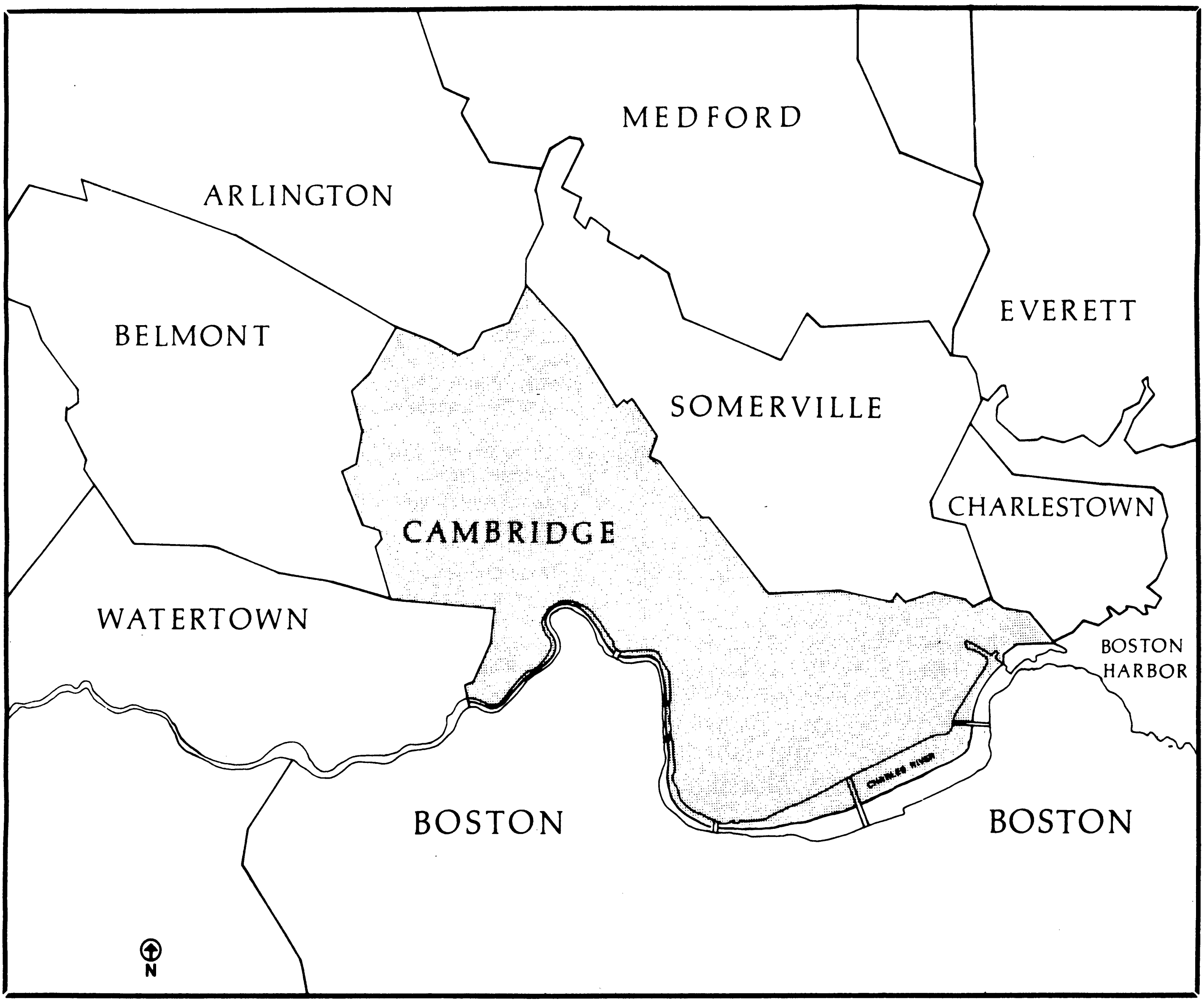


CAMBRIDGE AND SURROUNDING COMMUNITIES.

PART I: INTRODUCTION

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

The Issuer

The City of Cambridge is located in Middlesex County across the Charles River from the City of Boston. Cambridge, first settled in 1630, was originally incorporated as a town in 1636 and became a city in 1846. Since 1940, Cambridge has operated under a council-manager form of government with nine city councillors elected every two years. Occupying a land area of 6.26 square miles, the City has an estimated 1996 population of 93,707.

The Bonds

The City of Cambridge General Obligation Bonds, Municipal Purpose Loan of 1998 in book-entry-only-form, dated February 1, 1998, are due February 1 in each year of the years 1999 through 2018 in the aggregate principal amount of $42,000,000.

Security for the Bonds

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

Use of Proceeds

$30,000,000 from the proceeds of the Bonds will be used for the construction of an ambulatory care center and parking facility at the Cambridge Hospital, a component of the Cambridge Public Health Commission (CPHC) which is an independent authority created by home rule legislation by the Massachusetts legislature in June, 1996. While the bonds will be liabilities of the City and the debt service will be paid by the City, the CPHC will reimburse the City for all principal and interest costs which are incurred. The remainder of the proceeds, $12,000,000, will finance extensive renovations to an elementary school.

Redemption

Bonds maturing in the years 1999 through 2008, inclusive, shall not be subject to redemption prior to maturity.

Bonds maturing on or after February 1, 2009, shall be subject to redemption prior to maturity, at the option of the City, on or after February 1, 2008 either in whole at any time or in part by lot within a maturity on any interest payment date, at the following redemption prices, expressed as a percentage of the principal amount plus accrued interest to the date set for redemption.

Period During Which Redeemed (both dates inclusive)	Redemption Prices
February 1, 2008 to January 31, 2009	101.0%
February 1, 2009 to January 31, 2010	100.5
February 1, 2010 and thereafter	100.0

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

Tax Exemption

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

Legal Matters

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

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

Delivery

The Bonds are offered subject to prior sale, when, as, and if, issued by the City and accepted by the initial purchaser of the Bonds, subject to the receipt of an approving legal opinion by Palmer and Dodge LLP, Boston, Massachusetts, Bond Counsel. Delivery of the Bonds is expected on or about February 1, 1998.

Financial Advisor

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

Bond Counsel

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

Ratings

Ratings will be assigned by Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007, and Standard & Poor's Ratings Group, 25 Broadway, 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 either or both of such rating agencies if, in the judgement of either or both, 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 either of such ratings may have an adverse effect on the market price of the Bonds.

Auditors

A yearly independent audit of all accounts, books, records, and financial transactions of the City has been performed by KPMG Peat Marwick, Certified Public Accountants, of Boston, Massachusetts since fiscal year 1979. The opinion of the independent auditors for the period set forth in their report and the fiscal year 1997 Financial Statements are presented as a part of this Official Statement. (See Appendix A.)

Absence of Material Litigation

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

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

Miscellaneous

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

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

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.

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 City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. The City has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of material events in accordance with the Rule.

Any questions concerning the contents of this Official Statement should be directed to the following: James P. Maloney, Jr., Assistant City Manager for Fiscal Affairs, (617) 349-4220, or Roger P. Vacco, Palmer & Dodge LLP, (617) 573-0100.

PART II: THE BONDS

DESCRIPTION OF THE BONDS

General

The Bonds are dated February 1, 1998, and will bear interest from that date which will be payable beginning August 1, 1998 and semi-annually thereafter on February 1 and August 1 until maturity. The Bonds will mature on February 1 each year as specified below:

Due February 1	Principal Amount	Due February 1	Principal Amount
1999	$2,700,000	2009	$1,500,000
2000	2,700,000	2010	1,500,000
2001	2,700,000	2011	1,500,000
2002	2,700,000	2012	1,500,000
2003	2,700,000	2013	1,500,000
2004	2,700,000	2014	1,500,000
2005	2,700,000	2015	1,500,000
2006	2,700,000	2016	1,500,000
2007	2,700,000	2017	1,500,000
2008	2,700,000	2018	1,500,000

Redemption

Bonds maturing in the years 1999 through 2008, inclusive, shall not be subject to redemption prior to maturity.

Bonds maturing on or after February 1, 2009, shall be subject to redemption prior to maturity, at the option of the City, on or after February 1, 2008 either in whole at any time or in part by lot within a maturity on any interest payment date, at the following redemption prices, expressed as a percentage of the principal amount plus accrued interest to the date set for redemption.

Period During Which Redeemed (both dates inclusive)	Redemption Prices
February 1, 2008 to January 31, 2009	101.0%
February 1, 2009 to January 31, 2010	100.5
February 1, 2010 and thereafter	100.0

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

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond Certificate will be issued for each maturity of the Bonds each in the aggregate principal amount of such maturity and will be deposited with DTC. The record date for debt service payment is the close of business on the fifteenth business day of the month prior to the month in which a debt service payment comes due.

DTC 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in

Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for securities on DTC's records. The ownership interest of each actual purchaser of each security ("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 securities 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 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 Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of securities with DTC and their registration in the name of Cede & Co. 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 Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. If less than all of the securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Principal and interest payments on the Bonds will be made to 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 unless DTC has reason to believe that it will not receive payment on each payable date. 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, 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 DTC is the responsibility of the City or the Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

AUTHORIZATION AND USE OF PROCEEDS

The $42,000,000 General Obligation Bonds consist of the following authorizations:

Construction of Ambulatory Care Center

$30,000,000

$30,000,000 was authorized pursuant to Massachusetts General Laws, Chapter 44, s.7 (3) and s.7 (3A) by loan orders of the City Council adopted on June 7, 1993 and June 27, 1994 to provide funds for the construction of an ambulatory care center and parking facility at the Cambridge Hospital.

Elementary School Renovation

$12,000,000

$12,000,000 was authorized pursuant to Massachusetts General Laws and Chapter 645 of the Acts of 1948 by loan orders of the City Council adopted on May 22, 1995 and June 9, 1997 to provide funds for extensive renovations to the Morse School, an elementary school in the Cambridgeport section of the city.

SECURITY AND REMEDIES

Full Faith and Credit

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

Tax Levy

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

No provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgements on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgements rendered after the tax levy has been fixed, subject to the General Debt Limit (see "Authorization of General Obligation Bonds and Notes" and "Debt Limits"). Subject to the State Director of Accounts for judgements above $10,000, judgements may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings

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

Utility and Enterprise Receipts; Revolving Funds

Massachusetts statutes also provide that certain water, gas and electric, sewer, and parking meter receipts may be used only for water, gas and electric, sewer, and parking and related purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, recreational or transportation facility; 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. Also, the annual allowance for depreciation of a gas and electric plant is restricted to use for renewals and improvements or, with the approval of the State Department of Public Utilities, to pay debt incurred for plant reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financing are also not available for general municipal purposes.

State Distributions

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

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

OPINION OF BOND COUNSEL

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

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

TAX EXEMPTION

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

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

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

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

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

The opinion of Bond Counsel will also state that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers should be aware, however, that the Bonds will be included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon will be included in the measure of Massachusetts corporate excise and franchise taxes.

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

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 estimated population was 93,707 in 1996.

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

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

CONSTITUTIONAL STATUS AND FORM OF GOVERNMENT

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

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

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

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

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

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

CERTAIN ELECTED OFFICIALS AND ADMINISTRATIVE/FINANCIAL STAFF MEMBERS

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

The City Manager is the chief executive and administrative officer and carries out the policies of the City Council. With the assistance of the Deputy City Manager and three Assistant City Managers, he coordinates the functions of 41 municipal departments responsible for the delivery of service to residents. The City Manager is appointed by the City Council and serves at the pleasure of the Council. In 1997, the City Council approved a contract for the present City Manager, which expires June 30, 2000.

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

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

Principal Elected Officials

The following are the nine members of the City Council elected for two-year terms ending December 31, 1999:

Kathleen Leahy Born
Henrietta Davis
Francis H. Duehay
Anthony D. Galluccio
Kenneth E. Reeves
Sheila Doyle Russell
Michael A. Sullivan
Timothy J. Toomey, Jr.
Katherine Triantafillou

The following are the six members of the School Committee elected for two-year terms ending December 31, 1999:

Joseph G. Grassi
Robin Harris
David P. Maher
Susana M. Segat
E. Denise Simmons
Alice L. Turkel

As of this date, the Mayor, who also serves as chairman of the School Committee, had not been elected to a two-year term ending December 31, 1999.

Principal Executive Officers

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

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

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

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

James P. Maloney, Jr., Assistant City Manager for Fiscal Affairs and Treasurer / Collector since November, 1982.

Previously served the City as Chief Budget Analyst from 1978 to 1980 and Budget Analyst from 1974 to 1978. Also served as Budget Administrator for the County of Arlington, Virginia from 1980 to 1982, and a consultant to the Finance Department, Engelwood, New Jersey in 1976. Bachelor of Arts degree in Government from Suffolk University and a Masters degree in Public Administration from Northeastern University.

Susan B. Schlesinger, Assistant City Manager for Community Development since September, 1994.

Previously served the City as Director of Housing from 1987 to 1994. Homeownership/ Rehabilitation Coordinator from 1986 to 1987, and Project Coordinator, Coop Ownership Program from 1985 to 1986. Also served as Planner/Assistant Administrator of the Community Action Agency of Somerville and in various educational positions for the City of Somerville. Bachelor of Arts in American History and Masters degree in Education from Northeastern University.

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

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

Russell B. Higley, City Solicitor since March, 1976.

Previously served the City as Assistant City Solicitor from 1970 to 1976 and General Counsel to the Rent Control Board. Assistant District Attorney, Middlesex County from 1968 to 1969. In addition, Mr. Higley has his own private law practice in Cambridge. Bachelor of Science degree in Business Administration from Suffolk University and a Doctor of Jurisprudence degree from Suffolk Law School.

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

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

James A. Lindstrom, City Auditor since August, 1993.

Previously served as Executive Secretary for Chatham, Massachusetts from 1987 to 1993. Director of Administration & Planning/Finance Director for Amherst, Massachusetts from 1976 to 1987; Assistant Vice President and Area Controller, Citibank, New York, from 1974 to 1976; and Fiscal Officer, Paterson Redevelopment Agency, Paterson, New Jersey from 1969 to 1974. Bachelor of Arts in Economics from Hamilton College and Masters degree in Business Administration (Finance), Stanford University.

Bobbie D'Alessandro, Superintendent of the Cambridge School System since August, 1997.

Appointed by the Cambridge School Committee. Previously served as Superintendent of Schools for the School District of Lee County in Fort Meyers, Florida for three years. Prior to that, she served as Co-Director of the West Central Management Development Network in Tampa, Assistant Director of the Southwest Florida Teacher Education Center in Fort Myers, Coordinator of Volunteers at the Calusa Nature Center, and instructor at Florida Atlantic University in West Palm Beach. In addition, she was a public school teacher in Florida for 11 years. She holds a Bachelor of Science in Biology from the University of Dubuque and a Master's degree in Biology from Central Michigan University and is pursuing a doctoral degree in Educational Leadership at the University of South Florida in Tampa, Florida.

GOVERNMENTAL SERVICES AND FACILITIES

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

Prior to July 1, 1997, Middlesex county provided space for courts, a jail, a house of correction, and a registry of deeds. Legislation was recently enacted 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 abolishes the county governments of Hampden and Worcester counties as of July 1, 1998 or earlier if the county fails to make a required payment on an outstanding bond or note. 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 equal to the county tax paid by each such city and town for the fiscal year immediately prior to the abolishment of the county until such expenditures by the Commonwealth are recovered. It is possible that similar legislation will be sought to provide for the abolishment of county government in all the remaining counties.

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

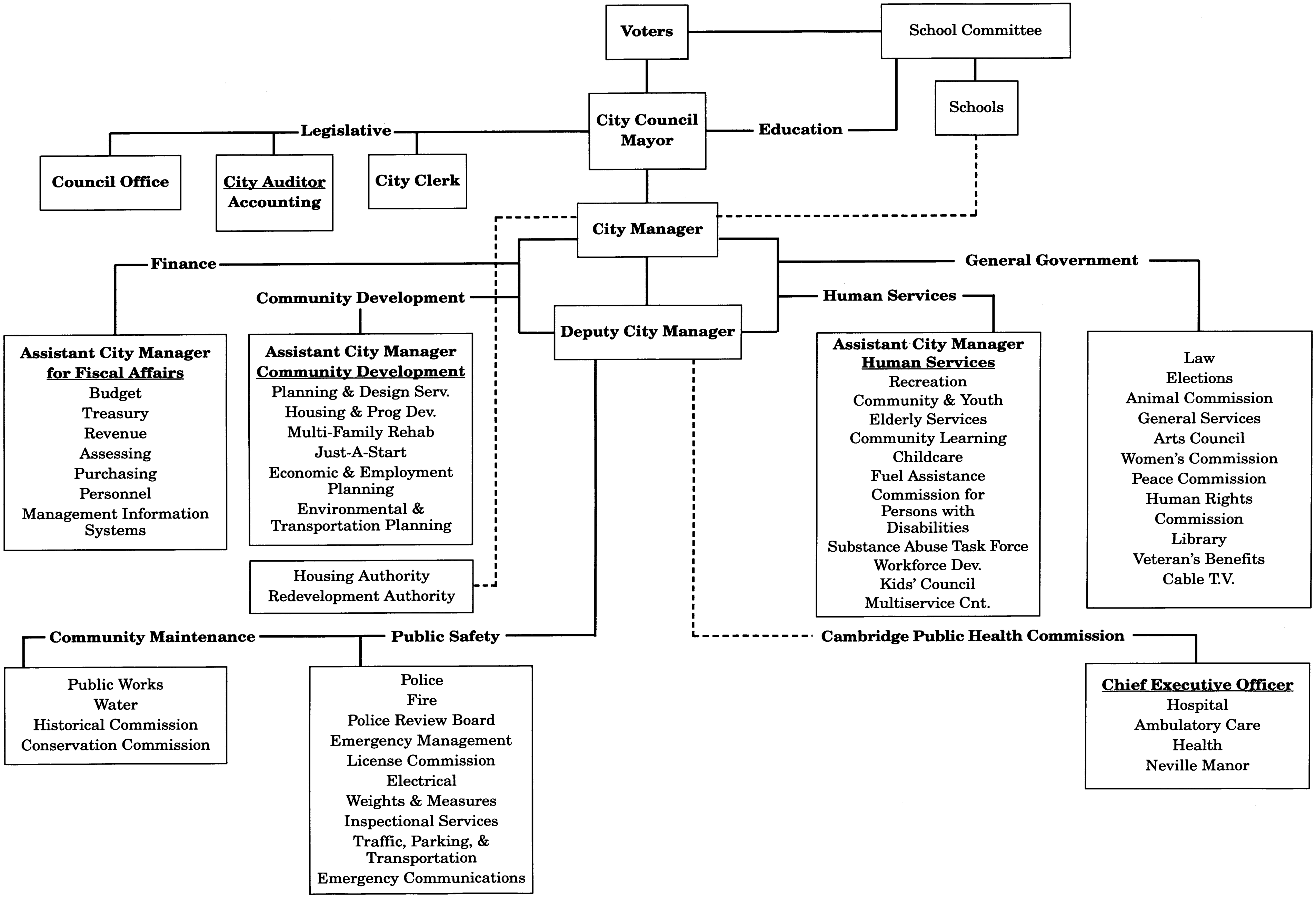
Other major recreational facilities provided by the City include a municipal golf course and club house, two community centers, outdoor and indoor swimming pools, tennis facilities, and a newly constructed field house located at the high school.

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

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

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

ORGANIZATIONAL CHART
City of Cambridge, Massachusetts



Economic Development Activity

The City of Cambridge has demonstrated a strong economic performance over the past several years, building from the recovery begun after the last recession. Over the past year, the City has continued to experience steady increases in assessed valuation, employment and net absorption of commercial real estate, due in large part to continued public sector economic development activities. In particular, the presence within Cambridge of both the Massachusetts Institute of Technology and Harvard University has greatly benefited the growth of high technology and biotechnology companies. The following discussion summarizes recent economic growth and activity in the City of Cambridge.

Assessed Valuation. Fiscal year 1998 total assessed valuation, including both real and personal property, is $7.50 billion. Of that total, approximately $2.74 billion consists of industrial, commercial, and personal property. New growth in the last year added approximately $173.6 million to the taxable valuation base of the City.

The City's total assessed valuation increased by $261.6 million, or 3.6 percent, from fiscal year 1997. These figures are comparable to the prior year's $232 million, or 3.3 percent, increase. This trend is expected to continue through the next few years.

Employment. Given the diversified nature of the 107,240 documented jobs in Cambridge, the Cambridge economy continues to perform better than the economy of the Boston Metropolitan area or the Commonwealth of Massachusetts. In 1995 the City passed its previous employment peak achieved in 1990. Over the last sixteen years, the unemployment rate in Cambridge has been consistently lower than both the statewide and national rates. As of October, 1997 the unadjusted unemployment rate for Cambridge was 2.0%, while the Commonwealth's rate was 3.3%, and the rate for the United States 4.4%.

Commercial Real Estate Market. The construction of over 9.4 million square feet between 1980 and 1991 provided Cambridge with a solid base of Class A and quality high technology office/R&D space. New commercial construction has slowed since then as the Northeast has re-adjusted to new market forces, but the Cambridge market remains one of the healthiest in the region. Between 1992 and 1996 an additional 900,000 SF of new or substantially rehabilitated space came on line. Due to stability in the City's employment base and growth in the high tech and biotech sectors, the commercial vacancy rate in Cambridge continues to be lower than that of either Boston or the surrounding suburbs. At the end of the third quarter of 1997, the vacancy rate in Cambridge stood at 5.9%, compared to rates in Boston and suburban markets of 6.1% and 11.0% respectively. At present, approximately 1,000,000 SF of new commercial space is now under construction.

As companies continue to restructure and consolidate, net absorption in Cambridge remains steady and positive. In particular, growth of high tech and biotech companies has spurred additional absorption and some new construction of commercial space. Long term commitments from companies such as Biogen, which recently constructed an additional 148,000 SF of office/R&D space, with expansion rights for another 500,000 SF, shows the strength of the Cambridge market for fast growing companies. Other fast growing companies signing leases in 1997 include Millenium (270,000 SF) and Monitor Company (159,000 SF).

Projections for development through the year 2010 include an additional 4.0-5.0 million SF of commercial space. Growth is expected to occur in the City's former industrial districts, which changed in response to the demands of the new economy. The City meters development through an orderly process, utilizing control over infrastructure, planned unit development, and zoning strategies. Presented below is a summary of the current economic activities and future potential of five major development areas, along with a short City-wide summary.

Alewife. Located in the western part of the City near Fresh Pond Reservoir, the M.D.C. Alewife Reservation, and the Belmont and Arlington Town lines, Alewife consists of approximately 370 acres. The district lies within a thirty minute drive to Logan International Airport and downtown Boston, as well as residential suburbs and the Route 128 corridor. The area is served by the MBTA's Red Line rapid transit system through the Alewife Station, as well as by MBTA surface bus lines. A 2,000 car parking garage is located adjacent to the station and has direct access to Route 2.

Over 1.5 million square feet of prime office/R&D space was built in Alewife over the last fifteen years, including portions of two major planned developments on opposite sides of the MBTA station. With an improving market for leasing of new office, R&D, and retail space, renewed interest has developed in sites that have remained inactive for more than five years. Plans for up to 300,000 SF of new construction are anticipated within the next five years.

Alewife has become a center for companies in consulting and biotechnology. The area serves as headquarters for BBN, Genetics Institute, and Arthur D. Little. The Alewife area appeals to companies interested in a suburban setting within the City of Cambridge. The City has finalized a draft planning study for this area, updating the Alewife Master Plan completed in 1979. The planning study includes recommendations for upgrading the infrastructure and encouraging economic development, as well as preserving and enhancing environmental and recreational resources. The draft has been sent to the City Council for their review. Planned improvements to Fresh Pond Parkway will begin to implement elements of that plan.

Cambridgeport. This area, comprising 70-80 acres located along the Charles River between the Boston University Bridge and Central Square, is a former industrial area being redeveloped primarily for office/R&D with some retail, light manufacturing, and residential uses. Over 630,000 SF of new office/R&D space and manufacturing space as well as 280 housing units have been completed over the last fourteen years, with an estimated value in excess of $90 million. Recent renovations include headquarters for Hybridon (91,000 SF), Modern Continental (72,000 SF) and Vertex (60,000 SF), and space for Lifeline Systems (200,000 SF).

Polaroid has begun renovating its historic art deco building on Memorial Drive as a new corporate headquarters and will construct two additional office buildings for a total of 300,000 SF on site with a 650 car parking garage.

Forest City Development, in conjunction with the Massachusetts Institute of Technology, is in the process of constructing a long term phased development of 2.3 million SF, including a major hotel, retail shopping center, office/R&D space, and 400 units of housing. Over 350,000 SF of office/R&D space has been completed and is fully occupied, and 225 units of housing are finished. Construction of the hotel, 90,000 SF of retail uses, including a 45,000 SF supermarket, 80,000 SF of additional office space, and a 1000 car garage are all underway. In addition, plans are underway to build two additional office/R&D buildings totalling an additional 270,000 SF and a 500 car parking garage at University Park. A building permit for 140,000 SF of office/R&D space and a 500 car garage has been issued for a nearby site not controlled by Forest City.

East Cambridge Riverfront. This area lies directly across the Charles River from Boston at the Museum of Science and Charles River Dam area and between Kendall Square and North Point. East Cambridge is approximately 2 miles and 15 minutes travel time from Logan International Airport and consists of 60 acres of land.

The MBTA's Kendall Red Line and Lechmere Green Line rapid transit stations provide public transit access with connections to the metropolitan Boston area. The area is also well served by surface bus routes. Starting in the early 1980s, the redevelopment of the East Cambridge riverfront was stimulated by $50 million in public improvements, including the creation of Lechmere Canal Park, Centanni Way, Front Park, and Charles Park. In addition, a 1000 car public parking garage opened and the City implemented roadway improvements throughout the area.

The total private development completed in the East Cambridge area over the last fifteen years includes 3.7 million square feet of new and renovated prime office/R&D and retail space, 310 hotel rooms, and over 750 housing units with a total value in excess of $630 million. East Cambridge has developed as a center for the computer and biotechnology industries, serving as headquarters for such firms as Lotus and Aspen Technologies in computer software and hardware, and Biopure in biotechnology. Lotus Development recently occupied a new 119,000 SF building.

The long term development potential in this area includes approximately 2.1 million SF, including major development space at ComEnergy.

Kendall Square. This 50 acre area lies across the Charles River from Boston at the Longfellow Bridge, adjacent to the MIT Campus and East Cambridge riverfront areas. The MBTA's renovated Kendall Red Line rapid transit station, surface bus routes, and a bus shuttle service all benefit this area. Buildings completed in the 1980's added over 2.0 million SF, to bring the total Kendall Square area to over 5.0 million SF of first class office/R&D space. The area is enhanced by an active commercial center at the Cambridge Center Marriott; a public plaza adjacent to the MBTA station; new streets, sidewalks, street furniture and trees; a year round fountain/steam sculpture; and other public open space.

The most recent new developments have been the completion of a 148,000 SF new building at 12 Cambridge Center for Biogen, Inc. as part of the firm's long-term development in the area, and the completion of a 63,000 SF expansion of the Whitehead Institute for Biological Research. The area also houses the headquarters of Computer Corporation of America, CSC/Index, Polaroid, Genzyme and Camp, Dresser & McKee. Office leasing is heavily influenced by the close proximity to MIT and Harvard University. The ten to fifteen year development potential will accommodate another 1.7 million square feet of commercial space.

North Point. This is a 60 acre underutilized industrial and railroad service area situated in a strategic location adjacent to the Charles River. Boston's Central Artery Project emerges through North Point, and it is under intense planning review. Given the area's proximity to major research areas such as Massachusetts General Hospital and the East Cambridge/Kendall Square areas, North Point has a strong future development potential.

North Point could accommodate up to 2.0 million SF of mixed use development. The Commonwealth has agreed to fund infrastructure improvements to provide access through the North Point district and a new park along the Charles River. A 159,000 SF headquarters building for EF International, an educational services company, and a 435 unit housing development are both under construction. Detailed design of the riverside park and the roadway and utility layout continues apace to ensure their presence when the new construction is complete.

City-wide. While densely developed and limited in its further potential, the Harvard Square area continues to attract development interest. New construction totaling 136,000 SF of office, retail and residential space is under construction. An additional 52,000 SF office buiding is under review. Citywide, there is a clear, renewed interest in the construction of new market-rate housing, with more than 300 units under construction in projects ranging in scale from small infill developments to a 200 unit project.

Affordable Housing Preservation and Development

In the late 1960's and 1970's, Cambridge made extensive efforts to support federal programs for the production of new rental units for low and moderate income families and the elderly. During this period the number of publicly assisted units more than doubled from 2,111 in 1970 to approximately 5,000 in 1980. Since 1980, with the cutback in federal funds for housing production, the City has placed increased emphasis on the preservation and rehabilitation of the existing stock, especially in lower income neighborhoods. The recent elimination of rent control (effective December 31, 1996) has also been a major cause of the City's increased efforts to create and maintain affordable housing units. In fiscal year 1998, the City has budgeted $4.5 million for the Affordable Housing Trust Fund, a 100 percent increase from fiscal year 1997. This appropriation is funded by $1.5 million in savings from the elimination of the rent control budget, $1.5 million from new property taxes generated by increases in assessed valuation of previously rent controlled real estate, and $1.5 million in free cash.

More than half of the City's $4.203 million annual Community Development Block Grant, as well as other public and private funds, are allocated to a range of local housing programs. City programs support the rehabilitation of 1-4 unit owner-occupied structures and investor-owned multi-family properties, and create affordable homeownership and rental opportunities for Cambridge residents through conversion, infill construction, and the First Time Home Buyers Program. Since 1980, such programs have enabled the City to upgrade over 1,500 dwelling units. For example, since 1989 the Cambridge Affordable Housing Trust has committed $6.0 million for the development of 769 affordable units, which, in turn, has leveraged over $36 million in other funding. In addition, Cambridge has been designated a participating jurisdiction under the federal HOME program and receives an annual allocation of approximately $700,000 from HUD for the provision of new and rehabilitated affordable housing units. In 1997 the City received a $2.2 million federal grant from HUD to assist property owners in deleading their units, supplementing a $2.4 million grant received in 1994. Thus, it seems clear that the City's efforts have had a significant impact in preserving and improving an aging inventory of privately owned structures, while providing additional units of decent, affordable housing in existing buildings, and in some cases, new structures.

For the past decade, the Cambridge Housing Authority has successfully pursued a program of modernizing the public housing inventory. More than 920 units in the City's largest public housing developments have undergone major renovations at a cost of $37.5 million in federal and state funds, and $27.5 million more has been committed to additional modernization.

Employment

Because of the extensive development that has taken place, Cambridge has experienced unemployment rates significantly lower than the national and Massachusetts averages over the last nine years. In addition to new employment created by the growth of research and development and service industries, the City retains its traditional employers in the area of education, medicine, and government, which promotes the City's overall diversity.

The following table presents the number of employees for the calendar year 1996, as compiled by the Massachusetts Department of Employment and Training. The annual payroll for the more than 3,929 business and government agencies conducting business in Cambridge during 1996 totaled approximately $4.5 billion.

CITY OF CAMBRIDGE
EMPLOYMENT BY SECTOR
CALENDAR YEAR 1996

	1996 Average Employees	Percent of Total Employment
Private Sector:		
Agriculture, Mining, & Other	207	0.2%
Construction	1,583	1.5
Manufacturing	5,990	5.6
Transportation, Communication, Utilities	2,414	2.3
Wholesale & Retail Trade	16,233	15.1
Financial, Insurance, Real Estate	3,364	3.1
Service Industries	70,413	65.6
Total Private	100,204	93.4
Public Sector:	7,036	6.6
TOTAL	107,240	100.0%

Source: Massachusetts Department of Employment and Training.

CITY OF CAMBRIDGE
TOP TWENTY-FIVE EMPLOYERS
MAY 1997

Rank	Name of Employer	Nature of Business	1997 Employees
1	MIT	Education	7,839
2	Harvard University	Education	7,337
3	City of Cambridge	Government	3,244
4	Lotus Development Corp./IBM	Computer Software	1,865
5	Mt. Auburn Hospital	Medical	1,627
6	Bolt, Beranek & Newman	Research & Development	1,511
7	Federal Government	Government	1,441
8	Cambridge Public Health Commission	Public Health	1,325
9	Polaroid	Photo & Optic Equipment	1,300
10	Draper Labs	Research & Development	1,238
11	Arthur D. Little	Management Consulting	1,111
12	Genzyme	Pharmaceutical Products	824
13	Star Market	Retail	807
14	Biogen	Biotechnology/R&D	780
15	Quest Diagnostics	Clinical Testing Services	700
16	Necco/Haviland	Confectionary Products	700
17	Camp, Dresser, McKee	Engineering	693
18	Commonwealth of Massachusetts	Government	659
19	Youville Hospital	Medical	585
20	Genetics Institute	Biotechnology/R&D	582
21	ABT Associates	Management Consulting	525
22	Lesley College	Education	452
23	Raytheon Engineering	Construction	440
24	Commonwealth Energy Systems	Utility	397
25	Monitor Company	Management Consulting	375
	TOTAL		38,357

Source: Cambridge Community Development Department

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
1989 TO 1997

	Cambridge	Boston PMSA	Massachusetts	United States
1997 (October) (1)	2.0%	2.9%	3.3%	4.4%
1996	2.5	3.7	4.3	5.4
1995	3.3	4.7	5.6	5.6
1994	4.0	5.2	6.0	6.1
1993	4.6	6.0	6.9	6.8
1992	5.6	7.5	8.5	7.4
1991	6.0	7.7	9.0	6.7
1990	3.8	5.1	6.0	5.5
1989	2.8	3.4	4.0	5.3

(1) Unadjusted Monthly Average

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

Retail and Services Industry

A variety of retail and service employers are located within the City of Cambridge. The following two tables present information on retail establishments and sales, and service establishments and sales for the 1992 calendar year, the most recent data available.

CITY OF CAMBRIDGE
RETAIL ESTABLISHMENTS AND SALES
CALENDAR YEAR 1992 (1)

	Cambridge			Boston PMSA		
	# of Firms With Payroll	Sales (000)	% of Total	# of Firms With Payroll	Sales (000)	% of Total
Building Materials and Lawn Products	16	$ 22,420	2.1%	688	$ 1,082,779	4.0%
General Merchandise Group	17	158,169	15.0	531	2,770,834	10.2
Food Stores	107	186,268	17.6	2,419	5,143,426	18.9
Automotive Dealers	6	43,206	4.1	735	4,841,928	17.8
Gasoline Service Stations	29	34,035	3.2	1,255	1,483,459	5.4
Apparel, Accessories Stores	115	117,205	11.1	2,071	2,209,752	8.1
Furnishings, Home Furnishings, Equipment Stores	82	94,070	8.9	1,408	1,250,240	4.6
Eating & Drinking Places	336	190,478	18.0	6,249	3,290,440	12.1
Drug Stores, Proprietary Stores	24	45,032	4.3	647	1,284,510	4.7
Miscellaneous Retail	220	166,582	15.8	4,623	3,901,271	14.3
Total	952	$1,057,465	100.0%	20,626	$27,258,639	100.0%

(1) Most recent data available.

Source: U.S. Department of Commerce, Bureau of the Census, 1992 Census of Retail Trade.

CITY OF CAMBRIDGE
SERVICE ESTABLISHMENTS AND SALES
CALENDAR YEAR 1992(1)

	Cambridge			Boston PMSA		
	Firms With Payrolls	Sales (000)	% of Total	Firms With Payrolls	Sales (000)	% of Total
Hotels, Motels, & Other Lodging Places	15	$ 108,032	2.8%	328	$ 1,075,242	3.7%
Personnel Services	93	35,669	0.9	3,191	707,907	2.4
Business Services	325	1,810,326	46.1	6,605	9,362,460	31.8
Automotive Repair, Service, and Garages	48	22,875	0.6	2,248	1,111,507	3.8
Misc. Repair Services	18	3,801	0.1	820	404,559	1.4
Amusement and Recreation Services, Including Motion Pictures	67	70,492	1.8	1,450	1,121,029	3.8
Health Services, Except Hospitals	196	231,827	5.9	6,276	4,486,700	15.2
Legal Services	54	33,732	0.9	2,781	2,663,120	9.0
Selected Education Services	20	37,936	1.0	299	205,764	0.7
Social and Other Services	26	16,665	0.4	694	196,702	0.7
Engineering, Architectural, & Surveying Services	348	1,540,453	39.3	4,759	7,929,231	26.9
Miscellaneous Services	21	12,357	0.3	292	187,465	0.6
Total	1,231	$3,924,165	100.0%	29,743	$29,451,686	100.0%

(1) Most recent data available.

Source: U.S. Department of Commerce, Bureau of the Census, 1992 Census of Service Industries.

Housing and Construction Activity

The data in the tables on the following page are presented to illustrate various housing characteristics for the City of Cambridge. The 1990 U.S. Census indicates that the total number of dwellings in the City was 41,979. Overall, the distribution of housing units is not skewed to any one type, with larger apartments and condominiums representing the largest percentage. As of January 1, 1997, the total number of units in the City was 42,185.

CITY OF CAMBRIDGE
DWELLING UNITS BY TYPE
(As of January, 1997)

Type of Housing	Number of Buildings	Number of Units	% of Total
One-Family	3,534	3,534	8.38%
Two-Family	3,179	6,358	15.07
Three-Family	1,648	4,944	11.72
Four to Eight Family	792	4,372	10.36
Nine or More Units	299	12,713	30.14
Condominiums	962	7,709	18.28
Mixed Res./Comm. Bldgs.	350	2,010	4.76
Rooming Houses	45	545	1.29
Total	10,809	42,185	100.00%

Source: City Department of Finance.

CITY OF CAMBRIDGE
VALUE OF NEW CONSTRUCTION (1) AND DISTRIBUTION BY TYPE
FISCAL YEARS 1991 TO 1998

Fiscal Year	Est. Value of Construction	% Distribution Residential	% Distribution Commercial
1998(2)	$118,028,816	38%	62%
1997	388,057,114	25	75
1996	185,204,825	33	67
1995	162,701,784	18	82
1994	178,799,112	24	76
1993	143,324,133	29	71
1992	145,693,744	21	79
1991	83,572,870	24	76

(1) Includes improvements to existing properties.
(2) As of November 30, 1997
Source: Cambridge Inspectional Services Department.

Population and Income Characteristics

According to figures provided by the U.S. Census Bureau, as of 1996, the City of Cambridge had a population of 93,707. This figure represents a 2.2 percent decrease from the 1990 population. The following table represents population figures for selected years.

CITY OF CAMBRIDGE
POPULATION AND RATES OF CHANGE

Year	Population	Rate of Change
1996	93,707	-0.6%
1994	94,244	-0.7
1992	94,923	-0.9
1990	95,802	5.0
1988	91,260	1.4
1986	92,535	0.0
1984	92,535	-1.4
1982	93,841	-1.6
1980	95,322	-5.0
1970	100,361	-6.8
1960	107,716	-10.8
1950	120,740	—

Source: The 1990, 1980, 1970, 1960, and 1950 figures are from the U.S. Census. The 1982, 1984, 1986, 1988, 1992, 1994, and 1996 figures are from the U.S. Census, Current Population Report "Local Population Estimates."

The 1990 U.S. Census reported the City's median age to be approximately 31 years with a much greater representation of residents in the 25–34 year old age group than the national average. In addition, the City has a very high percentage of individuals who have graduated from high school and who have attended four or more years of college in comparison to the Massachusetts averages.

SELECTED POPULATION CHARACTERISTICS

Characteristic	Cambridge	Boston PMSA	Massachusetts	United States
Population (1)	95,802	2,870,669	6,016,425	248,709,873
Median Age (1)				
1990	31.1	33.4	33.6	32.9
1980	28.6	31.3	31.2	30.0
1970	26.8	29.1	29.0	28.0
1960	29.6	32.0	32.1	29.5
Age Group (1)				
5–17	9.2%	14.3%	15.6%	18.2%
25–44	41.0	35.1	33.6	32.5
65 and over	10.5	12.9	13.6	12.6
Four or more years of college education 25 years old & over (2)	54.2%	35.4%(3)	27.2%	N/A
High school graduates 25 years old & over (2)	84.4%	84.3%(3)	80.0%	N/A

(1) Source: U.S. Department of Commerce, Bureau of the Census, 1990 Census of Population.
(2) Source: State Data Center, Massachusetts Institute for Social and Economic Research.
(3) Source: Middlesex County, Massachusetts.

Income

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

MEDIAN FAMILY INCOME

Year	Cambridge	Boston PMSA	Massachusetts	United States
1989	$39,990	$49,266	$44,367	$37,919
1979	17,845	22,848	21,166	19,917
1969	9,815	11,485	10,833	9,586

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

PER CAPITA INCOME

Year	Cambridge	Boston PMSA	Massachusetts	United States
1989	$19,879	$23,746	$22,236	$17,592
1979	7,957	9,880	10,096	9,494
1969	3,899	4,471	4,349	3,945

Source: U.S. Census Bureau.

EDUCATION

Elementary and Secondary Schools

The City of Cambridge public school enrollment totalled 7,866 for the school year. It is projected that the figures will show a slight increase over the next four years. In addition to the public school system, there are approximately eleven private and parochial schools in the City. In 1997–98, there were approximately 1,600 students enrolled in these schools.

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

CITY OF CAMBRIDGE
PUBLIC EDUCATION FACILITIES
1997–1998 SCHOOL YEAR

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

Source: Cambridge School Department.

SCHOOL ENROLLMENT ACTUAL AND PROJECTIONS
SCHOOL YEARS 1998–2002 (1)

	1998	1999	2000	2001	2002
Elementary	5,497	5,595	5,587	5,570	5,559
Secondary	1,910	1,972	2,053	2,136	2,192
Ungraded	459	531	531	531	531
Total	7,866	8,098	8,171	8,237	8,282

(1) Enrollments are as of October 1 for the school years shown. The figures shown for 1998 are actual with the following years as projections.

CITY OF CAMBRIDGE
PUBLIC SCHOOL ENROLLMENTS HISTORY (1)

Fiscal Year	K-8	9-12	Special	Total	Percentage Change
1998	5,497	1,910	459	7,866	-2.32%
1997	5,539	1,983	531	8,053	-1.41
1996	5,528	1,989	651	8,168	-1.48
1995	5,521	2,047	670	8,291	+1.39
1994	5,513	2,018	646	8,177	+1.92
1993	5,297	2,038	688	8,023	+1.92
1992	5,097	2,102	673	7,872	+1.48
1991	4,998	2,078	681	7,757	+1.60
1990	4,796	2,136	703	7,635	- .23
1989	4,657	2,253	743	7,653	- .67
1988	4,584	2,400	721	7,705	-1.49

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

Higher Education

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

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

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

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

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

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

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

The Cambridge Public Health Commission

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

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

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

The Commission is proceeding with plans for a $60 million renovation and expansion of the Cambridge Hospital. The project includes the construction of a three story 70,000 square foot ambulatory care center, a 200 space underground parking facility, and major renovations of existing facilities. The ambulatory care center is expected to meet substantial existing and projected demand for outpatient services in the Commission's service area. Financing for the project consists of $30 million in City general obligation bonds (included in the Bonds), and a $30 million equity contribution by the Commission. Construction commenced in February, 1997 and is expected to be completed by June, 1999. While the bonds issued for the project will be issued by the City and remain on the City's financial statements, in practice debt service will be paid by the Commission.

The City has historically provided tax support to the Cambridge Hospital and Neville Manor and has continued to do so for the Cambridge Public Health Commission. The level of future property tax support and the services to be provided by the Commission on behalf of the City are outlined in a seven year contract executed by the City and the Commission in June 1996. Under the terms of the contract, the Commission will receive $17 million less in net property tax support than if FY1996 support had been carried forward for seven years at a constant level. In FY1996, the City provided $10.896 million in property tax support to the Hospital, Neville Manor, and the Department of Public Health. In FY1997, the City provided tax support of $8.598 million to the Commission, and the Commission remitted $2 million to the City in payments-in-lieu-of taxes, resulting in net tax support of $6.598 million. In FY1998, the City has budgeted tax support of $8.598 million, and the Commission will remit payments-in-lieu-of taxes of $1 million, resulting in net tax support of $7.598 million.

The Commission currently has requested proposals for the possible restructuring of Neville Manor. The goal of the restructuring is to identify the full range of options for the continuation and/or expansion of health care and other services at the Neville Manor site, and to identify options for the use of the buildings on the site.

PART IV: CITY INDEBTEDNESS AND CAPITAL PLAN

AUTHORIZATION OF GENERAL OBLIGATION BONDS AND NOTES

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

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

DEBT LIMITS

General Debt Limit

Under Massachusetts statutes, the General Debt Limit of the City of Cambridge consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit of the City is 2½ 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 Emergency Finance Board.

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, and solid waste disposal facility bonds, 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 and gas (subject to a separate limit equal to the General Debt Limit, including the same doubling provision). Industrial revenue bonds, electric revenue bonds and water pollution abatement revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Revenue Anticipation Notes

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

TYPES OF OBLIGATIONS

General Obligations

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

Serial Bonds and Notes

These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. Level debt service is permitted for bonds or notes issued for certain purposes, including self-supporting enterprise purposes and certain state-aided school projects, and for those projects for which debt service has been exempted from property tax limitations. The maximum terms vary from one year to 40 years, depending on the purpose of the issue. Most of the purposes are capital projects. They may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum term measured from the date of the original bonds or notes. Serial bonds may be issued as "qualified bonds" with the approval of the State Emergency Board, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. The State Treasurer is required to pay the debt service on "qualified" bonds and thereafter to withhold the amount of the debt service from state aid or other state payments; administrative costs and any loss of interest income to the Commonwealth are to be assessed upon the City.

Bond Anticipation Notes

These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that (except for notes issued for certain school projects) 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. The maximum term of bonds issued to refund bond anticipation notes is measured 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 and for projects financed under the Commonwealth's water pollution abatement revolving loan program. 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 Public Utilities. 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 DECEMBER 31, 1997

Bonds:

	Outstanding Bonds Prior To This Issue	Authorized Unissued Prior To This Issue	Outstanding After This Issue	Authorized Unissued After This Issue
Within General Debt Limit: (2)	$47,148,693	$76,167,798	$ 77,148,693	$46,167,798
Outside General Debt Limit:				
School (3)	16,888,000	12,000,000	28,888,000	0
Water	11,798,000	0	11,798,000	0
Sub Total	28,686,000	12,000,000	40,686,000	0
Total Bonds	$75,834,693	$88,167,798	$117,834,693	$46,167,798

Temporary Loans:

	December 31, 1997
Bond Anticipation	$0
Grant Anticipation	0
Revenue Anticipation: (4)	
For Current Year	0
For Prior Year	0
	$0

(1) Excludes lease and installment purchase obligations, overlapping debt, and unfunded pension liability.

(2) At the present time, the Normal General Debt Limit is $189,845,040 and the Double General Debt Limit (see "Debt Limit" above) is $379,690,080.

(3) The unpaid balance of state school construction grants payable over the life of outstanding school bonds for both principal and interest (interest is partially or wholly included in eligible costs of projects approved after January 1, 1971) was estimated at approximately $25,463,296 on December 31, 1997. This amount is subject to annual appropriation by the State Legislature. Source: School Building Assistance Bureau.

(4) The City has not borrowed in anticipation of revenues since fiscal year 1987.

Source: City Department of Finance.

CONTRACTS AND MUNICIPAL LEASES

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There is 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 $453,000.

CITY OF CAMBRIDGE
GROSS AND NET DIRECT DEBT
(as of December 31, 1997) (1)

Type of Debt	Gross Debt	Funds Committed to Debt Redemption	Net Debt
Within General Limit...	$ 77,148,693	$ 7,999,328 (2)	$69,149,365
Outside General Limit:			
Schools................	28,888,000	17,767,575 (3)	11,120,425
Water..................	11,798,000	0	11,798,000
Totals................	$117,834,693	$25,766,903	$92,067,790

(1) Includes current issue

(2) This figure includes the portion of equity earnings and contract assistance payments from the State related to the balance of the principal on sewer loans from the Massachusetts Water Pollution Abatement Trust (MWPAT). Equity earnings are based on the investment of MWPAT and proceeds with contract assistance payments appropriated on an annual basis by the State legislature.

(3) This figure represents the amount outstanding in principal reimbursements from the state for school construction projects as of December 31, 1997. Interest costs have been excluded from this figure in order to show only that portion of the State reimbursements which may be applied against the outstanding debt. These reimbursements are subject to annual appropriation by the State Legislature. Source: School Building Assistance Bureau.

Source: City Department of Finance.

Massachusetts Water Resources Authority

The Massachusetts Water Resources Authority (the "Authority"), is an independent public authority of the Commonwealth. In 1985, the Authority assumed possession and control from the Metropolitan District Commission of a water distribution system and a sewer system (the "Systems") which provide wholesale services to 61 cities and towns located primarily in eastern Massachusetts, including most of the metropolitan Boston area. In addition to its operating responsibilities, the Authority is responsible for rehabilitating and repairing the systems to bring them into compliance with applicable environmental laws. The MWRA's rates and charges are among the highest in the nation and significant rate increases will continue each year in response to continuing increases in the operating expenses of the systems, principally resulting from increases in debt service costs incurred in connection with the financing of its capital program. The largest share of major capital improvements to the system is for projects relating to constructing and rehabilitating wastewater collection and treatment facilities in order to bring the sewer system's wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. These projects are conducted in substantial part under court orders entered by the U.S. District Court in a continuing Clean Water Act enforcement proceeding filed against the Authority and the Commonwealth by the U.S. Environmental Protection Agency.

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

The aggregate principal amount of bonds and notes of the MWRA that may be issued and outstanding at any time is currently limited by the Act to $3.91 billion. The cost of the MWRA's capital program has been estimated by the MWRA to exceed $6.3 billion in constant dollars through fiscal year 2003, and the MWRA expects to obtain increases in its debt limit in order to finance its capital programs.

Massachusetts Bay Transportation Authority

The Massachusetts Bay Transportation Authority (the "MBTA") is presently authorized by law to issue bonds, for capital purposes other than refunding, to an amount not exceeding $5,068,130,000 outstanding at any time. Such bonds were outstanding as of November 15, 1997 in the amount of $2,685,092,013. Such bonds are considered outstanding for debt limit purposes until actually paid at maturity or earlier redemption, regardless of whether or not they are considered outstanding under the General Bond Resolution. The MBTA is also authorized to issue refunding bonds. Such refunding bonds were outstanding as of November 15, 1997 in the amount of $1,500,520,000.

In addition to the foregoing obligations of the MBTA, the MBTA is also responsible for the payment of obligations issued by the Boston Metropolitan District (hereinafter called the "BMD"). The BMD was created in 1929 to serve as a vehicle for the public financing required for transportation facilities in Boston and the thirteen other cities and towns comprising the inner core of the Metropolitan Area. The approximately $41,799,000 BMD obligations outstanding on September 1, 1997, while general obligations of the entire area comprising the District, are primarily secured by bonds of the Metropolitan Transit Authority ("MTA"), predecessor agency to the MBTA, issued to BMD, or by contractual obligations of the MBTA to BMD. When the MBTA was created in 1964 to succeed the MTA, all of the debts of MTA were assumed by the MBTA. Accordingly, the MBTA is now obligated to pay the BMD annual amounts sufficient to pay debt service on its debt obligations held by the BMD. The debt service on these obligations is taken into account in computing the MBTA's Net Cost of Service. All financing for new construction or improvements to the transportation facilities is done by the MBTA. The BMD will not issue debt other than periodic refunding issues which will be necessary from time to time in order to level out the maturities of its debt and to correlate its debt maturities with the MBTA's principal obligations to it. The Commonwealth pays approximately 90 percent of the debt service on MBTA bonds.

The MBTA is further authorized to issue temporary notes for operating purposes and such notes were outstanding as of November 15, 1997 in the amount of $325,000,000 and $165,000,000 are due on February 27, 1998 and $160,000,000 on September 4, 1998. The MBTA is further authorized to issue notes in anticipation of bonds. There were $170,600,000 of such notes in the form of commercial paper outstanding as of October 23, 1997 and due at various times.

The MBTA has entered into five long-term leases providing for the lease of equipment. Under the terms of such leases, the MBTA will be required to make annual rental payments of approximately $12.3 million in fiscal years 1997 to 2013. Pursuant to Section 28 of the Act, the Authority has entered into agreements with the Commonwealth, acting by and through its Executive Office for Administration and Finance, whereby the Commonwealth has agreed, subject to appropriation, to pay to the Authority Contract Assistance equal to 90% of the annual rental payments due under the leases.

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

CITY OF CAMBRIDGE
OVERLAPPING DEBT

	Outstanding	Authorized Unissued	Estimated City Share	Overlapping Debt
Middlesex County (2)	$ 1,680,000	$ (2)	11.7%	$ 196,560
Massachusetts Water Resources Authority (3) Sewer.............	2,659,370,000	(see above)	4.90	130,309,130
Massachusetts Bay Transportation Authority (4)	3,278,345,000	(see above)	5.01	164,245,080
Total.................				$294,750,770

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

(2) Source: Treasurer, Middlesex County. Debt is as of May 15, 1997. Legislation was recently enacted 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 abolishes the county governments of Hampden and Worcester counties as of July 1, 1998 or earlier if the county fails to make a required payment on an outstanding bond or note. 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 equal to the county tax paid by each such city and town for the fiscal year immediately prior to the abolishment of the 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.

(3) Source: MWRA. Debt as of June 30, 1997.

(4) Source: MBTA. The amount shown as the City's share of outstanding bonds excludes refunded bonds but includes that portion (90%) that is paid by the Commonwealth. Debt is as of November 15, 1997.

Source: City Department of Finance.

CITY OF CAMBRIDGE
KEY DEBT RATIOS
(as of December 31, 1997)

	Amount (1)	Per Capita (2)	Ratio to Assessed Valuation (3)
Gross Direct Debt	$117,834,693	$1,180	1.6%
Net Direct Debt (4)	92,067,790	922	1.2
Gross Direct and Gross Overlapping Debt	412,585,463	4,130	5.5
Net Direct and Net Overlapping Debt (5)	238,997,988	2,393	3.2

(1) Includes current bond issue.
(2) Based on 1996 population of 99,890.
(3) Based on an estimated January 1, 1997 assessed value of $7,503,702,581.
(4) Includes general obligation bonds that are in practice repaid from user fees and thus are self-supporting. This includes GO bonds issued for water, sewer, and hospital purposes.
(5) Reflects State payment on MBTA outstanding debt.

Source: City Department of Finance.

CITY OF CAMBRIDGE
FIVE-YEAR DEBT SUMMARY
OUTSTANDING GENERAL OBLIGATION DEBT
FISCAL YEARS 1993 TO 1997 (1)
($ in 000s)

	1993	1994	1995	1996	1997
Inside	$37,164	$37,647	$42,594	$44,085	$50,159
Outside:					
School	8,820	13,720	22,436	18,458	15,770
Urban Renewal/					
Sewer	860	645	430	215	0
Garage	1,100	420	0	0	0
Water	10,250	9,328	11,947	15,309	12,211
Sub Total	21,030	24,600	34,813	33,982	27,981
Total	$58,194	$61,760	$77,407	$78,067	$78,140

(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.
Source: City Department of Finance.

CITY OF CAMBRIDGE
GENERAL OBLIGATION BONDS
SCHEDULE OF PRINCIPAL AND INTEREST
PAYMENTS BY FISCAL YEAR
(As of December 31, 1997) (1)

Fiscal Year	Principal	Interest	Principal This Issue	Interest This Issue (2)	Total
1998	$11,653,582	$ 2,692,682	$ —	$ —	$ 14,348,262
1999	12,460,156	3,191,202	2,700,000	2,100,000	20,451,358
2000	11,130,059	2,559,283	2,700,000	1,965,000	18,354,342
2001	9,201,088	1,980,739	2,700,000	1,830,000	15,711,827
2002	7,892,554	1,531,910	2,700,000	1,695,000	13,819,464
2003	7,304,745	1,145,937	2,700,000	1,560,000	12,710,682
2004	6,978,650	782,810	2,700,000	1,425,000	11,886,460
2005	5,281,737	439,647	2,700,000	1,290,000	9,711,384
2006	2,482,485	210,863	2,700,000	1,155,000	6,548,348
2007	1,449,637	77,628	2,700,000	1,020,000	5,247,265
2008	—	—	2,700,000	885,000	3,585,000
2009	—	—	1,500,000	750,000	2,250,000
2010	—	—	1,500,000	675,000	2,175,000
2011	—	—	1,500,000	600,000	2,100,000
2012	—	—	1,500,000	525,000	2,025,000
2013	—	—	1,500,000	450,000	1,950,000
2014	—	—	1,500,000	375,000	1,875,000
2015	—	—	1,500,000	300,000	1,800,000
2016	—	—	1,500,000	225,000	1,725,000
2017	—	—	1,500,000	150,000	1,650,000
2018	—	—	1,500,000	75,000	1,575,000
	$75,834,693	$14,612,701	$42,000,000	$19,050,000	$151,499,392

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

(2) Based on an estimated rate of 5%.

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 December 31, 1997 including these Bonds.

Maturing Within	Amount to be Retired	Cumulative % Principal Retired
5 years	$ 63,137,439	69.94%
10 years	100,134,693	84.98
20 years	116,334,693	98.73
25 years	117,834,693	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 1994 TO 1998

Fiscal Year	Population (1)	Assessed Value (2)	Gross Direct Debt (3)	Ratio of Gross Direct Debt to Assessed Value	Gross Direct Debt Per Capita
1994	94,244	$6,789,993,612	$ 61,760,128	0.9%	$ 655
1995	94,244	6,754,946,242	77,407,264	1.1	821
1996	93,707	7,010,030,307	78,067,165	1.1	833
1997	93,707	7,242,124,437	78,139,995	1.1	834
1998	93,707	7,503,702,581	106,181,111 (4)	1.4	1,133

(1) Population estimates are from U.S. Department of Commerce, Bureau of Census, Current Population Reports, "Local Population Estimates."
(2) All of the assessed values shown reflect full market value.
(3) As of June 30 of that fiscal year.
(4) Includes current issue.

Source: City Department of Finance.

CITY OF CAMBRIDGE
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO TOTAL EXPENDITURES
FISCAL YEARS 1994 TO 1998

Fiscal Year	Principal	Interest	Total Debt Service	Total Expenditures (1)	Ratio of Debt Service to Total Expenditures
1994	$10,761,082	$3,156,654	$13,917,736	$293,311,417	4.7%
1995	11,028,198	3,775,533	14,803,731	300,864,245	4.9
1996	13,130,099	3,920,558	17,050,657	229,060,939 (2)	7.4
1997	14,450,828	3,992,008	18,442,836	242,987,371	7.3
1998	13,958,884	3,848,087	17,806,971	252,353,360 (3)	7.1

(1) Includes all categories of the City's general governmental expenditures.
(2) The significant decrease in total expenditures from the previous fiscal year is attributable to the separation of the Cambridge Public Health Commission from the City to an independent authority.
(3) Based on original budgeted figures.

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 has been increased from $3,810,000 in fiscal year 1997 to $6,480,000 in fiscal year 1998 in recognition of the City's improved "free cash" position. The five year plan calls for a total of $23,480,000 in general fund revenues or free cash to be allocated to the Public Investment Fund. A substantial portion of this allotment has been set aside for the Affordable Housing Trust Fund.

The present plan, which was approved by the City Council on May 12, 1997, is a program of capital spending for the five-year period beginning July 1, 1997 and ending June 30, 2002. 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 $128,107,100. In addition to the amounts shown in the fiscal year 1998 capital budget, it is expected that at least $74,000,000 will be appropriated during fiscal year 1998 to cover the cost of the construction of a new water treatment plant on the site of the existing facility. Previous capital budgets have included funds to cover design and engineering related to the new plant. 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 1998 TO 2002

Expenditure Category	1998	1999	2000	2001	2002	Total
General Government ...	$ 1,520,000	$ 355,000	$ 0	$ 0	$ 0	$ 1,875,000
Public Safety	440,000	8,250,000	22,250,000	2,250,000	250,000	33,440,000
Community Maintenance & Development...	12,794,330	11,779,330	9,779,330	11,779,330	9,779,330	55,911,650
Human Resource Development	385,090	9,620,090	10,875,090	13,175,090	1,675,090	35,730,450
Education	150,000	250,000	250,000	250,000	250,000	1,150,000
Total	$15,289,420	$30,254,420	$43,154,420	$27,454,420	$11,954,420	$128,107,100

Source: "Public Investment Plan, Fiscal Year 1998 to Fiscal Year 2002."
Annual Budget Fiscal Year 1998, as adopted.

PUBLIC INVESTMENT PROGRAM
USES AND SOURCES OF FUNDS
FISCAL YEARS 1998 TO 2002

Uses	Total Amount	Percent of Total
General Government	$ 1,875,000	1.46%
Public Safety..................................	33,440,000	26.07
Community Maintenance and Development		
Housing Development	21,834,150	17.04
Economic Development...................	2,762,5000	2.16
Streets & Highways & Transportation ..	16,230,000	12.67
Water & Sewer............................	12,605,000	9.84
Other.......................................	2,480,000	1.94
Human Resource Development.............	35,730,450	17.41
Education	1,150,000	0.97
Total	$128,107,100	100.00%

Sources	Total Amount	Percent of Total
Free Cash	$ 7,230,000	5.64%
Property Taxes	16,250,000	12.68
Block Grant...................................	10,230,175	7.99
Parking Fund.................................	2,480,000	1.94
Utility Fees	9,855,000	7.69
Bond Proceeds...............................	70,520,000	55.05
Chapter 90 Grant	10,000,000	7.81
Program Income..............................	1,341,925	1.04
Golf Course	200,000	0.16
Total	$128,107,100	100.00%

Source: "Public Investment Plan, Fiscal Year 1998 to Fiscal Year 2002."
Annual Budget Fiscal Year 1998, as adopted.

PUBLIC INVESTMENT PROGRAM
SOURCES OF FINANCING
FISCAL YEARS 1998 TO 2002

Financing Category	1998	1999	2000	2001	2002	Total
General Government:						
Property Taxes	—	$ 355,000	—	—	—	$ 355,000
Bond Proceeds	1,520,000	—	—	—	—	1,520,000
Subtotal	$ 1,520,000	$ 355,000	0	0	0	$ 1,875,000
Public Safety:						
Property Taxes	$ 440,000	250,000	$ 250,000	$ 250,000	$ 250,000	$ 1,440,000
Bond Proceeds	—	8,000,000	22,000,000	2,000,000	—	32,000,000
Subtotal	$ 440,000	$ 8,250,000	$22,250,000	$ 2,250,000	$ 250,000	$ 33,440,000
Community Maintenance & Development:						
Property Taxes	$ 2,810,000	$ 2,645,000	$ 3,000,000	$ 3,000,000	$ 3,000,000	$ 14,455,000
Free Cash	2,830,000	565,000	210,000	210,000	210,000	4,025,000
Parking Fund	480,000	500,000	500,000	500,000	500,000	2,480,000
Water User Charges	600,000	600,000	600,000	600,000	600,000	3,000,000
Sewer Use Charges	1,855,000	1,250,000	1,250,000	1,250,000	1,250,000	6,855,000
Block Grant	1,950,945	1,950,945	1,950,945	1,950,945	1,950,945	9,754,725
Program Income	268,385	268,385	268,385	268,385	268,385	1,341,925
Chapter 90 Grant	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	10,000,000
Bond Proceeds	—	2,000,000	—	2,000,000	—	4,000,000
Subtotal	$12,794,330	$11,779,330	$ 9,779,330	$11,779,330	$ 9,779,330	$ 55,911,650
Human Resource Development:						
Free Cash	$ 250,000	$ 185,000	$ 540,000	$ 540,000	$ 540,000	$ 2,055,000
Block Grant	95,090	95,090	95,090	95,090	95,090	475,450
Bond Proceeds	—	9,300,000	10,200,000	12,500,000	1,000,000	33,000,000
Golf Course Fees	40,000	40,000	40,000	40,000	40,000	200,000
Subtotal	$ 385,090	$ 9,620,090	$10,875,090	$13,175,090	$ 1,675,090	$ 35,730,450
Education:						
Free Cash	$ 150,000	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 1,150,000
Subtotal	$ 150,000	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 1,150,000
Grand Total	$15,289,420	$30,254,420	$43,154,420	$27,454,420	$11,954,420	$128,107,100

Source: "Public Investment Plan, Fiscal Year 1998 to Fiscal Year 2002."
Annual Budget Fiscal Year 1998, as adopted.

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PART V: CITY FINANCIAL INFORMATION

BASIS OF ACCOUNTING AND REPORTING STRUCTURE

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

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are however, essentially two types of these revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, moneys are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria is met.

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

Reporting Entity

The combined financial statements present information on organizations and activities of the City of Cambridge for which the City Council has oversight responsibility. These entities include the City's Water Department and the Cambridge Retirement System. The financial statements for the Retirement System are presented for the year ending December 31, 1996, which is the system's fiscal period for reporting to the Commissioner of the Retirement of the Commonwealth of Massachusetts. The operations of the Cambridge Housing Authority and the Cambridge Redevelopment Authority are not defined as part of the reporting entities as they are not subject to the financial controls of the City Manager or the City Council.

Fund Accounting

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

Governmental Funds

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

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

Account Group

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

BUDGET AND APPROPRIATION PROCESS

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

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

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

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

City Department heads are generally required to submit their budget requests to the City Manager between November 1 and December 1. This schedule does not apply to the School Department, which must submit its request in time for the City Manager to include it in his submission to the Council.

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

Budget Comparison

The following table shows a comparison of the budgeted operating revenues and expenditures of the City for fiscal years 1994 through 1998. Health insurance, retirement and certain other employee benefit costs are included in departmental budgets. Debt service on school projects is included in the School's budget. Debt service on Cambridge Hospital and Neville Manor projects is included in the Hospital, Health, and Infirmary budget for fiscal years 1994 through 1997 and in the Debt Service budget for fiscal year 1998. Debt service on water projects is included in the Debt Service budget for fiscal year 1994 and in the Water budget for fiscal years 1995 through 1998.

The significant decrease in the total budget from fiscal year 1997 to 1998 is the result of the separation of the Cambridge Hospital, Neville Manor, and Health Department from the City and the establishment of the new entity, the Cambridge Public Health Commission (CPHC), as an independent authority on July 1, 1996. The fiscal year 1997 budget included an appropriation for the CPHC because of the uncertainty of the CPHC's status at the time of the adoption of the budget. This appropriation was rescinded prior to the setting of the tax rate.

The fiscal year 1998 budget of $268,915,353 includes all appropriations made to operating budgets prior to the calculation of the fiscal year 1998 tax rate. This figure includes overlay deficits from the prior year as well as the overlay reserve for the current fiscal year. The fiscal year 1998 operating budget represents an increase of $9,747,155, or 3.8%, over the fiscal year 1997 budget, adjusted for the separation of the CPHC, of $259,168,198. The increase comprises salary adjustments for employees which are spread over most City departments, additional School expenditures of $3,252,535, a $1,614,670 increase in Debt Service which primarily reflects a different method of accounting for the loans from the Massachusetts Water Pollution Abatement Trust, and increases in certain priority areas as identified in a joint goal-setting meeting between the City Manager and City Council.

The largest source of funding, property taxes, increased from $148.1 million to $154.3 million. However, this is significantly below the levy limit of $166.6 million. It should be noted that, in addition to the figures shown on the following page, $15.6 million has been appropriated to the fiscal year 1998 Public Investment Fund for a wide range of capital improvement projects.

CITY OF CAMBRIDGE
BUDGETED REVENUES AND EXPENDITURES
FISCAL YEARS 1994 THROUGH 1998
($ in 000s)

	1994	1995	1996	1997	1998 (5)
Revenues:					
Real & Personal Property Taxes(1)	$139,414.0	$144,445.7	$144,441.8	$148,070.0	$154,303.5
Local Estimated Receipts:					
Motor Vehicle Excise	2,451.0	2,504.6	2,905.0	2,905.0	3,962.0
Water	7,526.6	8,005.9	9,080.9	9,395.2	9,347.8
Sewer	16,016.1	15,338.2	16,399.1	16,321.0	16,101.7
Hospital, Health & Infirmary	64,306.3	70,083.1	80,381.6	80,771.7	0
Interest Income	875.0	825.0	1,100.0	1,100.0	2,093.7
Other Local Receipts	18,982.9	17,972.7	16,607.0	15,560.0	32,871.0
Subtotal	110,157.9	114,729.5	126,473.6	126,052.9	64,376.2
State Aid	34,349.2	35,804.2	35,824.1	35,763.3	38,276.9
Other Available Funds	16,465.5	14,742.6	20,361.1	19,579.3	8,506.3
Total Revenues	$300,386.6	$309,722.0	$327,100.6	$329,605.9	$265,462.9
Expenditures:					
Deficits to be Raised:					
Overlay	$ 3,878.9	$ 1,452.8	$ 840.4	$ 351.8	$ 3,242.3
Revenue	0	0	0	0	0
Overdrawn Expenditures	0	0	0	0	0
Other	840.0	877.4	865.6	1,959.0	2,095.2
Subtotal Deficits	4,718.9	2,330.2	1,706.0	2,310.8	5,337.5
Overlay Reserve	4,250.0	4,250.0	4,250.4	4,250.0	4,250.0
Fixed Expenses:					
State & County Assessments	758.1	1,037.9	1,080.3	1,107.3	824.2
Mass. Water Resources Authority	14,465.7	13,124.9	14,070.0	13,550.3	13,552.1
Debt Service(2)	8,556.8	6,387.5	6,461.5	7,190.9	10,557.1
Retirement System(3)	7,348.8	6,319.2	6,543.8	9,691.8	9,420.0
MBTA	6,098.2	6,267.9	6,457.3	6,618.7	6,909.6
Cambridge Public Health Commission	0	0	0	8,598.0	8,598.0
Other Fixed Costs(4)	942.9	1,142.9	1,192.9	7,872.7	1,488.0
Subtotal Fixed	$ 38,170.5	$ 34,280.3	$ 35,805.8	$ 54,629.7	$ 51,349.0
Variable Expense (Budget):					
Schools	78,541.8	82,484.3	85,405.0	86,942.4	90,194.9
Police	20,009.3	22,312.5	22,701.4	22,752.2	26,384.6
Fire	20,190.3	20,788.1	20,857.2	21,754.9	22,068.4
Public Works:					
Water	4,756.8	7,640.8	8,430.8	9,029.8	8,982.4
Sewer	990.8	1,004.5	1,024.0	1,002.1	1,060.6
Highway	2,122.8	2,296.2	2,206.3	2,309.3	2,158.7
Other	12,225.6	12,451.1	12,442.6	12,608.5	13,704.4
Hospital, Health & Infirmary	77,503.3	83,261.2	91,364.8	0	0
General Government	10,350.2	11,461.7	11,948.0	12,190.7	13,554.8
Other Variable	26,556.3	25,161.1	30,664.3	29,387.8	29,870.1
Subtotal Variable	$253,247.2	$268,861.5	$287,044.4	$197,977.7	$207,978.9
Total Expenditures	$300,386.6	$309,722.0	$327,100.6	$259,168.2	$268,915.4

(1) Before tax abatements.

(2) School and Hospital costs for this category are included in the School and Hospital Budgets. Debt service on water projects is included in this category for 1994 but in the Water Budget for 1995 through 1998.

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

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

(5) As of June 30, 1996, the Department of Health and Hospitals was transferred to an independent authority, the Cambridge Public Health Commission. Beginning in fiscal year 1998, this department will no longer be included in the City's budget.

Source: City Department of Finance.

Tax Rate and Valuation–General

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

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

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value." The last date that the Commissioner of Revenue made his redetermination of "equalized value" for the City of Cambridge was January 1, 1996.

The following tables show assessed and equalized valuations for the past five fiscal years and total assessed valuation by property classification for the fiscal years 1996, 1997, and 1998.

CITY OF CAMBRIDGE
ASSESSED AND EQUALIZED VALUATIONS
FISCAL YEARS 1994 TO 1998

	Assessed Value(1)				% of Total
Fiscal Year	Real Property	Personal Property	Total	Equalized Valuation(2)	Assessed Valuation to Equalized
1998	$7,254,711,431	$248,991,150	$7,503,702,581	$7,593,801,600	98.8%
1997	7,006,073,437	236,051,000	7,242,124,437	7,593,801,600	95.4
1996	6,782,990,307	227,040,000	7,010,030,307	7,508,093,800	90.3
1995	6,533,446,242	221,500,000	6,754,946,242	7,508,093,800	90.0
1994	6,576,193,610	213,800,000	6,789,993,612	7,984,791,000	85.0

(1) As of January 1, 1997, 1996, 1995, 1994, and 1993, respectively.
(2) As of January 1, 1996, 1994, and 1992, 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 1996, 1997, AND 1998

Class	1996 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	$4,301,221,539	61.36%	34.56%
Commercial	2,033,717,005	29.01	49.13
Industrial	448,051,763	6.39	10.82
Personal Property	227,040,000	3.24	5.49
	$7,010,030,307	100.0%	100.0%

Class	1997 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	$4,543,164,544	62.73%	34.78%
Commercial	2,021,952,595	27.92	48.86
Industrial	440,956,298	6.09	10.66
Personal Property	236,051,000	3.26	5.70
	$7,242,124,437	100.0%	100.0%

Class	1998 Assessed Valuation	Percentage of Total Valuation	Percentage of Total Tax Levy
Residential	$4,760,188,708	63.44%	36.02%
Commercial	2,030,947,200	27.07	47.37
Industrial	463,575,523	6.18	10.81
Personal Property	248,991,150	3.31	5.80
	$7,503,702,581	100.0%	100.0%

Source: City Department of Finance.

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

CITY OF CAMBRIDGE
PROPERTY TAX RATE
FISCAL YEARS 1994 to 1998

Fiscal Year	Actual Tax Rate	Category	Estimated Full Value Tax Rate(1)	Average Rate(2)
1998	$13.43	Residential	$20.32	$20.56
	35.98	Commercial/ Industrial		
1997	13.02	Residential	19.50	20.45
	35.78	Commercial/ Industrial		
1996	13.32	Residential	19.24	20.61
	34.89	Commercial/ Industrial		
1995	14.17	Residential	19.24	21.38
	34.86	Commercial/ Industrial		
1994	13.79	Residential	17.46	20.53
	32.78	Commercial/ Industrial		

(1) Based on an equalized valuation for that fiscal year as determined by the State Department of Revenue.
(2) The average rate is determined by dividing the total tax levy by the total assessed valuation.

Source: City Department of Finance.

The following table sets forth the City's 10 largest taxpayers of real estate and personal property taxes and the assessed value of property owned by each such taxpayer. The aggregate assessed value of the 10 largest taxpayers represents 14.6 percent of the City's total assessable base for fiscal year 1998.

CITY OF CAMBRIDGE
10 LARGEST TAXPAYERS
Fiscal Year 1998 (1)

Owner	Nature of Business	Assessed Valuation	Amount of Taxes	% of Total Tax Levy
Commonwealth Energy/ Steam Corp.	Utility	$ 196,235,200	$ 7,055,825	4.6%
Boston Properties	Commercial	165,499,400	5,954,668	3.9
Mass. Institute of Technology	Educational	157,093,002	5,083,081(2)	3.3
New England Development CambridgeSide Galleria Mall	Commercial	93,726,000	3,372,261	2.2
Asahi Seimei Prudential Associates	Commercial	92,427,400	3,325,538	2.2
The Ahteneum Group – Robert Jones K. George Najarian	Commercial	85,113,900	3,059,812	2.0
Spaulding & Slye Corp.	Commercial	59,203,600	2,130,146	1.4
E.M.I. Limited Partnership	Commercial	56,484,500	2,032,312	1.3
Presidents & Fellows of Harvard College	Educational	114,305,609	1,823,883	1.2
The Congress Group	Commercial	54,916,300	1,814,796	1.2
Totals		$1,075,004,911	$35,652,322	23.3%

(1) As of January 1, 1997.
(2) Excludes in lieu payments on exempt property.
Source: City Department of Finance.

TAX LEVIES

Levy–General

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

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

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

Taxation to Meet Deficits

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

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

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

Tax Limitations

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

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

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent (subject to exceptions for property added to the tax rolls, or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation). This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters. But an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitations, since the two limitations apply independently.

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

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

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

In addition, the statute limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the Massachusetts Water Resources Authority and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option." Under the statute any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

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 the most recent 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. Although the tax levy increased to $148.1 million in fiscal year 1997, the levy limit rose to $158.8 million, thus widening the gap to $10.7 million. In fiscal year 1998, the tax levy increased to $154.3 million and the levy limit rose to $166.6 million, leaving a gap of $12.3 million. Projections indicate that this gap will narrow only slightly over the next few years.

Motor Vehicle Excise Tax

Other revenue sources available to the City have also been significantly impacted due to the passage of Proposition 2 1/2. The motor vehicle excise tax rate was reduced from $66 per $1000 to $25 per $1000 in 1980, causing a substantial reduction in receipts. Although revenues from this source move with economic swings, the City has been able to record modest increases in most years over the past decade due to an "in-house" billing and tracking system. Projections for fiscal year 1998 indicate that $4.0 million will be received from this source.

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 has been reversed and aid to the City from the Commonwealth has moved steadily upward to its fiscal year 1998 level of $38,276,909.

Tax Limitations: Five-Year Projections

Fiscal year 1997 valuations, as a result of the City's policy of "trending" real estate values in years in which a complete revaluation is not performed, were certified at $7.24 billion, an increase of $232 million, or 3.3%, over fiscal year 1996 valuations. The value of existing properties decreased by $19 million while new growth contributed an additional $74 million to the tax base. As can be seen from the chart on the following page, it is anticipated that total assessed values will increase by an average of 3.6% over the next five fiscal years due to moderate increases 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 2001.

CITY OF CAMBRIDGE
PROJECTED GROWTH IN PROPERTY VALUATION
FISCAL YEARS 1998 TO 2002

Fiscal Year	Projected Assessments(1)	Projected Levy(1)	Primary Levy Limit(2)	Secondary Levy Limit(3)
1998	$7,503,702,581	$154,303,550	$187,592,565	$166,634,666
1999	8,000,730,486	162,989,611	200,018,262	174,169,162
2000	8,167,739,324	173,761,122	204,193,483	181,029,774
2001	8,446,638,005	183,029,774	211,165,950	188,131,789
2002	8,840,132,021	188,916,674	221,003,301	195,495,851

(1) The figures shown for fiscal year 1998 are actuals; the figures for fiscal years 1999 through 2002 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 as meeting this standard. In the intervening years, values are updated based on sales ratio analysis. In 1983, the first complete revaluation of real and personal property in over sixty years was completed and certified at $2.9 billion for fiscal year 1984. The most recent certified full revaluation was completed for fiscal year 1996 and yielded a total valuation of $7.010 billion. Sales ratio analysis produced a valuation of $7.504 billion in fiscal year 1998.

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

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

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

The following table shows the calculation of the tax levies for fiscal years 1994 to 1998.

CITY OF CAMBRIDGE
CALCULATION OF PROPERTY TAX LEVIES
FISCAL YEARS 1994 TO 1998
($ in 000s)

	1994	1995	1996	1997	1998
Gross Amount to be Raised:					
Total Appropriations	$331,459	$328,319	$362,714	$266,017	$280,901
Overlay Deficits from Prior Years	3,879	1,453	840	352	3,242
Other Local Expenditures	840	877	866	1,959	2,095
State and County Assessments	6,912	7,308	7,538	7,621	7,734
Overlay for Current Year	4,250	4,250	4,250	4,250	4,250
Total to be Raised	$347,340	$342,207	$376,208	$280,199	$298,222
Offsets:					
Estimated Receipts from State	34,337	35,795	35,824	37,302	38,271
Prior Year's Overestimates of State & County Assessments	12	9	0	36	6
Local Estimated Receipts	122,421	126,330	138,604	68,932	66,861
Other Available Funds	51,156	35,627	57,338	25,859	38,780
Total Offsets	$207,926	$197,761	$231,766	$132,129	$143,918
Tax Levy	$139,414	$144,446	$144,442	$148,070	$154,304

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 retroactive to one month before the due date.

Lien

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

Personal Liability

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

Abatements and Overlay

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

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

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

CITY OF CAMBRIDGE
TOTAL TAX LEVY, OVERLAY RESERVE, AND TAX COLLECTIONS
FISCAL YEARS 1993 TO 1997

				Collections During Fiscal Year Payable (2)		Collections as of 6/30/97 (3)	
Fiscal Year	Tax Levy	Overlay Reserve for Abatements	Net Tax Levy(1)	Amount	% of Net Levy	Amount	% of Net Levy
1997	$148,070,000	$4,250,000	$143,820,000	$143,985,981	100.1%	$143,985,981	100.1%
1996	144,441,845	4,250,381	140,191,464	139,860,593	99.8	138,759,274	99.0
1995	144,445,748	4,250,000	140,195,748	139,545,078	99.5	137,506,875	98.1
1994	139,414,021	4,250,000	135,164,021	133,942,628	99.1	131,938,801	97.6
1993	133,580,000	3,500,000	130,080,000	123,754,263	95.1	123,029,973	94.6

(1) Tax levy less overlay reserve for abatements.
(2) Actual collection of levy less refunds and amounts refundable including proceeds of tax titles and tax possessions but not including abatements or other credits.
(3) Audited for fiscal years 1993 through 1997.

Source: City Department of Finance.

CITY OF CAMBRIDGE
OVERLAY RESERVES AND ABATEMENTS
FISCAL YEARS 1993 TO 1997

Fiscal Year	Overlay Reserve Amount	Overlay Reserve % of Total Levy	Abatements During Fiscal Year of Each Tax Levy	Abatements Since Fiscal Year Ended (through 6/30/97)
1997	$4,250,000	2.9%	$1,699,489	$1,699,489
1996	4,250,381	2.9	2,327,044	4,081,280
1995	4,250,000	2.9	1,415,733	4,707,221(1)
1994	4,250,000	3.0	1,765,044	4,857,529(1)
1993	3,500,000	2.6	2,742,849	5,865,718(1)

(1) The excess of abatements over overlay reserve has been funded from future fiscal year tax levies.

Source: City Department of Finance.

TAXES OUTSTANDING

Taking and Sale

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

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

OVERDUE PROPERTY TAXES
FISCAL YEARS 1993 TO 1997

Fiscal Year	Aggregate(1)	For Current Year	Tax Title and Tax Possessions
1997	$ 3,001,387	$ 2,079,771	$ 7,027,470
1996	4,447,397	2,759,449	12,746,521
1995	5,179,797	3,566,375	13,567,271
1994	5,431,112	3,826,997	15,194,754
1993	9,013,046	7,532,963	14,058,577

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

Source: City Department of Finance.

FEDERAL AND STATE AID

Federal

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

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

CITY OF CAMBRIDGE
PRINCIPAL FEDERAL AID BY SOURCE
FISCAL YEARS 1993 TO 1997

Fiscal Year	Community Development Block Grant	Other	Total From Federal Government
1997	$2,913,259	$ 6,444,026	$ 9,357,285
1996	2,967,120	7,167,785	10,134,905
1995	3,792,710	6,470,567	10,263,277
1994	2,962,120	4,287,530	7,249,650
1993	3,340,702	7,084,323	10,425,025

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. None of the major local aid programs has a termination date under existing law 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) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limits 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, these measures could restrict the amount of state revenues available for state aid to local communities.

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

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

CITY OF CAMBRIDGE
MAJOR STATE ASSISTANCE BY SOURCE
FISCAL YEARS 1993 TO 1997

Fiscal Year	School Construction	School Operations	Other	Total From State
1997	$2,921,959	$3,872,306	$29,626,515	$36,420,810
1996	2,558,516	4,040,547	28,865,687	35,464,750
1995	3,542,821	3,378,300	28,232,954	35,154,075
1994	2,613,488	2,574,464	28,116,341	33,304,293
1993	1,843,253	2,067,050	27,603,597	31,513,900

Source: City Department of Finance. See also *Tax Limitations: Other Effects*, 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 1997, motor vehicle excise tax revenue increased from $1.9 million to approximately $4.5 million, an increase of approximately 137 percent. This increase has been due to several factors, including the economic recovery of the mid-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 1993 TO 1997

Fiscal Year	Receipts(1)
1997	$4,497,548
1996	3,494,905
1995	3,571,220
1994	2,923,460
1993	3,353,825

(1) Net after refunds, includes receipts from prior years.
Source: City Department of Finance.

ROOM OCCUPANCY EXCISE

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

RECEIPTS FROM ROOM OCCUPANCY EXCISE FISCAL YEARS 1993 to 1997

Fiscal Year	Receipts
1997	$3,861,436
1996	3,261,967
1995	3,179,026
1994	2,823,002
1993	2,694,058

Source: City Department of Finance.

Recent 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 Boston, Springfield and Worcester) for the purpose of financing the construction of the facilities authorized by such legislation.

PUBLISHED FINANCIAL INFORMATION

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

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

The first table shows general fund balance sheets for fiscal years 1993 through 1997, while the second table compares City revenues, expenditures, and changes in fund balance for fiscal years 1993 through 1997.

As can be seen from the tables on the following pages, the General Fund balance has steadily increased over the past three fiscal years with a corresponding increase in the undesignated portion of the fund equity.

CITY OF CAMBRIDGE
GENERAL FUND BALANCE SHEETS
FISCAL YEARS 1993 TO 1997(1)
(as of June 30)

	1993	1994	1995	1996	1997
ASSETS					
Cash	$25,180,624	$33,567,749	$44,855,049	$40,436,647	$60,358,932
Receivables(2)					
Taxes	9,013,045	5,431,112	5,179,797	4,447,397	4,379,671
Tax Title and Possessions	14,058,577	15,194,754	13,567,271	12,746,521	7,104,983
Motor Vehicle Excise	1,897,906	1,957,769	1,924,011	2,553,717	2,241,346
Departmental	2,657,224	2,037,159	1,773,182	1,957,497	1,582,978
Due From Other Funds	2,197,079	—	—	9,278,696	—
Due From Component Unit	—	—	—	—	4,255,000
Other Assets	806,791	1,332,612	1,291,783	803,000	223,000
Total Assets	$55,811,246	$59,521,155	$68,591,093	$72,223,475	$81,986,989
LIABILITIES AND FUND EQUITY					
Warrants Payable	$ 1,113,898	$ 1,418,328	$ 1,272,138	$ 1,042,235	$ 56,008
Accrued Liabilities	—	—	—	—	—
Tax Abatement Refunds	3,407,381	3,682,426	6,331,484	6,433,453	2,040,414
Other	10,805,606	10,437,307	11,052,629	13,845,763	14,954,384
Due to Other Funds	—	228,592	161,547	—	—
Deferred Revenue	27,039,190	20,275,631	15,715,603	14,694,983	19,093,220
Total Liabilities	$42,366,075	$36,042,284	$34,533,401	$36,016,434	$36,144,026
Fund Equity:					
Fund Balances					
Reserved for Encumbrances	5,800,832	6,094,801	3,525,435	5,181,502	6,969,634
Reserved for Specific Purposes	48,657	1,750,000	4,170,000	4,945,862	7,894,234
Undesignated	7,595,682	15,634,070	26,362,257	26,079,677	30,979,095
Total Fund Equity	13,445,171	23,478,871	34,057,692	36,207,041	45,842,963
Total Liability & Fund Equity	$55,811,246	$59,521,155	$68,591,093	$72,223,475	$81,986,989

(1) See Appendix A for complete financial report for 1997. Copies of the financial reports for 1996, 1995, 1994, and 1993 are available upon request.

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

Source: Audit Reports of KPMG Peat Marwick for the fiscal years ended June 30, 1993, 1994, 1995, 1996, and 1997.

CITY OF CAMBRIDGE
GENERAL FUND—COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE ACTUAL FOR FISCAL YEARS 1993 TO 1997 (1)

	1993	1994	1995	1996	1997
Revenues:					
Property Taxes	$121,079,220	$141,787,234	$143,418,805	$141,530,307	$143,025,347
In Lieu of Tax Receipts	2,588,670	2,870,519	3,073,983	3,334,571	2,355,492
Hotel/Motel Tax	2,694,058	2,823,002	3,179,026	3,261,967	3,861,436
Intergovernmental Revenue	31,513,900	33,304,293	35,154,074	35,464,750	36,420,810
Sewer Use	17,833,123	16,048,846	16,591,548	17,691,787	18,552,641
Motor Vehicle Excise	3,353,825	2,923,460	3,803,920	3,494,905	4,497,548
Interest	738,873	773,149	1,769,975	2,112,448	2,372,170
Other	10,701,955	12,892,869	13,726,021	16,169,190	17,503,592
Total Revenues	190,503,624	213,423,372	220,717,352	223,059,925	228,589,036
Expenditures:					
General Government	18,454,613	18,524,599	18,218,594	17,841,754	16,718,937
Public Safety	48,410,734	52,202,270	53,814,494	55,362,097	55,930,745
Community Maintenance and Development	20,507,497	20,460,533	18,090,274	19,228,871	19,075,660
Health Department	1,019,412	1,390,902	1,413,148	—(2)	—(2)
Human Resource Development	9,312,711	9,401,445	9,439,256	10,153,097	11,169,291
Education	73,243,290	77,667,803	81,368,055	85,836,373	85,514,150
Judgements and Claims	1,847,476	1,255,903	11,804	846,400	935,864
State Assessments	18,763,597	19,563,908	19,751,955	21,066,948	20,661,114
Operating Subsidy to Cambridge Hospital and Neville Manor	—	—	—	10,896,015	—
Debt Service:					
Principal	4,980,000	4,466,693	4,691,994	5,705,099	7,580,828
Interest	1,704,654	1,370,248	1,392,978	1,677,773	2,302,751
Total Expenditures	198,243,984	206,304,304	208,192,552	228,614,427	219,889,340
Transfers from (to) Other Funds: (Net).	5,011,269	2,914,632	(1,945,979)	7,703,851	936,226
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.	(2,729,091)	10,033,700	10,578,821	2,149,349	9,635,922
Fund Equity at beginning of year	16,174,262	13,445,171	23,478,871	34,057,692	36,207,041
Fund Equity at end of year	$ 13,445,171	$ 23,478,871	$ 34,057,692	$ 36,207,041	$ 45,842,963

(1) Does not include water and hospital revenues and expenditures.

(2) Included in hospital enterprise fund in 1996, and in separate authority in 1997.

Source: Audit Reports of KPMG Peat Marwick for the fiscal years ended June 30, 1993, 1994, 1995, 1996, and 1997.

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 1993 TO 1997

July 1	Surplus Revenue or (Deficit)(1)(2)	Free Cash
1997	$37,249,340	$32,045,667
1996	29,229,576	20,866,888
1995	27,597,685	19,457,004
1994	19,074,529	15,269,468
1993	13,716,416	9,992,031

(1) Surplus revenue is not reduced by revenue deficits from tax abatements in excess of overlay or revenue deficits resulting from non-property tax receipts being less than estimates, both of which are added to the next tax levy. It also does not include special funds, such as water.

(2) The calculation of Free Cash by the Department of Revenue is based on financial statements prepared by the City's Finance Department in accordance with uniform Municipal Accounting System (UMAS) principles. This method differs in certain areas from Generally Accepted Accounting Principles (GAAP), which causes a difference between the figures shown here as Surplus Revenue or (Deficit), or Undesignated Fund Balance, and those shown on the KPMG Peat Marwick audited financial statements on page 54.

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 of an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

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

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

RETIREMENT PLAN

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

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

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

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

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

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

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

Under recent legislation cost-of-living increases for the City retirement system would be granted and funded by the retirement system. Those statutory provisions are subject to acceptance by the Retirement Board with the approval of the City Council, which acceptance may not be revoked.

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

The annual contributions of the City to the contributory and non-contributory retirement system for the current year and most recent years are set forth below:

CITY OF CAMBRIDGE
CONTRIBUTIONS TO CITY PENSION FUNDS
FISCAL YEARS 1994 TO 1998

Fiscal Year	Contributory (1)	Non-contributory	Total
1998	$17,937,396	$1,725,380	$19,662,776
1997	17,627,020	1,800,000	19,427,020
1996	17,253,140	1,733,985	18,987,125
1995	15,906,955	1,821,733	17,901,955
1994	13,860,307	1,937,442	15,797,749

(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 $107,647,773 as of January 1, 1996. The study has also provided cost options available to the City under Chapter 697 of the Acts of 1987. The City has used the results of this study to begin a long term actuarial funding of the system under Chapter 697. The City adopted Chapter 697 in December, 1989.

For additional information relating to the City's pension system as well as certain life insurance and health care benefits for retirees, see footnote 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 3,633 employees, of whom approximately 68.4 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
International Public Employees Association	City-Wide	346	6/30/99
Teachers and Administrators (Mass. Teachers Assoc.)	School	880	8/31/99
Clerical	School	83	6/30/99
Custodians (Local 1611 AFL-CIO)	School	93	6/30/00
Food Service	School	54	6/30/00
Safety Specialist	School	15	6/30/97(1)
Paraprofessionals (affiliated with Mass. Teachers Assoc.)	School	179	8/31/00
Substitute Teachers	School	105	8/31/96
International Assoc. of Firefighters	Fire	280	6/30/97(1)
Patrol Officers	Police	203	6/30/97(1)
Superior Officers	Police	48	6/30/97(1)
Traffic Supervisors	Police	53	6/30/00
Independent Water Workers Association	Water	41	6/30/00
Professional Librarians	Library	64	6/30/00
Code Inspectors (AFSCME) Services	Inspectional	6	6/30/97(1)
Daycare Workers	Human Services	28	6/30/00
Administrators	Public Works	8	6/30/99
		2,486	

(1) The City is currently in negotiations with those groups whose contracts expired on June 30, 1997. These negotiations are progressing in a satisfactory manner.

Source: City Personnel Department.

/s/

James P. Maloney, Jr.
City Treasurer

January , 1998

APPENDIX A

There follows in this appendix financial statements of the City of Cambridge, Massachusetts, for the fiscal year ended June 30, 1997 together with the Auditor's report thereon by KPMG Peat Marwick of Boston, Massachusetts. These have been reproduced with the permission of KPMG Peat Marwick. Any questions concerning information contained herein should be directed to Mr. Michael Maschio, KPMG Peat Marwick, 99 High Street, Boston, Massachusetts 02110, telephone (617) 988-1000.

CITY OF CAMBRIDGE, MASSACHUSETTS
FINANCIAL STATEMENTS
For the Year Ended June 30, 1997

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KPMG Peat Marwick LLP

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99 High Street
Boston, MA 02110

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Independent Auditors' Report

The City Manager and Honorable Members of the City Council
City of Cambridge, Massachusetts:

We have audited the general purpose financial statements for the City of Cambridge, Massachusetts, as of and for the year ended June 30, 1997, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Cambridge, Massachusetts, at June 30, 1997, and the results of its operations and cash flows of its proprietary and similar trust funds for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 1997, on our consideration of the City's internal control structure and its compliance with certain laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Cambridge, Massachusetts, taken as a whole. The combining, individual fund, and individual account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

We did not audit the introductory and statistical sections as listed in the table of contents and therefore express no opinion thereon.

The required supplementary information on page 38 is not a required part of the general purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation, to the supplementary information. However, we did not audit the information and express no opinion on it.

KPMG Peat Marwick LLP

December 15, 1997

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GENERAL PURPOSE FINANCIAL STATEMENTS

These "general purpose financial statements" provide a broad financial overview for users requiring less detailed information than is presented in the individual statements of each separate fund and account group.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combined Balance Sheet - All Fund Types, Account Groups, and Discretely Presented Component Units

June 30, 1997

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)		Total (Memorandum Only)
Assets and Other Debits	General	Special Revenue	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Obligations	Primary Government	Component Unit CPHC	Reporting Entity
Cash and investments (note 5 and 11)	$ 60,358,932	4,122,424	145,037	3,431,189	727,494	319,145,677	-	-	387,930,753	38,631,491	426,562,244
Restricted cash and investments	-	-	-	-	-	-	-	-	-	56,343,304	56,343,304
Receivables:											
Property taxes	4,379,671	-	-	-	-	-	-	-	4,379,671	-	4,379,671
Tax titles and possessions	7,104,983	-	-	-	-	-	-	-	7,104,983	-	7,104,983
Motor vehicle excise	2,241,346	-	-	-	-	-	-	-	2,241,346	-	2,241,346
Accounts	1,582,978	148,388	-	3,336,563	-	6,612,182	-	-	11,680,111	46,029,124	57,709,235
Accounts receivable - developer	-	1,000,000	-	-	-	-	-	-	1,000,000	-	1,000,000
Allowance for uncollectible receivables	-	-	-	(340,274)	-	-	-	-	(340,274)	(23,870,437)	(24,210,711)
Due from other funds (note 8)	1,841,079	-	14,305,769	2,355,585	-	-	-	-	18,502,433	-	18,502,433
Due from other governments	-	2,202,136	3,121,038	-	-	1,845,693	-	-	7,168,867	-	7,168,867
Due from component unit	4,255,000	-	-	-	-	-	-	-	4,255,000	-	4,255,000
Fixed assets (net, where applicable, of accumulated depreciation) (note 6)	-	-	-	66,471,802	-	-	331,291,632	-	397,763,434	80,857,274	478,620,708
Other assets	223,000	-	-	-	-	1,014,307	-	-	1,237,307	8,036,102	9,273,409
Amount to be provided for retirement of general long-term obligations	-	-	-	-	-	-	-	77,413,899	77,413,899	-	77,413,899
Total assets and other debits	$ 81,986,989	7,472,948	17,571,844	75,254,865	727,494	328,617,859	331,291,632	77,413,899	920,337,530	206,026,858	1,126,364,388

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Combined Balance Sheet - All Fund Types, Account Groups, and Discretely Presented Component Units (Continued)

June 30, 1997

Liabilities, Fund Equity (Deficit) and Other Credits	Governmental Fund Types General	Governmental Fund Types Special Revenue	Governmental Fund Types Capital Projects	Proprietary Fund Types Enterprise	Proprietary Fund Types Internal Service	Fiduciary Fund Types Trust and Agency	Account Groups General Fixed Assets	Account Groups General Long-term Obligations	Total (Memorandum Only) Primary Government	Component Unit CPHC	Total (Memorandum Only) Reporting Entity
Liabilities:											
Warrants payable	$ 56,008	13,551	3,911,815	-	-	-	-	-	3,981,374	8,648,675	12,630,049
Accrued liabilities:											
Tax abatement refunds	2,040,414	-	-	-	-	-	-	-	2,040,414	-	2,040,414
Guarantee deposits and amounts due to other taxing authorities	-	-	-	-	-	1,707,592	-	-	1,707,592	-	1,707,592
Compensated absences (note 7)	-	-	-	185,757	-	-	-	8,680,189	8,865,946	8,811,128	17,677,074
Claims (notes 7 and 13)	-	-	-	-	-	-	-	1,809,715	1,809,715	-	1,809,715
Other	14,954,384	775,207	-	47,957	-	520,811	-	-	16,298,359	-	16,298,359
Due to third parties	-	-	-	-	-	-	-	-	-	51,428,152	51,428,152
Due to other funds (note 8)	-	2,841,079	15,661,354	-	-	-	-	-	18,502,433	-	18,502,433
Due to primary government (note 7)	-	-	-	-	-	-	-	-	-	4,255,000	4,255,000
Deferred compensation (note 11)	-	-	-	-	-	25,927,878	-	-	25,927,878	-	25,927,878
Deferred revenue	19,093,220	-	-	-	-	-	-	-	19,093,220	18,809,477	37,902,697
Capital lease obligations	-	-	-	-	-	-	-	-	-	1,082,252	1,082,252
General obligation bonds and notes payable (note 7)	-	-	-	12,211,000	-	-	-	66,923,995	79,134,995	5,217,524	84,352,519
Total liabilities	36,144,026	3,629,837	19,573,169	12,444,714	-	28,156,281	-	77,413,899	177,361,926	98,252,208	275,614,134
Fund equity (deficit) and other credits:											
Investments in general fixed assets	-	-	-	-		-	331,291,632	-	331,291,632	-	331,291,632
Retained earnings	-	-	-	62,810,151	727,494	-	-	-	63,537,645	-	63,537,645
Fund balance (deficit):											
Reserved for encumbrances	6,969,634	2,103,085	14,942,065	-	-	-	-	-	24,014,784	1,106,354	25,121,138
Reserved for specific purposes (note 8)	7,894,234	4,336,534	-	-	-	300,461,578	-	-	312,692,346	-	312,692,346
Unreserved (note 14)	30,979,095	(2,596,508)	(16,943,390)	-	-	-	-	-	11,439,197	106,668,296	118,107,493
Total fund equity (deficit) and other credits	45,842,963	3,843,111	(2,001,325)	62,810,151	727,494	300,461,578	331,291,632	-	742,975,604	107,774,650	850,750,254
Commitments and contingencies (note 13)											
Total liabilities, fund equity (deficit) and other credits	$ 81,986,989	7,472,948	17,571,844	75,254,865	727,494	328,617,859	331,291,632	77,413,899	920,337,530	206,026,858	1,126,364,388

See accompanying notes to general purpose financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combined Statement of Revenues, Expenditures and Changes in Fund Equity (Deficit)
All Governmental Fund Types and Expendable Trust Funds

Year ended June 30, 1997

	Governmental Fund Types			Fiduciary Fund Type	Totals
	General	Special Revenue	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:					
Property taxes	$ 143,025,347	-	-	-	143,025,347
Payments in lieu of tax receipts	2,355,492	-	-	-	2,355,492
Hotel/motel excise tax	3,861,436	-	-	-	3,861,436
Intergovernmental	36,420,810	14,431,227	3,289,861	-	54,141,898
Private grants	-	241,189	-	-	241,189
Sewer use	18,552,641	-	-	-	18,552,641
Motor vehicle excise	4,497,548	-	-	-	4,497,548
Investment income	2,372,170	616,157	153,869	1,065,316	4,207,512
Other	17,503,592	12,915,838	-	1,825,738	32,245,168
Total revenues	228,589,036	28,204,411	3,443,730	2,891,054	263,128,231
Expenditures:					
Current:					
General government	16,718,937	83,690	-	-	16,802,627
Public safety	55,930,745	482,730	-	-	56,413,475
Community maintenance and development	19,075,660	2,111,665	-	-	21,187,325
Human resource development	11,169,291	3,253,268	-	-	14,422,559
Education	85,514,150	7,357,245	-	-	92,871,395
Fuel assistance	-	744,000	-	-	744,000
Judgments and claims	935,864	-	-	-	935,864
State assessments	20,661,114	-	-	-	20,661,114
Other	-	-	-	1,563,966	1,563,966
Capital outlay	-	-	28,593,912	-	28,593,912
Debt service:					
Principal retirement (note 7)	7,580,828	1,500,000	-	-	9,080,828
Interest	2,302,751	-	-	-	2,302,751
Total expenditures	219,889,340	15,532,598	28,593,912	1,563,966	265,579,816
Excess (deficiency) of revenues over expenditures	8,699,696	12,671,813	(25,150,182)	1,327,088	(2,451,585)
Other financing sources (uses):					
Operating transfers from other funds (note 12)	15,836,240	258,619	9,769,938	3,988,300	29,853,097
Operating transfers to other funds (note 12)	(8,302,998)	(14,448,241)	(2,310,000)	(4,329,415)	(29,390,654)
Transfers from component unit (note 15)	2,000,000	-	-	-	2,000,000
Transfers to component unit (note 15)	(8,597,016)	-	-	-	(8,597,016)
Proceeds from debt (note 7)	-	-	22,713,658	-	22,713,658
Total other financing sources (uses)	936,226	(14,189,622)	30,173,596	(341,115)	16,579,085
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	9,635,922	(1,517,809)	5,023,414	985,973	14,127,500
Fund equity (deficit) at beginning of year	36,207,041	5,360,920	(7,024,739)	22,799,458	57,342,680
Fund equity (deficit) at end of year	$ 45,842,963	3,843,111	(2,001,325)	23,785,431	71,470,180

See accompanying notes to general purpose financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

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

Year ended June 30, 1997
(with comparative actual amounts for 1996)

	1997 Budget (note 4)	1997 Actual	Variance Favorable (Unfavorable)	1996 Actual
Revenues:				
Property taxes	$ 148,070,000	148,070,000	-	144,441,845
Provisions for tax abatements and adjustments	(4,250,000)	(4,250,000)	-	(4,250,381)
Payments in lieu of tax receipts	3,198,000	2,355,492	(842,508)	3,334,571
Hotel/motel excise tax	2,686,000	3,861,436	1,175,436	3,261,967
Intergovernmental	35,398,842	36,420,810	1,021,968	35,464,750
Sewer use	17,409,500	18,552,641	1,143,141	17,691,787
Motor vehicle excise	2,968,751	4,497,548	1,528,797	3,494,905
Investment income	1,184,160	2,339,903	1,155,743	2,143,441
Other	12,101,036	17,463,534	5,362,498	14,004,678
Total revenues	218,766,289	229,311,364	10,545,075	219,587,563
Expenditures:				
Current:				
General government	17,914,746	16,280,024	1,634,722	17,352,067
Public safety	56,850,585	56,250,701	599,884	54,986,388
Community maintenance and development	21,593,826	21,544,794	49,032	20,317,721
Human resource development	12,098,992	11,912,355	186,637	10,713,945
Education	87,152,944	86,933,392	219,552	85,952,725
Judgments and claims	1,019,569	902,864	116,705	402,368
Intergovernmental	21,227,675	20,661,564	566,111	20,952,766
Debt service:				
Principal retirement	7,879,172	7,580,828	298,344	5,805,474
Interest	2,327,648	2,327,648	-	1,681,470
Total expenditures	228,065,157	224,394,170	3,670,987	218,164,924
Excess (deficiency) of revenues over expenditures	(9,298,868)	4,917,194	14,216,062	1,422,639
Other financing sources (uses):				
Operating transfers in (out):				
Special revenue funds	13,693,090	10,912,584	(2,780,506)	11,427,298
Capital projects funds	(5,532,900)	(6,332,900)	(800,000)	(6,393,355)
Trust funds	3,860,858	2,588,108	(1,272,750)	2,304,858
Enterprise fund	365,450	365,450	-	365,050
From component unit	2,000,000	2,000,000	-	-
To component unit	(8,598,000)	(8,597,016)	984	(10,896,015)
Total other financing sources (uses)	5,788,498	936,226	(4,852,272)	(3,192,164)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(3,510,370)	5,853,420	9,363,790	(1,769,525)
Other budget items:				
Free cash appropriations	3,862,135			
Prior year deficits raised	(351,765)			
Total other budget items	3,510,370			
Net budget and actual	$ -			

See accompanying notes to general purpose financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Equity
All Proprietary Fund Types, Nonexpendable Trust Funds
and Discretely Presented Component Unit

Year ended June 30, 1997

	Proprietary Fund Types: Enterprise	Proprietary Fund Types: Internal Service	Fiduciary Fund Types: Non-expendable Trust	Total (Memorandum Only) Primary Government	Component Unit CPHC	Total (Memorandum Only) Reporting Entity
Operating revenues:						
Charges for services	$ 10,576,816	61,078	-	10,637,894	172,801,885	183,439,779
Donations	-	-	23,700	23,700	-	23,700
Investment income	-	-	97,387	97,387	-	97,387
Other	825,039	-	-	825,039	10,761,727	11,586,766
Total operating revenues	11,401,855	61,078	121,087	11,584,020	183,563,612	195,147,632
Operating expenses:						
Administration	1,894,000	-	-	1,894,000	2,248,485	4,142,485
Finance	-	-	-	-	8,601,502	8,601,502
Service and support programs	3,172,153	48,473	-	3,220,626	114,243,555	117,464,181
General services	44,238	-	-	44,238	21,869,314	21,913,552
Depreciation	1,394,121	2,838	-	1,396,959	6,047,099	7,444,058
Provision for bad debts	77,308	-	-	77,308	34,033,151	34,110,459
Other	-	-	-	-	2,925,221	2,925,221
Total operating expenses	6,581,820	51,311	-	6,633,131	189,968,327	196,601,458
Operating income (loss)	4,820,035	9,767	121,087	4,950,889	(6,404,715)	(1,453,826)
Nonoperating revenues and expenses:						
Interest income	-	-	-	-	4,582,374	4,582,374
Interest expense	(806,141)	-	-	(806,141)	(980,611)	(1,786,752)
Income (loss) before operating transfers	4,013,894	9,767	121,087	4,144,748	(2,802,952)	1,341,796
Operating transfers from other funds (note 12)	-	-	120	120	-	120
Operating transfers to other funds (note 12)	(365,450)	-	(97,113)	(462,563)	-	(462,563)
Transfers from component unit (note 15)	-	-	-	-	8,597,016	8,597,016
Transfers to component unit (note 15)	-	-	-	-	(2,000,000)	(2,000,000)
Net income	3,648,444	9,767	24,094	3,682,305	3,794,064	7,476,369
Retained earnings/fund equity:						
Beginning of year	59,161,707	717,727	1,491,044	61,370,478	103,980,586	165,351,064
End of year	$ 62,810,151	727,494	1,515,138	65,052,783	107,774,650	172,827,433

See accompanying notes to general purpose financial statements.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Unit

Year ended June 30, 1997

	Proprietary Fund Types		Fiduciary Fund Types	Total (Memorandum Only)		Total (Memorandum Only)
	Enterprise	Internal Service	Non-expendable Trust	Primary Government	Component Unit CPHC	Reporting Entity
Cash flows from operating activities:						
Operating income (loss)	$ 4,820,035	9,767	121,087	4,950,889	(6,404,715)	(1,453,826)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Reclassification of investment income	-	-	(97,387)	(97,387)	-	(97,387)
Depreciation	1,394,121	2,838	-	1,396,959	6,047,099	7,444,058
Provision for bad debts	77,308	-	-	77,308	34,033,151	34,110,459
Change in assets and liabilities:						
Accounts receivable	(758,495)	-	(176)	(758,671)	(41,618,672)	(42,377,343)
Inventories and other current assets	-	-	-		266,271	266,271
Interfund receivables	(2,355,585)	-	-	(2,355,585)	3,796,921	1,441,336
Accrued liabilities	(174,373)	-	-	(174,373)	12,656,260	12,481,887
Interfund payables	(880,755)	-	-	(880,755)	4,255,000	3,374,245
Deferred revenue	-	-	-	-	8,072,725	8,072,725
Net cash provided by operating activities	2,122,256	12,605	23,524	2,158,385	21,104,040	23,262,425
Cash flows from noncapital financing activities:						
Transfers - in	-	-	120	120	8,597,016	8,597,136
Transfers - out	(365,450)	-	(97,113)	(462,563)	(2,000,000)	(2,462,563)
Net cash provided by (used for) non-capital financing activities	(365,450)	-	(96,993)	(462,443)	6,597,016	6,134,573
Cash flows from capital and related financing activities:						
Acquisition of capital assets	(2,851,229)	-	-	(2,851,229)	(22,850,416)	(25,701,645)
Proceeds from bonds	5,600,000	-	-	5,600,000	-	5,600,000
Principal paid on bonds	(3,098,000)	-	-	(3,098,000)	(668,403)	(3,766,403)
Interest paid on bonds	(806,141)	-	-	(806,141)	(980,611)	(1,786,752)
Equity transfer to Somerville Health Foundation	-	-	-	-	(500,000)	(500,000)
Net cash provided by (used for) capital and related financing activities	(1,155,370)	-	-	(1,155,370)	(24,999,430)	(26,154,800)
Cash flows from investing activities:						
Investment income	-	-	97,387	97,387	8,421,457	8,518,844
Additions to restricted cash	-	-			(22,357,007)	(22,357,007)
Net cash provided by (used for) investing activities	-	-	97,387	97,387	(13,935,550)	(13,838,163)
Net increase (decrease) in cash and cash equivalents	601,436	12,605	23,918	637,959	(11,233,924)	(10,595,965)
Cash and cash equivalents at beginning of year	2,829,753	714,889	481,236	4,025,878	49,865,415	53,891,293
Cash and cash equivalents at end of year	$ 3,431,189	727,494	505,154	4,663,837	38,631,491	43,295,328

Reconciliation to combined balance sheet:	
Cash and cash equivalents - Above	505,154
Cash and cash equivalents - Pension Trust Fund	22,366,096
Cash and cash equivalents - Expendable Trust Fund	15,270,780
Cash and cash equivalents - Agency Fund	1,707,592
Total cash and cash equivalents	39,849,622
Investments	279,296,055
Total cash and investments	319,145,677

See accompanying notes to general purpose financial statements.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

This section explains the accounting principles used in the preparation of the general purpose financial statements, explains definitions of various terms used in the report, provides detailed breakdowns of certain figures used in the report, and explains how the financial statements prepared under the Budgetary Basis of accounting relate to those prepared under Generally Accepted Accounting Principles as applicable to governmental units.

(1) The Financial Reporting Entity

(a) Primary Government

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

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

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

(b) Blended Component Unit Disclosure

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 an individual chosen by the other members. The System provides pension benefits to retired City and certain retired CPHC 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.

Financial statements for the System are included herein for its fiscal year ended December 31, 1996 and are available from its offices on 255 Bent Street, Cambridge, Massachusetts.

(c) Discretely Presented Component Unit Disclosure

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

CPHC is reported in a separate column to emphasize that it is legally separate from the City but is included in the financial statements because the City is able to impose its will on the organization. In addition, the notes to the general purpose financial statements pertain only to the primary government, unless otherwise indicated.

Complete financial statements for the CPHC for its fiscal year ended June 30, 1997 are available from its offices on 65 Beacon Street, Somerville, Massachusetts 02143.

(Continued)

(d) Joint Ventures

Municipal joint ventures pool resources to share the costs, risks and rewards of providing services to their participants, the general public or others. The City is a participant in a joint venture to operate the Massachusetts Bay Transportation Authority (MBTA), a component unit of the Commonwealth of Massachusetts (the "Commonwealth"). The City is indirectly liable for debt (see note 7) and other expenses incurred by the MBTA. The MBTA, created in 1964 as a body politic and corporate and political subdivision of the Commonwealth, provides rapid transit and other mass transportation services to the City and to 78 other cities and towns within its jurisdiction. The City's annual assessment, including debt service, from the MBTA for 1997 amounted to $6,615,479. The City does not have an equity interest in the MBTA.

Complete financial statements for the MBTA can be obtained from the MBTA administrative offices at 10 Park Plaza, Boston, Massachusetts 02116.

The Massachusetts Water Resources Authority (the "Authority"), a public instrumentality of the Commonwealth, provides water supply services and sewage collection, treatment and disposal services to various cities and towns within the Commonwealth, including the City.

The Authority is governed by an eleven-member Board of Directors chaired by the Commonwealth's Secretary of Environmental Affairs. Four board members are appointed by the Governor, three by the Mayor of Boston, Massachusetts, three by the Authority's Advisory Board and one upon the recommendation of the Mayor of Quincy, Massachusetts and Board of Selectmen of Winthrop, Massachusetts.

While the City does not have an equity interest in the Authority, it is indirectly liable for its debt (see note 7) and certain other Authority expenses. The City's annual assessment for 1997, including debt service from the Authority was $13,070,239.

Complete financial statements for the Authority can be obtained at the Authority's administrative offices at 100 First Avenue, Boston, Massachusetts 02129.

(e) Related Organization

The Manager is 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 accounting policies of the City of Cambridge, Massachusetts, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies followed by the City:

(a) Basis of Presentation

The City has elected to present the discretely presented component unit using the single-column method. The operations of the discretely presented component unit have been reported in the financial statements which reflect the predominant basis of accounting used by the entity.

(Continued)

The operations of the City and its blended component unit are recorded in the following fund types and account groups:

GOVERNMENTAL FUND TYPES

Governmental Funds are used to account for the City's expendable financial resources and related liabilities (except those accounted for in proprietary funds and nonexpendable trust funds). The measurement focus is based upon determination of changes in financial position and the flow of current financial resources. The following are the City's governmental fund types:

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.

Capital Projects 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 FUND TYPES

Proprietary Funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is based upon determination of net income and capital maintenance. The following are the City's proprietary fund types:

Enterprise Fund - This fund is used to account for City Water 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; and (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 Fund - This fund is used to account for the financing of services provided by one department to other departments of the City, on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (1) expendable trust funds, (2) nonexpendable trust funds, (3) pension trust funds, and (4) agency funds. Expendable trust funds are accounted for similar to governmental funds. Nonexpendable trust funds and pension trust funds are accounted for similar to proprietary funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

(Continued)

ACCOUNT GROUPS

Account groups are a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the governmental funds because they do not affect net expendable available financial resources. The following are the City's account groups:

General Fixed Assets Account Group - This account group is used to account for all fixed assets of the City, except for fixed assets purchased through proprietary funds.

General Long-term Obligations Account Group - This account group is used to account for all long-term obligations of the City, except for debt issued for enterprise funds.

(b) Basis of Accounting

The modified accrual basis of accounting is followed by governmental funds, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation and sick leave, and self-insured claims, which are recorded in the general long-term obligations account group.

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures incurred. In the other, resources are virtually unrestricted 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 are met.

Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end. Other revenues are recorded when received in cash, except investment earnings which are recorded as earned.

The accrual basis of accounting is used by proprietary funds, nonexpendable trust funds, and pension trust funds. Revenues are recognized when earned and expenses are recognized when goods or services have been received or a liability has been incurred.

The City and its component unit have elected to apply to its proprietary funds and nonexpendable trust funds accounting standards applicable to the private sector issued on or before November 30, 1989, unless those standards conflict with or contradict pronouncements of the Governmental Accounting Standards Board.

(c) Investments

Investments of pension trust funds and deferred compensation plans are presented in the accompanying general purpose financial statements at fair market value. All other investments are stated at cost or amortized cost, which approximates market.

(Continued)

(d) Cash Equivalents

For purposes of the combined statement of cash flows, the proprietary, nonexpendable trust funds and CPHC consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(e) Encumbrances and Continuing Appropriations

The City uses encumbrance accounting in its governmental funds as a method of recording commitments under purchase orders and contracts. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded to reserve that portion of the applicable appropriation, is employed in the General Fund as a significant aspect of budgetary control.

Unencumbered appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations" and all other appropriations lapse at year-end. Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed by the end of the fiscal year.

Encumbrances and continuing appropriations are reported as reservations of fund balances in the accompanying combined balance sheet because they do not constitute expenditures or liabilities. Encumbrances and continuing appropriations are combined with expenditures for budgetary comparison purposes.

(f) Compensated Absences

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, eligible employees are compensated for unused sick and vacation leave (subject to certain limitations) at specified payment rates established by contract, regulation or policy. The cost of compensated absences for employees of proprietary funds is recorded as earned. For other funds, the noncurrent portion of the liability for compensated absences is reported in the general long-term obligations account group.

The liabilities for accrued sick leave are determined based on the number of allowable days accumulated at June 30, 1997 (vesting method).

(g) General Fixed Assets

General fixed assets have been acquired for general governmental purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost in the general fixed assets account group. Purchased fixed assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value at the time received.

The sources of funds used to acquire fixed assets were impractical to obtain; therefore, the sources of fixed assets are not presented.

(Continued)

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets, nor has interest been capitalized because it is not material.

(h) Property, Plant and Equipment
Property, plant and equipment owned by the proprietary funds is stated at historical cost or estimated fair market value at the time received. Net interest costs are capitalized on projects during the construction period. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	25-50 years
Improvements other than buildings	10-20 years
Equipment	5-30 years

(i) Use of Estimates
The preparation of general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(j) Restricted Cash and Investments
Restricted cash and investments include: assets set aside by the Board of Trustees of CPHC for future capital improvements, including funded depreciation, over which the Board retains control and may at its discretion subsequently use for other purposes.

(k) Total Columns - Memorandum Only
Total columns on the general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund and other eliminations have not been made.

(Continued)

(3) Property Taxes

Real and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent November 1 and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The City has an ultimate right to foreclose on property for which taxes have not been paid. A tax lien is issued on the property when more than one year's tax is overdue. Property taxes levied are recorded as receivables in the fiscal year of the levy. Property tax revenues are recorded in accordance with the modified accrual basis of accounting described in note 2.

A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2-1/2% of the value of all taxable property in the City. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a City-wide referendum vote.

(4) Budget Basis of Accounting

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the City adopts an annual budget for the general fund for which the level of expenditure may not legally exceed appropriations for each department or undertaking classified in the following categories:

(1) Salaries and wages,
(2) Other ordinary maintenance,
(3) Travel and training, and
(4) Extraordinary expenditures.

Proposed expenditure appropriations for all departments and operations of the City, except that of public schools, are prepared under the direction of the City Manager. School Department appropriations are acted upon directly by the School Committee up to the level of certain prior year school appropriations. The City Manager may recommend additional sums for school purposes. In addition, the City Manager may submit to the City Council such supplementary appropriation orders as are deemed necessary. The City Manager may amend appropriations within the above mentioned categories for a department without seeking City Council approval.

The City Council may reduce or reject any item in budgets submitted by the City Manager but may not increase or add items without the recommendation of the City Manager. Supplemental appropriations for the year ended June 30, 1997, after the setting of the tax rate, were $2,327,088 and are reflected in the budgetary basis financial statements.

The City follows a gross budgeting concept pursuant to which expenditures financed by special revenue funds and trust funds are budgeted as general fund expenditures and are financed by transfers from these funds to the general fund.

(Continued)

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

(a) Revenues are recorded when cash is received except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).

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

A summary of the differences between the results of operations presented on a budgetary basis and those presented in accordance with GAAP is as follows:

		Revenues	Expenditures
As reported on a budgetary basis	$	229,311,364	224,394,170
Adjustments:			
To record revenue and other financing sources on a modified accrual basis of accounting		(722,328)	-
To adjust for encumbrances and continuing appropriations		-	(4,504,830)
As reported on GAAP basis	$	228,589,036	219,889,340

(5) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").

In addition, the Cambridge Retirement System and administrators of the Employees' Deferred Compensation plan have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

Deposits

The following summary presents the amount of City deposits which are fully insured or collateralized with securities held by the City or its agent in the City's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name (Category 2), and those deposits which are not collateralized (Category 3) at June 30, 1997.

(Continued)

Primary Government		Bank Balances Category 1	2	3	Total Bank Balance	Carrying Amount
Cash	$	300,000	-	13,603,732	13,903,732	16,062,141
Money market		389,432	22,366,096	16,995,648	39,751,176	33,927,024
Total	$	689,432	22,366,096	30,599,380	53,654,908	49,989,165
Discretely presented component unit (CPHC)						
Cash	$	100,000	-	7,195,810	7,295,810	7,295,810
Money market		100,000	-	6,562,902	6,662,902	6,662,902
Total	$	200,000	-	13,758,712	13,958,712	13,958,712

Investments

The City categorizes investments according to the level of risk assumed by the City. Category 1 includes investments that are insured, registered or held by the City's agent in the City's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the City's name. Investments in MMDT, mutual funds and insurance contracts, pooled funds, are not categorized.

Primary Government		Category 1	2	3	Not Categorized	Carrying Amount	Estimated Market Value
MMDT	$	-	-	-	58,609,867	58,609,867	58,609,867
Mutual funds		-	-	-	25,927,878	25,927,878	25,927,878
Common stocks		-	142,755,968	-	-	142,755,968	142,755,968
Corporate bonds		-	61,135,354	-	-	61,135,354	61,135,354
U.S. Treasury notes		-	42,399,045	-	-	42,399,045	42,372,696
Insurance contracts		-	-	-	7,113,476	7,113,476	7,113,476
Total	$	-	246,290,367	-	91,651,221	337,941,588	337,915,239
Discretely presented component unit (CPHC)							
MMDT	$	-	-	-	46,998,217	46,998,217	46,998,217
U.S. Government obligations		-	34,017,866	-	-	34,017,866	34,017,866
Total investments	$	-	34,017,866	-	46,998,217	81,016,083	81,016,083

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

(Continued)

Of the investments reflected in the preceding table, investments of the Cambridge Retirement System constitute 96% of the amount in Category 2.

(6) Fixed Assets

A summary of general fixed assets activity in the general fixed assets account group for the year ended June 30, 1997 follows:

	Balance June 30, 1996	Additions	Disposals	Balance June 30, 1997
Land	$ 172,062,238	50,000	-	172,112,238
Buildings	106,833,389	5,239,933	-	112,073,322
Improvements other than buildings	11,575,587	541,416	-	12,117,003
Equipment	26,896,199	3,314,793	1,902,093	28,308,899
Construction in progress	6,962,672	3,699,474	3,981,976	6,680,170
	$ 324,330,085	12,845,616	5,884,069	331,291,632

A summary of proprietary fund type property, plant, and equipment at June 30, 1997 follows:

	Enterprise	Internal Service
Land	$ 39,219,717	-
Buildings	9,349,880	-
Improvements other than buildings	16,623,530	-
Equipment	9,993,853	-
Construction in progress	2,058,802	171,181
	77,245,782	171,181
Less accumulated depreciation	(10,773,980)	(171,181)
	$ 66,471,802	-

Construction in progress at June 30, 1997 is comprised of the following:

	Project Authorization	Expended	Committed
General Fixed Assets:			
City hall renovations	$ 5,350,000	699,486	4,650,514
Geographic information	1,500,000	984,254	515,746
East Cambridge youth center	4,300,000	3,423,487	876,513
Morse school	9,830,000	646,515	9,183,485
Fitzgerald school	14,432,000	926,428	13,505,572
	$ 35,412,000	6,680,170	28,731,830
Water Fund:			
Water treatment plant	$ 3,555,000	2,058,802	1,496,198

(Continued)

Discretely Presented Component Unit (CPHC)
Property, plant and equipment at June 30, 1997 are comprised of the following:

Land and improvements	$	6,733,564
Buildings and improvements		35,091,029
Major moveable equipment		33,616,218
Fixed equipment		36,937,533
Construction in progress		27,339,080
		139,717,424
Less accumulated depreciation		(58,860,150)
	$	80,857,274

(7) Long-term Debt

Primary Government
The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are backed by the full faith and credit of the City. Bonds reported in the proprietary funds are expected to be paid from proprietary fund revenues. Bonds reported in the general long-term obligations account group are expected to be paid from general fund revenues. The Cambridge Public Health Commission has assumed responsibility for paying to the City an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes. These general obligation bonds amounted to $4,255,000 at June 30, 1997.

The following is a summary of general obligation bond and notes payable transactions of the City for the year ended June 30, 1997:

		Governmental Funds	Enterprise Fund	Total
Bonds and notes payable at June 30, 1996	$	57,068,165	9,709,000	66,777,165
Debt retired: Serial bonds		(12,857,828)	(3,098,000)	(15,955,828)
Additional debt		22,713,658	5,600,000	28,313,658
Bonds and notes payable at June 30, 1997	$	66,923,995	12,211,000	79,134,995

Principal retirement of governmental funds has been reflected in the general purpose financial statements as debt service expenditures of $9,080,828 and education expenditures of $3,777,000 totaling $12,857,828 of principal costs.

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Notes to General Purpose Financial Statements

June 30, 1997

The following is a summary of the composition of general long-term obligations outstanding at June 30, 1996 and 1997:

Description and Repayment Terms	Date of Obligation	Original Issue	Maturity Date	Interest Rates	Outstanding June 30, 1996	Additions	Retirements	Outstanding June 30, 1997
General purpose, serial maturities through June 15, 2007	6/15/87 to 6/15/97	$ 16,755,000	6/15/07	4.3% to 6.0%	$ 2,035,000	11,170,000	1,195,000	12,010,000
Urban redevelopment, serial maturities through June 15, 2007	7/1/85 to 6/15/97	21,820,000	6/15/07	3.75% to 6.6%	11,105,000	3,585,000	2,355,000	12,335,000
Schools, serial maturities through February 1, 2004	6/15/78 to 6/15/96	50,240,000	6/15/06	3.75% to 5.75%	21,311,000	2,340,000	3,722,000	19,929,000
Street reconstruction, serial maturities through June 15, 1999	6/15/87 to 6/15/89	6,500,000	6/15/99	5.6% to 6.5%	1,250,000	-	650,000	600,000
Sewer, serial maturities through August 1, 2008	9/1/72 to 6/15/97	22,492,838	8/1/08	2.35% to 5.75%	12,977,165	5,618,658	1,795,828	16,799,995
Section 108 HUD notes payable		2,500,000			2,500,000	-	1,505,000	995,000
Hospital, serial maturities through June 15, 2000	6/15/87 to 6/15/90	14,850,000	6/16/00	5.6% to 6.6%	4,990,000	-	1,485,000	3,505,000
Neville Manor, serial maturities through June 15, 2002	6/15/92	1,500,000	6/15/02	4.3% to 5.3%	900,000	-	150,000	750,000
Total bonds and notes payable		$ 136,657,838			57,068,165	22,713,658	12,857,828	66,923,995
Accrued compensated absences					8,942,982	-	262,793	8,680,189
Accrued claims					2,734,131	1,183,353	2,107,769	1,809,715
Total general long-term obligations					$ 68,745,278	23,897,011	15,228,390	77,413,899

(Continued)

The annual requirements to amortize all general long-term obligation bonds and notes payable outstanding as of June 30, 1997, are as follows:

Year ending June 30,		Principal	Interest	Total
1998	$	11,065,884	3,289,532	14,355,416
1999		9,565,156	2,787,048	12,352,204
2000		8,622,059	2,310,273	10,932,332
2001		7,759,088	1,862,932	9,622,020
2002		7,460,554	1,396,652	8,857,206
Thereafter		22,451,254	2,894,040	25,345,294
	$	66,923,995	14,540,477	81,464,472

The various bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance and flow of monies through various restricted accounts, and minimum revenue bond coverages. The City is in compliance with all such significant limitations and restrictions.

The City has entered into loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT). The loans provide funding for the Sewer Separation Project. According to the loan agreements, the City will be subsidized on a periodic basis for debt and interest costs. The City received $1,167,196 in subsidies during fiscal 1997. Loan repayments commenced on February 1, 1994 and end on August 1, 2008, with interest rates ranging from 2.35% to 5.25%.

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

As of June 30, 1997, the City may issue approximately $146,403,703 additional general obligation debt under the normal debt limit. The City has approximately $31,075,000 of debt exempt from the debt limit.

(Continued)

Authorized and unissued debt at June 30, 1997, is as follows:

School Renovations	$ 700,000
City Hall Renovations	4,830,000
Hospital Construction	30,000,000
Sewer Separation Project	23,789,798
Section 108 Biotechnology	3,500,000
Fitzgerald School Renovations	14,432,000
Morse School Renovations	12,000,000
East Cambridge Youth Center	700,000
One Per Cent for the Arts	61,000
FiberOptic Network Infrastructure	355,000
Reconnection of Sanitary Services	1,300,000
	$ 91,667,798

At June 30, 1997, the City had grants receivable from the School Building Assistance Bureau (SBAB) of $14,777,862 to defray principal and interest costs related to $24,090,491 of school bonds outstanding. Grants are subject to annual appropriation by the State legislature. The amount of the grants is based on estimated construction costs of school projects which may be revised upon audit by the SBAB. During 1997, the City received $2,315,831 of such assistance. Assuming satisfactory audit results and annual appropriations by the State legislature, $2,274,794 will be received in 1998, $2,213,285 in 1999 and the balance will be received in subsequent years.

Enterprise Fund serial bond issues outstanding at June 30, 1997 for the Water Fund were $12,211,000. The interest rates ranged from 3.75% to 6.6%. Outstanding debt matures in subsequent fiscal years as follows:

	Principal	Interest	Total
1998	$ 2,898,000	642,766	3,540,766
1999	2,900,000	487,965	3,387,965
2000	2,513,000	332,416	2,845,416
2001	1,487,000	199,176	1,686,176
2002	542,000	123,079	665,079
Thereafter	1,871,000	221,597	2,092,597
	$ 12,211,000	2,006,999	14,217,999

The Massachusetts Water Resources Authority (MWRA), the Massachusetts Bay Transportation Authority (MBTA), and Middlesex County assess the City a net cost of service, including debt service requirements, in accordance with various formulas. The following summary sets forth the unaudited amount of long-term debt of each entity as well as the City's share of the debt at June 30, 1997 and the City's 1997 assessment from each entity:

(Continued)

	Long-term debt outstanding (unaudited)	The City's estimated share	The City's estimated indirect debt	1997 Assessment including debt service
MBTA	$ 3,043,815,000	4.41%	$ 134,232,512	$ 6,615,479
MWRA	3,230,199,000	4.39%	141,683,244	13,070,239
Middlesex County	1,680,000	11.60%	195,000	195,000

Discretely Presented Component Unit (CPHC)

Long-term debt, net of unamortized discounts, at June 30, 1997 consists of:

Massachusetts Health and Educational Facilities Authority Revenue Bonds:	
Revenue bonds - Series A	$ 3,917,218
HUD bonds	1,141,291
Other	159,015
Long-term portion	$ 5,217,524

Massachusetts Health and Educational Facilities Authority Revenue Bonds

In 1975, Somerville Hospital entered into a Federal Housing Administration ("FHA") mortgage loan agreement which is insured by the U.S. Department of Housing and Urban Development ("HUD") and reinsured by the Government National Mortgage Association ("GNMA"). The debt is collateralized by a mortgage on substantially all of Somerville Hospital's property, plant and equipment. After modification of the original mortgage through the issuance of Massachusetts Health and Educational Facilities Authority ("MHEFA") Revenue Bonds in 1981, the FHA mortgage loan agreement consisted of two portions:

Revenue Bonds - Series A - Financing of this portion was provided through the issuance of $9,140,000 of MHEFA Revenue Bonds, Somerville Hospital Issue, Series A, which bear interest at 7.5% and are payable in varying semiannual installments through July 1, 2003. The remaining balance at June 30, 1997 has been reduced by an unamortized discount of $192,808 which is being amortized over the term of the debt.

HUD Bonds - Financing of this portion was provided through the issuance of $2,500,000 GNMA guaranteed securities, with repayments amounting to $20,980 monthly through June 2003, at an annual interest rate of 9%. The remaining balance at June 30, 1997 has been reduced by an unamortized discount of $10,341 which is being amortized over the term of the debt.

(Continued)

Somerville Hospital has entered into a mortgage agreement on certain residential properties. The agreement requires monthly payments of $1,700, which includes interest at 10 1/2% through 2013. Also, Somerville Hospital entered into a commercial loan during 1990. This note requires monthly payments of $5,397, which includes interest at 10 1/2% through the year 2000.

Total principal payments required on long-term debt of CPHC in future years are as follows:

1998	$ 727,931
1999	788,593
2000	854,334
2001	925,584
2002	1,002,915
Thereafter	1,121,316
	5,420,673
Less: Unamortized discount	203,149
	$ 5,217,524

(8) Individual Fund Receivables, Payables and Fund Balances Reserved for Specific Purposes

Individual balances of amounts due from and to other funds at June 30, 1997 are as follows:

	Due from other funds	Due to other funds
General Fund	$ 1,841,079	-
Capital Projects Fund	14,305,769	15,661,354
Enterprise Funds:		
Water Fund	2,355,585	-
Special Revenue Funds:		
CDBG Grants	-	2,106,945
Other Grants	-	734,134
	$ 18,502,433	18,502,433

(Continued)

Fund balances are reserved for the following purposes as of June 30, 1997:

General Fund:		
Fiscal 1998 Appropriations	$	1,421,962
Reserve for Unprovided Abatements		3,242,272
Tobin/Russell Soil Testing		100,000
Coffon Building Renovations		60,000
Lombardi Building Renovations		45,000
City Hall Annex Renovations		100,000
Street/Sidewalk Reconstruction		200,000
Park Preventative Maintenance Program		100,000
Beautification Program		175,000
Improvements to Buildings for Persons with Disabilities		50,000
Improvements to High School		50,000
Replacement of Underground Fuel Tanks		100,000
Affordable Housing Trust		2,250,000
	$	7,894,234
Special Revenue Funds:		
CDBG Grants		108,192
Fuel Assistance Grants		194,085
Parking Funds		3,861,818
School Grants		172,439
	$	4,336,534
Trust Funds:		
Retirement System		275,161,009
City Stabilization		5,579,797
School Stabilization		1,514,771
Health Claims		11,267,079
Housing		4,329,068
Cemetery Perpetual Care		1,545,978
School		184,587
Neville Manor		75,479
Library		144,099
Other Trust Funds		659,711
	$	300,461,578

(9) Retirement Plan

(a) Plan Description

The City contributes to the Cambridge Retirement System ("System"), a cost sharing, multi-employer public employee retirement system that acts as the investment and administrative agent for the City, Cambridge Public Health Commission, and Cambridge Housing Authority. The system provides retirement, disability, and death benefits to plan members and beneficiaries. The System is a member of the Massachusetts Contributory System which is governed by Chapter 32 of the Massachusetts General laws ("MGL").

(Continued)

(b) Membership

Membership in the System consisted of the following at January 1, 1997, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,574
Terminated plan members entitled to but not receiving benefits	535
Active plan members	3,422
Total membership	5,531
Total number of participating employers	3

(c) Contribution

Plan members are required to contribute to the System, depending on their employment date. Active members must contribute between 5% and 9% of their regular gross compensation depending on the date upon which their membership began. 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 and plan administration costs. The Commonwealth reimburses the City for a portion of the benefit payments for cost-of-living increases. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's and the Cambridge Public Health Commission's contributions to the System for the years ended June 30, 1997, 1996 and 1995 were $15,190,779, $15,066,694, $13,126,889 and $3,588,110, $3,355,800 and $2,975,100, respectively, which equaled their required contributions for each year.

(d) Legally Required Reserve Accounts

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 1996 are as follows:

Description	Amount	Purpose
Annuity Saving Fund	$ 88,167,274	Active members' contribution balance
Annuity Reserve Fund	23,132,544	Retired members' contribution account
Military Service Credit	603	Members' contribution account while on military leave
Expense Account	146,130	Balance of amount appropriated for administering the system
Pension Reserve Fund	93,890,621	Amounts appropriated to fund future retirement benefits
Pension Fund	68,876,943	Remaining net assets
Total	$ 274,214,115	

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

(Continued)

(e) Investment Concentration

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

(10) Other Post-employment Benefit Disclosures

All retired employees eligible for pension benefits as well as teachers covered under the Commonwealth of Massachusetts Teachers' Retirement System ("TRS") receive certain post-retirement benefits including major health, dental, and life insurance under Chapter 32 of the MGL. The City funds 90% of health insurance premiums, with the remaining 10% paid by the retiree. The City also funds 75% of life insurance premiums, with the remaining 25% paid by the retiree. The City funds 100% of dental and vision premiums. The number of employees covered was 1,574 at June 30, 1997. The City's cost of these post-retirement benefits for fiscal 1997 was $3,766,417 and is funded and accounted for on a pay-as-you-go basis.

(11) Deferred Compensation Plan

The City has a deferred compensation plan created in accordance with Section 457 of the Internal Revenue Code. The Plan, available to all City and Cambridge Health Commission employees, permits them to defer a portion of their current salary to future years. The deferred compensation is not available to the participants until termination, retirement, death or unforeseeable emergency.

In accordance with Section 457 of the Internal Revenue Code, all amounts of compensation deferred under the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property or rights are (until made available to the employee or other beneficiary) solely the property and rights of the City (without being restricted to the provisions of benefits under the Plan) subject only to the claims of the City's general creditors.

Participants' rights created under the Plan are equivalent to those of general creditors of the City and only in an amount equal to the fair market value of the deferred account maintained with respect to each participant. Plan assets have been used for no purpose other than to pay benefits. In addition, the City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future. The City records the plan assets and the related liability to plan participants as an agency fund.

The City and its agent have no liability for losses under the Plan, but do have the duty of care that would be required of an ordinary prudent investor.

The Plan allows its participants to direct their contributions among several publicly traded mutual funds and other pooled investment vehicles, as provided by the Plan. These investment vehicles routinely use derivatives in varying degrees to achieve their overall performance objectives, however, these investments are immaterial in total. The Plan's investments are not subject to review or approval by the City.

(Continued)

The assets and liabilities of the City's deferred compensation plan with a market value of $25,927,878 are included in Agency Funds at June 30, 1997.

(12) Operating Transfers

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. Operating transfers during the year were as follows:

	General	Special Revenue	Capital Projects	Enterprise	Expendable Trust	Non-Expendable Trust
Parking Receipts	$ 10,912,584	(11,351,084)	438,500	-	-	-
Capital Improvements	(5,297,900)	-	5,297,900	-	-	-
Sewer Reconstruction	(1,035,000)	-	1,035,000	-	-	-
Water Overhead	365,450	-	-	(365,450)	-	-
Health Claims Trust	1,733,728	-	-	-	(1,733,728)	-
Miscellaneous Trusts	-	-	-	-	90,901	(90,901)
Cemetery Perpetual Care	45,000	-	100,000	-	(138,908)	(6,092)
School Stabilization	809,380	-	-	-	(809,380)	-
Housing Trust	-	-	(2,250,000)	-	2,250,000	-
Community Development Block Grant	-	(2,838,538)	2,838,538	-	-	-
	$ 7,533,242	(14,189,622)	7,459,938	(365,450)	(341,115)	(96,993)

(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.

Police Department vehicles are insured through an outside agency and all other vehicle damage and loss is self-insured. The City is self-insured for other general liability; however, Chapter 258 of the MGL limits the liability to a maximum of $100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain and breach of contract. The City is also self-insured for workers' compensation and unemployment claims.

The City has a Blue Cross/Blue Shield PPO (Preferred Provider Organization) medical plan under which it makes actual claims payments. In this case, Blue Cross/Blue Shield acts as a claims processor and a transfer of risk does not occur. Approximately 70% of the City's employees participate in the self insured plan with the remainder electing preferred provider plans that are premium based.

Employees contribute approximately 10% 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 qualify for Medicare and 10% for those who do not. While the City does not carry stop-loss insurance, it has set aside $11,267,079 in a trust fund for this purpose. The City maintains a working deposit with Blue Cross/Blue Shield of $223,000 at June 30, 1997.

(Continued)

Liabilities for claims incurred but not paid or reported are recorded in the general long-term obligations account group.

Changes in the self insurance liability for fiscal years ended June 30, 1997 and 1996 are as follows:

	General Long-Term Obligations Account Group	
	1997	1996
Accrued claims, beginning of year	$ 2,734,131	2,445,000
Incurred claims	1,183,353	1,103,981
Less:		
Payments of claims attributable to events of both current and prior fiscal years	(1,459,255)	(814,850)
Hospital claims transferred to CPHC	(648,514)	-
Accrued claims, end of year	$ 1,809,715	2,734,131

There are numerous cases pending in courts throughout the Commonwealth where the City of Cambridge is a defendant. In addition, the City has been named as a defendant in a legal action with a general contractor of the Haggerty School. In regards to this action the City has filed counterclaims against several subcontractors. Legal counsel is unable to determine the likelihood of an unfavorable decision, if any. In the opinion of the City Solicitor, none of the pending litigation is likely to result, either individually or in the aggregate, in final judgments against the City that would materially affect its financial position.

(14) Fund Deficits

The following funds had deficit equity balances at June 30, 1997:

Special Revenue:	
Other Grants	$ (673,559)
Capital Projects	$ (2,001,325)

(Continued)

(15) Reorganization of the Public Health Systems

The Cambridge Public Health Commission ("CPHC"), a public corporation, was created on June 30, 1996, as the successor to the City of Cambridge's Department of Health and Hospitals ("Department").

Effective July 1, 1996, CPHC entered into agreements with the City of Cambridge and Somerville Hospital to effect the creation of a public health system that would encompass the Department and the operations and facilities of Somerville Hospital. All cash, accounts receivable, personal property and inventory of the Department were transferred to CPHC. The transfer of real property to CPHC was affected by a lease agreement. All debt and obligations of the Department were assumed by CPHC; however, provided that City bonds and notes will remain general obligations of the City.

CPHC consists of the following operations:

The Cambridge Hospital
Somerville Hospital
The Cambridge Hospital Professional Services Corporation
Neville Manor Nursing Home
Cambridge Health Department

Also effective July 1, 1996, the Cambridge Public Health Commission entered into a seven year Health Service Agreement with the City of Cambridge, whereby the Commission will provide specified health services to the residents of Cambridge and others within the service area of the Cambridge Hospital Network, and conduct all functions of a Health Department for the City of Cambridge. In consideration of these services, the City of Cambridge has agreed to pay the Commission an annual payment amount which is subject to appropriation by the Cambridge City Council. For fiscal year 1997, the City Council appropriated and the Commission was paid $8,597,016. The Commission also reimbursed the City $2,000,000 on the last day of the fiscal year. Thus, the net payment to the Commission in fiscal year 1997 was $6,597,016.

CPHC leases certain real property from the City. Minimum annual lease payments are $1 through June 30, 2046. Upon expiration, or earlier termination of the lease, the CPHC will surrender to the City the leased property.

During fiscal 1997, the City agreed to provide health coverage for certain employees of CPHC under its self insured health plan. In return, the CPHC paid the City $6,384,675. In addition, the CPHC is responsible for reimbursing the City for other various administrative costs which amounted to $103,121.

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REQUIRED SUPPLEMENTARY INFORMATION

The following schedule presents historical trend information for the Cambridge Retirement System. The information is presented in accordance with the requirements of Statement Nos. 25 and 27 of the Governmental Accounting Standards Board.

CITY OF CAMBRIDGE, MASSACHUSETTS

Required Supplementary Information

(Dollars In Thousands)

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets A	Actuarial Accrued Liability B	Unfunded AAL (UAAL) B-A	Funded Ratio A/B	Covered Payroll C	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/96	$ 233,883	$ 341,531	$ 107,648	68.48%	$ 114,387	94.11%
1/1/94	182,632	323,644	141,012	56.43%	109,775	128.46%
1/1/93	158,595	279,715	121,120	56.70%	99,063	122.27%
1/1/91	118,507	251,035	132,528	47.21%	83,460	158.79%

Information prior to 1/1/91 is not available.

Schedules of Contributions from Employers

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
1996	$ 21,216	100.00%
1995	20,669	100.00%
1994	19,029	100.00%
1993	16,843	100.00%
1992	16,507	100.00%
1991	15,814	100.00%

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	1/1/96
Actuarial cost method	Entry Age Normal Cost
Amortization method	Approximate level percent of payroll-open
Remaining amortization period	Varied based upon Active or Retired status 12 yr. Retirees/Early 28 yr. Active members
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	6.00%
Cost-of-living adjustments	None (funded by Commonwealth of Massachusetts)

SUPPLEMENTARY STATEMENTS AND SCHEDULES

The following section provides detailed information on the General, Special Revenue, Enterprise, and Trust and Agency Funds included in the general purpose financial statements. Information on real, personal, and excise tax collections, and schedules of the long-term debt obligations and general fixed assets of the City is also provided in this section.

SPECIAL REVENUE 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 that fiscal year. All operating expenditures are recorded within this Fund.

School Grants

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

Fuel Assistance

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

Parking Fund

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

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.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Balance Sheet

Special Revenue Funds

June 30, 1997

Assets		CDBG Grants	School Grants	Fuel Assistance	Parking Fund	Other Grants	Total
Cash and short-term investments	$	-	211,440	196,815	3,714,169	-	4,122,424
Accounts receivable		-	-	739	147,649	-	148,388
Accounts receivable-developer		1,000,000	-	-	-	-	1,000,000
Due from other governments		1,337,058	422,115	-	-	442,963	2,202,136
Total assets	$	2,337,058	633,555	197,554	3,861,818	442,963	7,472,948
Liabilities and Fund Equity							
Warrants payable		-	-	-	-	13,551	13,551
Accrued liabilities - other		121,921	280,980	3,469	-	368,837	775,207
Due to other funds		2,106,945	-	-	-	734,134	2,841,079
Total liabilities		2,228,866	280,980	3,469	-	1,116,522	3,629,837
Fund equity (deficit):							
Reserved for encumbrances		-	180,136	-	-	1,922,949	2,103,085
Reserved for specific purposes		108,192	172,439	194,085	3,861,818		4,336,534
Unreserved		-	-	-	-	(2,596,508)	(2,596,508)
Total fund equity		108,192	352,575	194,085	3,861,818	(673,559)	3,843,111
Total liabilities and fund equity	$	2,337,058	633,555	197,554	3,861,818	442,963	7,472,948

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Equity (Deficit)

Special Revenue Funds

Year ended June 30, 1997

	Community Development Block Grants	School Grants	Fuel Assistance	Parking Fund	Other Grants	Total
Revenues:						
Intergovernmental	$ 3,931,149	6,138,451	858,211	-	3,503,416	14,431,227
Private grants	-	-	-	-	241,189	241,189
Investment income	-	-	8,294	607,863	-	616,157
Other:						
Permits	-	-	-	52,211	-	52,211
Fines	-	-	-	6,754,360	-	6,754,360
Charges for services	-	-	-	4,669,627	-	4,669,627
Miscellaneous	371,121	1,053,476	-	7,285	7,758	1,439,640
Total revenues	4,302,270	7,191,927	866,505	12,091,346	3,752,363	28,204,411
Expenditures:						
General government	-	-	-	-	83,690	83,690
Public safety	-	-	-	-	482,730	482,730
Education	-	7,357,245	-	-	-	7,357,245
Fuel assistance	-	-	744,000	-	-	744,000
Community maintenance and development	953,699	-	-	-	1,157,966	2,111,665
Human services	484,358	-	143,769	-	2,625,141	3,253,268
Debt service expense	1,500,000	-	-	-	-	1,500,000
Total expenditures	2,938,057	7,357,245	887,769	-	4,349,527	15,532,598
Excess (deficiency) of revenues over expenditures	1,364,213	(165,318)	(21,264)	12,091,346	(597,164)	12,671,813
Other financing sources (uses):						
Operating transfers from other funds	-	-	-	260,411	(1,792)	258,619
Operating transfers to other funds	(2,838,538)	-	1,792	(11,611,495)	-	(14,448,241)
Excess (deficiency) of revenues over expenditures and transfers	(1,474,325)	(165,318)	(19,472)	740,262	(598,956)	(1,517,809)
Fund equity (deficit) at beginning of year	1,582,517	517,893	213,557	3,121,556	(74,603)	5,360,920
Fund equity (deficit) at end of year	$ 108,192	352,575	194,085	3,861,818	(673,559)	3,843,111

FIDUCIARY FUNDS

The City's Fiduciary Funds are used to account for the 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. These include expendable trust funds, nonexpendable trust funds, pension trust funds, and agency funds.

The Trust Funds, which are described later in this section of the report, are segregated into four categories: School Trust Funds, Neville Manor Nursing Home Trust Funds, Library Trust Funds, and Other Funds. The last sentence of each Trust Fund narrative lists the expendable balances which represent the income/interest portion of the Trust. In general, the City has a policy to limit expenditures from the Trusts to the total accumulated income/interest amount so that the principal of the Trusts is protected.

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Balance Sheet

Fiduciary Funds

June 30, 1997

		Pension Trust Funds	Nonexpendable Trust Funds					Expendable Trust Funds										
Assets		Retirement Trust Fund	School Fund	Neville Manor Fund	Library Fund	Cemetery Funds	Other Fund	School Fund	Neville Fund	Library Fund	Cemetery Fund	Health Claims Trust Fund	City Stabilization Trust Fund	School Stabilization Trust Fund	Housing Funds	Other Funds	Agency Fund	Total
Cash and short-term investments	$	22,366,095	36,379	25,733	44,511	337,904	60,627	148,249	49,746	89,238	208,440	3,766,695	5,579,797	1,514,771	3,314,761	599,084	1,707,592	39,849,622
Other investments		244,858,159	-	-	10,000	999,634	-	-	-	-	-	7,500,384	-	-	-	-	25,927,878	279,296,055
Accounts receivable		6,611,832	-	-	350	-	-	-	-	-	-	-	-	-	-	-	-	6,612,182
Due from other governments		1,845,693	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,845,693
Other assets		-	-	-	-	-	-	-	-	-	-	-	-	-	1,014,307	-	-	1,014,307
Total assets	$	275,681,779	36,379	25,733	54,861	1,337,538	60,627	148,249	49,746	89,238	208,440	11,267,079	5,579,797	1,514,771	4,329,068	599,084	27,635,470	328,617,859
Liabilities and Fund Equity																		
Accrued liabilities - other	$	520,770	-	-	-	-	-	41	-	-	-	-	-	-	-	-	-	520,811
Guarantee deposits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,707,592	1,707,592
Deferred compensation		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	25,927,878	25,927,878
Total liabilities		520,770	-	-	-	-	-	41	-	-	-	-	-	-	-	-	27,635,470	28,156,281
Fund balance:																		
Reserved for specific purposes		275,161,009	36,379	25,733	54,861	1,337,538	60,627	148,208	49,746	89,238	208,440	11,267,079	5,579,797	1,514,771	4,329,068	599,084	-	300,461,578
Total fund balance		275,161,009	36,379	25,733	54,861	1,337,538	60,627	148,208	49,746	89,238	208,440	11,267,079	5,579,797	1,514,771	4,329,068	599,084	-	300,461,578
Total liabilities and fund equity	$	275,681,779	36,379	25,733	54,861	1,337,538	60,627	148,249	49,746	89,238	208,440	11,267,079	5,579,797	1,514,771	4,329,068	599,084	27,635,470	328,617,859

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CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Revenues, Expenses and Changes in Fund Equity

Nonexpendable Trust Funds

Year ended June 30, 1997

	Nonexpendable Trust Funds					
	School Funds	Neville Manor Funds	Library Funds	Cemetery Funds	Other Funds	Total
Revenues:						
Donations	$ 750	-	-	22,950	-	23,700
Investment income	1,863	1,336	2,981	85,031	6,176	97,387
Total operating income	2,613	1,336	2,981	107,981	6,176	121,087
Operating transfers to other funds	(1,858)	(1,336)	(2,793)	(85,031)	(6,095)	(97,113)
Operating transfers from other funds	120	-	-	-	-	120
Net income	875	-	188	22,950	81	24,094
Fund equity:						
Beginning of year	35,504	25,733	54,673	1,314,588	60,546	1,491,044
End of year	36,379	25,733	54,861	1,337,538	60,627	1,515,138

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Cash Flows

Nonexpendable Trust Funds

Year ended June 30, 1997

	School Funds	Neville Manor Funds	Library Funds	Cemetery Funds	Other Funds	Total
Cash flows from operating activities:						
Operating income	$ 2,613	1,336	2,981	107,981	6,176	121,087
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:						
Reclassification of investment income	(1,863)	(1,336)	(2,981)	(85,031)	(6,176)	(97,387)
Increase in accounts receivable	-	-	(176)	-	-	(176)
Net cash (used for) provided by operating activities	750	-	(176)	22,950	-	23,524
Cash flows from noncapital financing activities:						
Operating transfers - in	120	-	-	-	-	120
Operating transfers - out	(1,858)	(1,336)	(2,793)	(85,031)	(6,095)	(97,113)
Net cash used for noncapital financing activities	(1,738)	(1,336)	(2,793)	(85,031)	(6,095)	(96,993)
Cash flows from investing activities:						
Investment income	1,863	1,336	2,981	85,031	6,176	97,387
Net cash provided by investing activities	1,863	1,336	2,981	85,031	6,176	97,387
Net increase in cash and cash equivalents	875	-	12	22,950	81	23,918
Cash and cash equivalents at beginning of year	35,504	25,733	44,499	314,954	60,546	481,236
Cash and cash equivalents at end of year	$ 36,379	25,733	44,511	337,904	60,627	505,154

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Revenues, Expenditures, and Changes in Fund Equity

Expendable Trust Funds

Year ended June 30, 1997

	Expendable Trust Funds									
	School Fund	Neville Manor Fund	Library Fund	Cemetery Fund	Health Claims Trust Fund	City Stabilization Trust Fund	School Stabilization Trust Fund	Housing Fund	Other Funds	Total
Revenues:										
Investment income	$ 7,089	2,446	5,289	13,396	665,231	206,938	-	135,205	29,722	1,065,316
Donations	25,331	-	21,799	-	-	-	-	4,400	2,000	53,530
Employee deduction	-	-	-	-	1,708,640	-	-	-	-	1,708,640
Other	-	-	-	-	-	-	-	-	63,568	63,568
Total revenues	32,420	2,446	27,088	13,396	2,373,871	206,938	-	139,605	95,290	2,891,054
Expenditures:										
Other	19,636	2,310	44,384	-	6,956	-	-	1,401,217	89,463	1,563,966
Operating health claims subsidy	-	-	-	-	-	-	-	-	-	-
Total expenditures	19,636	2,310	44,384	-	6,956	-	-	1,401,217	89,463	1,563,966
Excess (deficiency) of revenues over expenditures	12,784	136	(17,296)	13,396	2,366,915	206,938	-	(1,261,612)	5,827	1,327,088
Transfers:										
Operating transfers from other funds	1,858	1,336	2,793	85,031	1,066,272	-	574,915	2,250,000	6,095	3,988,300
Operating transfers to other funds	(120)	-	-	(145,000)	(2,800,000)	-	(1,384,295)	-	-	(4,329,415)
Excess (deficiency) of revenue over expenditures and transfers	14,522	1,472	(14,503)	(46,573)	633,187	206,938	(809,380)	988,388	11,922	985,973
Fund equity at beginning of year	133,686	48,274	103,741	255,013	10,633,892	5,372,859	2,324,151	3,340,680	587,162	22,799,458
Fund equity at end of year	$ 148,208	49,746	89,238	208,440	11,267,079	5,579,797	1,514,771	4,329,068	599,084	23,785,431

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CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities Agency Funds

Year ended June 30, 1997

Assets		Balance June 30, 1996	Additions	Deductions	Balance June 30, 1997
Contract Bids	$	41,394	7,850	450	48,794
Plans		2,065	-	-	2,065
Tree Removals		485	-	-	485
Driveways		75,648	219,680	-	295,328
Street Openings		74,629	62,714	3,650	133,693
Sidewalk Openings		150	-	-	150
In Lieu of Bond		70,945	-	-	70,945
License Commission		10,750	-	601	10,149
Cambridge Police Detail		(222,607)	2,629,213	2,749,074	(342,467)
Cambridge Fire Detail		(33)	61,354	62,039	(719)
Dog Licenses		14,212	-	-	14,212
Sporting Licenses		48	15,278	11,117	4,209
Dog Officer		570	-	-	570
Constable Fees		1,710	110,944	102,656	9,998
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		5,887	10,040	5,240	10,687
Accident & life Insurance		56,503	155,220	152,837	58,886
Medicare		3,224	61	498	2,787
Car Seat Program		1,539	-	-	1,539
Deferred Compensation		1,410	-	-	1,410
Commonwealth Health		-	-	-	-
Legal Fees		9,175	11,000	-	20,175
Retirement Office Payroll		1,506	4,473,100	4,477,029	(2,423)
New England Life		354,459	63,979	-	418,438
Continental Casualty		(3,812)	7,291	6,914	(3,435)
Teacher Insurance Reimbursement		4,940	-	-	4,940
Teachers Retirement		336,926	77,411	-	414,337
Excise Registry Fees		13,857	-	-	13,857
3 Bidglow Contingency Fund		39,221	4,817	175	43,863
Retroactive Wages		6	-	-	6
Land Court Fees		29,158	7,398	-	36,556
Choke Program		1,182	-	-	1,182
Unclaimed Checks		319,442	-	-	319,442
Stop Payments		23,138	-	-	23,138
Sewer Abatement Appraisal Fee		5,395	-	-	5,395
Twelve Mt. Auburn		7,684	-	-	7,684
Blue Cross		6,112	-	-	6,112
Hackney Applications		5,386	-	-	5,386
Purchase of Bike Racks		1,782	2,700	-	4,482
Recycling Bins		358	170	-	528
ERI Funds		-	-	-	-
Levangie/J.P. Construction Co.		47,802	599	48,220	181
620 Memorial Dr. YMA		81,832	4,041	85,873	-
Forty-Three Mt. Auburn Rents		2,899	-	-	2,899
C&J Realty Trust		-	2,093	2,093	-
Deferred Compensation		25,161,990	4,440,770	3,674,882	25,927,878
Total	$	26,651,095	12,367,723	11,383,348	27,635,470

(Continued)

CITY OF CAMBRIDGE, MASSACHUSETTS

Combining Statement of Changes in Assets and Liabilities Agency Funds

Year ended June 30, 1997

Assets		Balance June 30, 1996	Additions	Deductions	Balance June 30, 1997
Contract Bids	$	41,394	7,850	450	48,794
Plans		2,065	-	-	2,065
Tree Removals		485	-	-	485
Driveways		75,648	219,680	-	295,328
Street Openings		74,629	62,714	3,650	133,693
Sidewalk Openings		150	-	-	150
In Lieu of Bond		70,945	-	-	70,945
License Commission		10,750	-	601	10,149
Cambridge Police Detail		(222,607)	2,629,213	2,749,074	(342,467)
Cambridge Fire Detail		(33)	61,354	62,039	(719)
Dog Licenses		14,212	-	-	14,212
Sporting Licenses		48	15,278	11,117	4,209
Dog Officer		570	-	-	570
Constable Fees		1,710	110,944	102,656	9,998
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		5,887	10,040	5,240	10,687
Accident & life Insurance		56,503	155,220	152,837	58,886
Medicare		3,224	61	498	2,787
Car Seat Program		1,539	-	-	1,539
Deferred Compensation		1,410	-	-	1,410
Commonwealth Health		-	-	-	-
Legal Fees		9,175	11,000	-	20,175
Retirement Office Payroll		1,506	4,473,100	4,477,029	(2,423)
New England Life		354,459	63,979	-	418,438
Continental Casualty		(3,812)	7,291	6,914	(3,435)
Teacher Insurance Reimbursement		4,940	-	-	4,940
Teachers Retirement		336,926	77,411	-	414,337
Excise Registry Fees		13,857	-	-	13,857
3 Bidglow Contingency Fund		39,221	4,817	175	43,863
Retroactive Wages		6	-	-	6
Land Court Fees		29,158	7,398	-	36,556
Choke Program		1,182	-	-	1,182
Unclaimed Checks		319,442	-	-	319,442
Stop Payments		23,138	-	-	23,138
Sewer Abatement Appraisal Fee		5,395	-	-	5,395
Twelve Mt. Auburn		7,684	-	-	7,684
Blue Cross		6,112	-	-	6,112
Hackney Applications		5,386	-	-	5,386
Purchase of Bike Racks		1,782	2,700	-	4,482
Recycling Bins		358	170	-	528
ERI Funds		-	-	-	-
Levangie/J.P. Construction Co.		47,802	599	48,220	181
620 Memorial Dr. YMA		81,832	4,041	85,873	-
Forty-Three Mt. Auburn Rents		2,899	-	-	2,899
C&J Realty Trust		-	2,093	2,093	-
Deferred Compensation		25,161,990	4,440,770	3,674,882	25,927,878
Total	$	26,651,095	12,367,723	11,383,348	27,635,470

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Other Schedules

The following schedules present detailed information on the City's real estate, personal property, and motor vehicle excise taxes, bonds payable, and general fixed assets as of June 30, 1997.

CITY OF CAMBRIDGE, MASSACHUSETTS

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

June 30, 1997

	Uncollected June 30, 1996	Commitments	Abatements	Transfers to Tax Title	Refunds	Collections	Adjustments Increase (decrease)	Uncollected June 30, 1997
Real estate taxes:								
1979 and prior	$ 164,417	-	-	-	-	1,112	(699)	162,606
1980	34,233	-	754	-	10,610	2,867	(6,926)	34,296
1981	41,346	-	922	-	4,263	(75)	(6,626)	38,136
1982	38,561	-	-	-	-	(4,465)	(5,019)	38,007
1983	55,793	-	769	-	-	(3,967)	(6,134)	52,857
1984	37,528	-	2,030	-	1,573	(450)	(6,154)	31,367
1985	35,703	-	1,021	-	41	(1,263)	(283)	35,703
1986	9,019	-	1,156	-	-	(1,156)	-	9,019
1987	3,909	-	9,996	-	-	(3,454)	6,542	3,909
1988	857	-	18,645	-	12,695	(5,949)	(1)	855
1989	4,375	-	50,294	-	19,778	(32,023)	(1,507)	4,375
1990	9,114	-	139,810	-	82,930	(42,458)	5,460	152
1991	129,536	-	160,414	-	94,159	(42,697)	12,097	118,075
1992	6,256	-	408,423	-	335,759	(60,914)	25,999	20,505
1993	3,979	-	1,395,089	-	1,390,192	(5,050)	5	4,137
1994	1,872	-	1,738,977	-	1,739,299	(12,950)	(14,765)	379
1995	3,307	-	1,608,399	-	1,611,529	1,750	(1,329)	3,358
1996	2,635,499	-	1,727,486	1,782,714	1,968,833	850,063	(236,199)	7,870
1997	-	139,691,843	1,620,866	-	177,793	135,957,760	174,951	2,465,961
Total RE	3,215,304	139,691,843	8,885,051	1,782,714	7,449,454	136,596,681	(60,588)	3,031,567
Personal property taxes:								
1988	164,542	-	-	-	10,023	4,033	-	170,532
1989	142,708	-	-	-	1,790	3,825	-	140,673
1990	154,755	-	-	-	30	3,514	1	151,272
1991	137,231	-	-	-	-	3,706	(1)	133,524
1992	159,129	-	-	-	-	4,473	(239)	154,417
1993	185,041	-	15	-	764	2,663	-	183,127
1994	62,449	-	-	-	1,444	(379)	9	64,281
1995	102,288	-	975	-	2,596	91	-	103,818
1996	123,950	-	26,750	-	36,567	54,018	-	79,749
1997	-	8,451,457	78,623	-	-	8,206,014	(109)	166,711
Total PP	1,232,093	8,451,457	106,363	-	53,214	8,281,958	(339)	1,348,104
Property taxes	4,447,397	148,143,300	8,991,414	1,782,714	7,502,668	144,878,639	(60,927)	4,379,671
Motor vehicle excise taxes:								
1986	112,477	-	108,318	-	116	1,159	-	3,116
1987	164,026	-	13	-	-	2,961	40	161,092
1988	182,468	-	63	-	-	4,506	(20)	177,879
1989	217,943	-	75	-	-	6,415	(90)	211,363
1990	173,363	423	230	-	161	8,064	(1)	165,652
1991	179,204	-	683	-	-	6,541	(63)	171,917
1992	136,160	-	279	-	3	6,272	(82)	129,530
1993	132,488	81	1,154	-	80	10,951	28	120,572
1994	159,523	810	2,234	-	1,463	25,806	(56)	133,700
1995	251,333	13,328	10,854	-	9,235	97,855	(4,910)	160,277
1996	844,732	596,323	97,959	-	69,366	1,175,326	-	237,136
1997	-	3,885,714	89,639	-	22,504	3,249,469	1	569,111
Total MVE	$ 2,553,717	4,496,679	311,501	-	102,928	4,595,325	(5,153)	2,241,345

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds Payable

June 30, 1997

	Interest Rates	Issue Dates	Final Maturity Date	Balance June 30, 1996	Additions	Retired	Balance June 30, 1997
Inside Debt Limit:							
Surface drainage loan	5.4%	10/15/76	10/15/97	$ 75,000	-	75,000	-
Building acquisition	5.6-5.7%	6/15/87	6/15/98	200,000	-	200,000	-
Hospital loan (boiler renovation)	5.6-5.7%	6/15/87	6/15/98	150,000	-	150,000	-
Public Building renovation	5.6-5.7%	6/15/87	6/15/98	60,000	-	60,000	-
Streets and sidewalks	5.6-5.7%	6/15/87	6/15/98	300,000	-	300,000	-
Building renovations	5.9-6.4%	6/15/88	6/15/98	600,000	-	300,000	300,000
Streets and sidewalks	5.9-6.4%	6/15/88	6/15/98	200,000	-	100,000	100,000
Building renovations	6.4-6.5%	6/15/89	6/15/99	555,000	-	185,000	370,000
Hospital loan (boiler renovation)	6.4-6.5%	6/15/89	6/15/99	1,500,000	-	500,000	1,000,000
Open space improvements	6.4-6.5%	6/15/89	6/15/99	495,000	-	165,000	330,000
Streets and sidewalks	6.4-6.5%	6/15/89	6/15/99	750,000	-	250,000	500,000
Building renovations	6.4-6.6%	6/15/90	6/15/00	420,000	-	105,000	315,000
Hospital	6.4-6.6%	6/15/90	6/15/00	2,540,000	-	635,000	1,905,000
Hospital loan (boiler renovation)	6.4-6.6%	6/15/90	6/15/00	800,000	-	200,000	600,000
Open space improvements	6.4-6.6%	6/15/90	6/15/00	1,040,000	-	260,000	780,000
Building renovation	5.8-6.0%	6/15/91	6/15/01	185,000	-	40,000	145,000
Fire station renovations	5.8-6.0%	6/15/91	6/15/01	500,000	-	100,000	400,000
Open space renovations	5.8-6.0%	6/15/91	6/15/01	850,000	-	170,000	680,000
Building acquisition - senior center	4.3-5.3%	6/15/92	6/15/02	330,000	-	330,000	-
Building acquisition - teen center	4.3-5.3%	6/15/92	6/15/02	1,150,000	-	195,000	955,000
Elementary school renovation	4.3-5.3%	6/15/92	6/15/02	240,000	-	240,000	-
Fire station renovations	4.3-5.3%	6/15/92	6/15/02	300,000	-	50,000	250,000
Nursing home renovations	4.3-5.3%	6/15/92	6/15/02	900,000	-	150,000	750,000
Open space improvements	4.3-5.3%	6/15/92	6/15/02	1,080,000	-	180,000	900,000
Public art acquisition	4.3-5.3%	6/15/92	6/15/02	20,000	-	20,000	-
Sewer separation project loan	2.35-5.5%	5/21/93	8/1/08	5,150,744	-	592,832	4,557,912
Sewer loan	3.75-4.3%	2/1/94	2/1/04	400,000	-	50,000	350,000
Open space improvements	3.75-4.3%	2/1/94	2/1/04	1,400,000	-	175,000	1,225,000
Sewer bond		2/17/94	2/15/99	586,305	-	195,435	390,870
Open space improvement	5.5%-5.9%	11/1/94	11/1/99	3,960,000	-	440,000	3,520,000
Sewer loan	5.5%-5.9%	11/1/94	11/1/99	450,000	-	50,000	400,000
Sewer separation project loan	4.0%-5.25%	5/1/96	2/1/05	6,100,116	-	592,561	5,507,555
Emergency communications	4.75-5.75%	6/15/96	6/15/06	-	3,300,000	330,000	2,970,000
Elementary school construction	4.75-5.75%	6/15/96	6/15/06	-	2,340,000	225,000	2,115,000
Sewer construction	4.75-5.75%	6/15/96	6/15/06	-	500,000	25,000	475,000
City Hall/senior center renovations	4.75-5.75%	6/15/96	6/15/06	-	450,000	45,000	405,000
Fiber Optic Network Infrastructure	4.75-5.75%	6/15/96	6/15/06	-	1,000,000	200,000	800,000
Acquisition of personal computers	4.75-5.75%	6/15/96	6/15/06	-	600,000	60,000	540,000
Frisoli Youth Center	4.0-5.0%	6/15/97	6/15/07	-	3,600,000	-	3,600,000
Area 4 Youth Center renovations	4.0-5.0%	6/15/97	6/15/07	-	200,000	-	200,000
Building renovations	4.0-5.0%	6/15/97	6/15/07	-	500,000	-	500,000
Fiber Optic Network	4.0-5.0%	6/15/97	6/15/07	-	1,000,000	-	1,000,000
Central Square enhancements	4.0-5.0%	6/15/97	6/15/07	-	3,585,000	-	3,585,000
Sewer construction	4.0-5.0%	6/15/97	6/15/07	-	500,000	-	500,000
Personal computer acquisition	4.0-5.0%	6/15/97	6/15/02	-	520,000	-	520,000
Sewer loan		4/29/97	2/1/07	-	4,618,658	-	4,618,658
Total Inside Debt Limit				33,287,165	22,713,658	7,940,828	48,059,995

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Bonds Payable (continued)

June 30, 1997

	Interest Rates	Issue Dates	Final Maturity Date	Balance June 30, 1996	Additions	Retired	Balance June 30, 1997
Outside Debt Limit:							
School:							
High School Loan	5.7%	6/15/78	6/15/98	2,310,000	-	1,155,000	1,155,000
School Building Renovation	5.6-5.7%	6/15/87	6/15/98	180,000	-	180,000	-
Elementary school construction	3.75-4.3%	2/1/94	2/1/04	7,573,000	-	765,000	6,808,000
Elementary school construction	5.5%-5.9%	11/1/94	11/1/99	11,003,000	-	1,097,000	9,906,000
				21,066,000	-	3,197,000	17,869,000
Sewer Projects:							
Sewer Loan	5.4%	10/15/76	10/15/97	215,000	-	215,000	-
				215,000	-	215,000	-
Water Projects:							
Reservoir Cover	6.4-6.5%	6/15/89	6/15/99	300,000	-	100,000	200,000
Reservoir Cover	6.4-6.5%	6/15/90	6/15/00	3,200,000	-	800,000	2,400,000
Reservoir Cover	5.8-6.0%	6/15/91	6/15/01	2,115,000	-	420,000	1,695,000
Reservoir Cover	4.3-5.3%	6/15/92	6/15/02	200,000	-	200,000	-
Reservoir Cover	3.75-3.8%	2/1/94	2/1/99	867,000	-	290,000	577,000
Treatment plant renovations	3.75-4.3%	2/1/94	2/1/04	440,000	-	55,000	385,000
Treatment plant renovations	5.5-5.9%	11/1/94	11/1/99	1,687,000	-	313,000	1,374,000
Water main replacements	5.5-5.9%	11/1/94	11/1/99	900,000	-	100,000	800,000
Treatment plant renovations	4.75-5.75%	6/15/96	6/15/06	-	3,600,000	720,000	2,880,000
Water main replacements	4.75-5.75%	6/15/96	6/16/06	-	2,000,000	100,000	1,900,000
				9,709,000	5,600,000	3,098,000	12,211,000
Section 108 Notes Payable				2,500,000	-	1,505,000	995,000
Total Outside Debt Limit				33,490,000	5,600,000	8,015,000	31,075,000
				$ 66,777,165	28,313,658	15,955,828	79,134,995

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of General Fixed Assets - by Function and Activity

Year ended June 30, 1997

Function and Activity	Total	Land	Buildings	Improvements Other Than Buildings	Equipment
General Government:					
Control:					
Legislative	$ 90,705	-	-	-	90,705
Executive	131,569	-	-	-	131,569
Total Control	222,274	-	-	-	222,274
Staff Agencies:					
Elections	309,063	-	-	-	309,063
Finance	1,974,456	-	-	-	1,974,456
Law	81,445	-	-	-	81,445
Employee Benefits	2,091	-	-	-	2,091
Animal Commission	1,964	-	-	-	1,964
Public Celebrations	119,294	-	-	-	119,294
Total Staff Agencies	2,488,313	-	-	-	2,488,313
Total General Government	2,710,587	-	-	-	2,710,587
Public Safety:					
Building inspection	45,234	-	-	-	45,234
License	20,227	-	-	-	20,227
Weights and measures	10,219	-	-	-	10,219
Emergency management	30,153	-	-	-	30,153
Fire Protection	8,991,404	3,274,675	2,144,424	-	3,572,305
Police Protection	5,507,017	999,803	522,609	-	3,984,605
Traffic and Parking	22,140,637	1,952,080	18,094,315	-	2,094,242
Electrical	453,460	50,000	21,542	-	381,918
Emergency Commission	2,526,391	-	1,211,712	-	1,314,679
Total Public Safety	39,724,742	6,276,558	21,994,602	-	11,453,582
Community Maintenance and Development:					
Public Works	54,880,887	23,400,662	19,499,593	6,172,964	5,807,668
Community Development	4,103,724	-	57,711	3,713,011	333,002
Historical Commission	186,867	-	-	104,725	82,142
Conservation Commission	164	-	-	-	164
Rent Control	76,909	-	-	-	76,909
Cable Television	214,762	-	-	-	214,762
Total Community Maintenance and Development	59,463,313	23,400,662	19,557,304	9,990,700	6,514,647
Human Resource Development:					
Library	1,727,878	125,000	1,256,006	-	346,872
Human Services	90,141,173	87,242,253	891,635	1,277,517	729,768
Human Rights Commission	12,414	-	-	-	12,414
Women's Commission	5,709	-	-	-	5,709
Health Department/School Health	8,253	-	-	-	8,253
Veteran Benefits	19,181	-	-	-	19,181
Total Human Resource Development	91,914,608	87,367,253	2,147,641	1,277,517	1,122,197
Public School	130,798,212	55,067,765	68,373,775	848,786	6,507,886
Construction in Progress	6,680,170	-	6,680,170	-	-
Totals	$ 331,291,632	172,112,238	118,753,492	12,117,003	28,308,899

CITY OF CAMBRIDGE, MASSACHUSETTS

Schedule of Changes in General Fixed Assets - by Function and Activity

Year Ended June 30, 1997

Function and Activity	General Fixed Assets June 30, 1996	Additions	Disposals	General Fixed Assets June 30, 1997
General Government:				
Control:				
Legislative	$ 54,191	38,295	(1,781)	90,705
Executive	131,569	-	-	131,569
Total Control	185,760	38,295	(1,781)	222,274
Staff Agencies:				
Elections	41,988	267,075	-	309,063
Finance	1,649,253	804,696	(479,493)	1,974,456
Law	79,533	5,358	(3,446)	81,445
Employee Benefits	2,091	-	-	2,091
Animal Commission	1,964	-	-	1,964
Public Celebrations	110,549	8,745	-	119,294
Total Staff Agencies	1,885,378	1,085,874	(482,939)	2,488,313
Total General Government	2,071,138	1,124,169	(484,720)	2,710,587
Public Safety:				
Building Inspection	17,790	28,514	(1,070)	45,234
License	20,227	-	-	20,227
Weights and measures	10,219	-	-	10,219
Emergency management	40,694	-	(10,541)	30,153
Fire protection	8,945,665	58,204	(12,465)	8,991,404
Police protection	5,081,970	867,493	(442,446)	5,507,017
Traffic and parking	21,921,627	386,703	(167,693)	22,140,637
Electrical	453,460	-	-	453,460
Emergency Commission	2,459,551	805,292	(738,452)	2,526,391
Total Public Safety	38,951,203	2,146,206	(1,372,667)	39,724,742
Community Maintenance and Development:				
PublicWorks	50,843,042	4,037,845	-	54,880,887
Community Development	3,585,967	517,757	-	4,103,724
Historical Commission	161,146	32,405	(6,684)	186,867
Conservation Commission	2,575	-	(2,411)	164
Rent Control	76,909	-	-	76,909
Cable television	222,066	24,059	(31,363)	214,762
Total Community Maintenance	54,891,705	4,612,066	(40,458)	59,463,313
Human Resource Development:				
Library	1,680,528	47,350	-	1,727,878
Human Services	90,141,173	-	-	90,141,173
Human Rights Commission	12,414	-	-	12,414
Women's Commmission	5,709	-	-	5,709
Health Department/School Health	8,253	-	-	8,253
Veteran's Benefits	19,181	-	-	19,181
Total Human Resource Development	91,867,258	47,350	-	91,914,608
Public Schools	129,586,109	1,216,351	(4,248)	130,798,212
Construction in Progress	6,962,672	3,699,474	(3,981,976)	6,680,170
Totals	$ 324,330,085	12,845,616	(5,884,069)	331,291,632

PROPOSED FORM OF LEGAL OPINION

PALMER & DODGE LLP
ONE BEACON STREET, BOSTON, MA 02108-3190

Telephone: (617) 573-0100 Facsimile: (617) 227-4420

(Date of Delivery)

James P. Maloney, Jr.
City Treasurer
City of Cambridge
Cambridge, Massachusetts

(Cambridge Municipal Purpose Loan of 1998 Bonds)

We have examined the law, a certified copy of proceedings and other papers relating to the issue of $42,000,000 Municipal Purpose Loan of 1998 Bonds dated February 1, 1998, by the City of Cambridge, Massachusetts.

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

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

(2) The interest on the bonds is exempt from Massachusetts personal income taxes, and the bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the bonds.

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

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

Yours faithfully,

APPENDIX C

PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Cambridge, Massachusetts (the "Issuer") in connection with the issuance of its $42,000,000 Municipal Purpose Loan of 1998 Bonds dated February 1 (the "Bonds"). The Issuer covenants and agrees as follows:

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

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

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

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

"National Repository" shall mean any nationally recognized municipal securities information repository for purposes of the Rule. The current National Repositories are listed on Exhibit A attached hereto.

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

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

"Repository" shall mean each National Repository and each State Depository.

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

"State Depository" shall mean any public or private depository or entity designated by The Commonwealth of Massachusetts as a state information depository for the purpose of the Rule. (As of the date of this Disclosure Certificate there is no State Depository).

SECTION C. *Provision of Annual Reports.*

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

(b) If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the Municipal Securities Rulemaking Board and the State Depository, if any, in substantially the form attached as Exhibit B.

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

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated January ___, 1998 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, and (vi) pension obligations of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles.

If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and the audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. *Reporting of Material Events.*

(a) The Issuer shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

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

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

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

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

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

CITY OF CAMBRIDGE
MASSACHUSETTS

$42,000,000
GENERAL OBLIGATION BONDS
MUNICIPAL PURPOSE LOAN OF 1998

Time and Place of Sale

The City of Cambridge, Massachusetts, will receive written proposals until 11:00 a.m. (local time) on Tuesday, January 20, 1998 at Cambridge City Hall, First Floor, Office of the Treasurer, Cambridge, Massachusetts 02139 for the purchase of the following described general obligation Bonds of the City dated February 1, 1998:

$42,000,000 MUNICIPAL PURPOSE LOAN OF 1998, payable February 1, $2,700,000 in 1999 through 2008 and $1,500,000 in 2009 through 2018.

The City reserves the right to extend the date and/or time for the receipt of bids by giving notice by Munifacts News Wire Service and by posting notice of such extension at the place for receipt of bids, such notice to be given and posted not later than 20 hours prior to the receipt of bids. Such notice shall be considered an amendment to the Official Notice of Sale. Any bid submitted prior to the notice of extending the date and/or time for the receipt of bids may be withdrawn and resubmitted without prejudice.

Form and Payment of Bonds

Principal of the Bonds will be payable on February 1 of the years in which the Bonds mature. Interest will be payable semiannually on February 1 and August 1, commencing August 1, 1998. 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" herein.)

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 herein.

Legal Opinion

The approving opinion of Messrs. Palmer & Dodge 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.

Redemption

Bonds maturing in the years 1999 through 2008, inclusive, shall not be subject to redemption prior to maturity.

Bonds maturing on or after February 1, 2009, shall be subject to redemption prior to maturity, at the option of the City, on or after February 1, 2008 either in whole at any time or in part by lot within a maturity on any interest payment date, at the following redemption prices, expressed as a percentage of the principal amount plus accrued interest to the date set for redemption.

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

SECTION 9. *Beneficiaries.* This Disclosure Certificate shall insure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: ______________, 1998 CITY OF CAMBRIDGE

By ________________________________

Treasurer

____

City Manager

[EXHIBIT A: List of National Repositories]

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

Period During Which Redeemed (both dates inclusive)	Redemption Prices
February 1, 2008 to January 31, 2009	101.0%
February 1, 2009 to January 31, 2010	100.5
February 1, 2010 and thereafter	100.0

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

Bidding Rules

Each bid must be unconditional and must be for all of the Bonds herein described. All bids should be marked "Proposal for Bonds" and addressed to Mr. James P. Maloney, Jr., Treasurer, City of Cambridge, 795 Massachusetts Avenue, First Floor, Cambridge, Massachusetts 02139. **A good faith deposit is not required.**

Bidders may submit their bids at the time and place specified herein in person or by facsimile transmission. Bidders choosing to submit bids by facsimile transmission shall use the following telecopier numbers for such transmission: (617) 349-4307 or (617) 349-4213 (Attention: James Maloney). Facsimile transmission must be received by 11:00 a.m., Local Time, on the Date of Sale in order to be considered. Transmissions received after this time shall be rejected. It is the responsibility of the bidder to ensure that the bid is legible, that the bid is received prior to 11:00 a.m., Local Time, and that the bid is sent to one of the telecopier numbers set forth above. Illegible transmissions will not be accepted. The City's Financial Advisor 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 nor 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. Neither the City nor its Financial Advisor will be responsible for inaccurate, illegible, or delayed proposals submitted by facsimile transmission. Bidders electing to submit bids via facsimile transmission will bear full and complete responsibility for the transmission of such bid.

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in multiples of ⅛ or 1/20 of 1 percent, but shall not state (a) more than one interest rate for any Bonds having like maturity, (b) any interest rate which is less than the interest rate stated for any other Bonds having an earlier maturity, or (c) any interest rate which exceeds the interest rate stated for any other Bonds by more than 4 percent. No bid of less than par or more than 103 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 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 Notice of Sale and submitting a bid, which provides the lowest "true" or "Canadian" interest cost. True (Canadian) interest cost shall be determined by doubling the semiannual interest rate, compounded semiannually, necessary to discount the debt service payment to February 1, 1998, and to the price bid, excluding interest accrued to the delivery date. If more than one bid offers the same lowest true (Canadian) interest cost, the successful bid will be selected by lot. The award is subject to approval by the City Manager.

Interest Calculation

Each bid shall be accompanied by a statement of the true (Canadian) 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 shall be furnished, without cost, with: (a) the approving opinion of the firm of Palmer & Dodge LLP, substantially in the form presented in Appendix B to the Preliminary Official Statement dated January 12, 1998; (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, in definitive form, will be delivered to The Depository Trust Company in New York, New York on or about February 1, 1998.

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 material 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, with up to 300 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 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 January 12, 1998 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. Copies of the Preliminary Official Statement and a suggested bid form for the Bonds may be obtained from James P. Maloney, Jr., City Treasurer, City Hall, First Floor, Cambridge, Massachusetts 02139 (Telephone 617-349-4220) or from Michael Mrozinski, Government Finance Group, Inc., 4350 North Fairfax Drive, Suite 410, Arlington, Virginia 22203. (Telephone: 703-528-5785) 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/ James P. Maloney, Jr.
City Treasurer

Moody's Investors Service
Municipal Credit Research

New Issue Report
Published 01/13/98

Cambridge (City of) MA

Contacts

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Moody's Rating

Issue		Rating
General Obligation Bonds of 1998		Aaa
Sale Amount	$42,000,000.00	
Expected Sale Date	01/20/98	
Rating Description	General obligation bonds	

Opinion

Moody's has assigned a rating of Aaa to Cambridge's general obligation bonds of 1998 issued in the amount of $42,000,000. In assigning the Aaa rating, Moody's notes the city's substantial and growing economic base, strong financial management, conservative debt structure, and prudent long-term capital planning.

Cambridge is a stable and relatively large city (population 95,802) located across the Charles River from Boston. The city is best known as the home of Harvard University and Massachusetts Institute of Technology. Together they enroll 28,400 students and employ over 15,000 people, thus providing a major stabilizing influence on the economy. The city's economic base is enhanced further by a considerable number of companies specializing in such diverse fields as biotechnology, computer software, pharmaceuticals, engineering, management consulting, and research and development. The city's industrial and commercial sector continues to grow and this has allowed the substantial $7.5 billion tax base to expand at a steady rate of 3.6% annually over the past three years. Office space availability is reportedly below 5% at this time, an indicator of the strength of the city's economy. The city's wealth levels (per capita income is 115% of the state's) are distorted downward by the large number of students. The 1996 annual unemployment was quite low at 2.5%.

As a result of conservative budgeting and improved property tax collections, the city has produced four consecutive years of sizable operating surpluses. This has allowed the city to rebuild reserves following a string of operating deficits in the recessionary period of fiscal 1991 through 1993, when tax collections slowed and state aid was reduced. At the close of fiscal year 1997, the General Fund balance rose to 20% of revenues. Several Stabilization Funds contain another $7.1 million. Officials expect this positive trend to continue. Property taxes constitute the bulk of operating revenue (62% in FY 1997) and recent collections have been strong, averaging over 99%. The city's cash flow position is strong as a result of quarterly receipt of tax revenues and state aid (78% of revenues) negating the need for cash flow borrowing. In addition, the city has available $12.3 million of unused property tax levy capacity under Proposition 2 1/2 (5.4% of revenues) which affords some potential financial flexibility. Excess levy capacity is projected to remain in this range in the near future as a result of solid annual growth in assessed valuation.

The city recently competed a spin-off of its municipal hospital to a semi-autonomous authority, the Cambridge Public Health Commission, with the intention of creating a more flexible organization to negotiate with managed care payers, align with other area institutions, and to limit future city operating subsidies. In fiscal 1997, net city tax support to the Commission totalled $6.6 million compared to almost $11 million in fiscal 1996 when the hospital was part of the city's enterprise system.

The city's modest level of conservatively structured debt continues to be a key credit strength. Debt burden is a modest 1.2% and is kept low by the self-supporting nature of the MWRA sewer debt and the city's water debt. State aid for school construction costs lowers it further as does the city's agressive pay-as you-go funding plan. Annual debt service on general obligation bonds declines quickly, allowing plenty of room for further borrowing, and all GO bonds are retired rapidly (85% in ten years). Despite the rapid paydown schedule, debt service constituted under 5% of expenditures in FY 1997. The city has no short term debt outstanding. Regular updates of the 5-year capital improvement plan allow projects to be identified well in advance which are immediately funded with available cash or long-term debt proceeds, with no interim (BAN) borrowing necessary. Of the current issue, $30 million will be used to construct an ambulatory care center for the Cambridge Public Health Commission. The Commission is expected to reimburse the city for all debt service on the issue through their operating revenues. The remaining $12 million of the issue will finance extensive renovations to an elementary school.

The current five year capital plan calls for $128 million in outlays through 2002, to be supported by $70.5 million of long term borrowing, grants and available cash flow. Not included in the current capital plan is a water filtration plant estimated to cost $74 million. The city has already increased water rates to accommodate this project and plans additional rate increases of between 3% and 9% annually over the next five years. About $46 million in authorized but unissued debt remains which the city plans to issue over the next several years. The largest projects include $24 million for sewer separation and $14 million for various school improvements.

Outlook

A stable credit outlook is based on the city's strong economy, growing tax base, financial flexibility afforded by the conservative debt structure, and additional levy capacity available under Proposition 2 1/2. The recent spin-off of the hospital system to a semiautonomous authority is expected to benefit financial operations by limiting city operating subsidies, and may result in strategically advantageous alliances given the hospital's attractive service area and planned capital improvements. Regularly updated capital and financial plans are expected to allow management to maintain adequate reserve levels even during times of fiscal challenge, as was demonstrated over the course of the recent recession.

11.

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139
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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

January 26, 1998

To The Honorable, The City Council:

On January 20, 1998, the City sold $42,000,000 in General Obligation Bonds to finance constructing at the Cambridge Hospital ($30,000,000) and the renovation of the Morse Elementary School. The $42,000,000 sole was by far the largest single issuance of debt in the City's history and the $30,000,000 issued for the Hospital represents the largest issuance for any single project.

In conjunction with the sale, the City's credit rating of Aaa was reconfirmed by Moody's Investors Service as was the rating of AA+ by Standard and Poors. The City received six competitive bids for the purchase of the debt with the successful purchase of the debt being J.P. Morgan Securities, Inc. at 4.4197%. The City's top level credit rating, favorable comments from the rating agencies, strong competition for the debt and the favorable interest rate on the debt all combine to once again point out the City's strong financial position.

For your interest and review, I have attached copies of both the Bond Prospectus, the Ratings Document which were prepared by the Finance Department to assist in the sale, and the credit report issued by Moody's Investors Service.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec
attachments

Consent Agenda #11 E-6

Relative to the City selling $42,000,000
in General Obligation Bonds.

In City Council January 26, 1998
All items carried forward to be a part
of City Council Meeting of
February 2, 1998 on motion of
Councillor Sullivan.

In City Council February 2, 1998

PLACED ON FILE