

PRELIMINARY OFFICIAL STATEMENT AND NOTICE OF SALE DATED JUNE 6, 2013

Moody's Investors Service, Inc.:

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

CITY OF SOMERVILLE, MASSACHUSETTS
\$14,079,404 SERIES A GENERAL OBLIGATION BOND ANTICIPATION NOTES
\$8,887,449 SERIES B GENERAL OBLIGATION BOND ANTICIPATION NOTES

The City of Somerville, Massachusetts (the "City") will receive telephone and electronic bids at First Southwest Company (617-619-4400) in case of telephone bids and via PARITY in case of electronic bids until 12:00 Noon, Eastern Time, Thursday, June 13, 2013, for the purchase of the following described General Obligation Bond Anticipation Notes (the "Notes").

- | | |
|--------------|--|
| \$14,079,404 | <u>General Obligation Bond Anticipation Notes, Series A (new money and renewal) dated June 28, 2013 and payable October 25, 2013. Interest will be computed on a 30 day month, 360-day year basis (117/360).</u> |
| \$8,887,449 | <u>General Obligation Bond Anticipation Notes, Series B (new money) dated June 28, 2013 and payable June 27, 2014. Interest will be computed on a 30 day month, 360-day year basis (359/360).</u> |

Bids for either series may be submitted electronically via **PARITY** pursuant to this Notice of sale until 12:00 Noon, Eastern Time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Notice of Sale, the terms of this Notice shall control. For further information about **PARITY**, potential bidders may contact the First Southwest Company or **PARITY** at (212) 404-8102.

Bids may be submitted for all or part of either series of Notes at a single or various rates of interest in multiples of one-hundredth (1/100) of one percent (1%). No bid for less than par and accrued interest to the date of delivery will be considered and a premium of at least \$TBD must be included for each \$1,000 bid for each series of Notes. The Notes will be awarded on the basis of lowest net interest cost to the City.

An electronic bid made in accordance with this Notice of Sale shall be deemed an offer to purchase the Notes in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the City.

Any bidder who submits a winning bid by telephone in accordance with this Notice of Sale shall be required to provide written confirmation of the terms of the bid by faxing or e-mailing a completed, signed bid form to First Southwest Company by not later than 1:00 P.M., Eastern Time, on the date of sale.

The award of the Notes to the winning bidder will not be effective until the bid has been approved by the Treasurer and the Mayor of the City.

The Notes will be awarded on the basis of lowest net interest cost to the City. Such cost will be determined by computing the total amount of interest payable on the Notes, at the rate or rates stated, from June 28, 2013 until the maturity of the Notes and deducting therefrom the sum, if any, by which the amount bid for the Notes exceeds the aggregate principal amount of the Notes. In the event a bidder offering a premium for the Notes is awarded a lesser amount of notes than bid, the premium shall be reduced proportionately. The right is reserved to reject any and all bids not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any bid.

A successful bidder for all of the Notes may request that the Notes be issued in the form of one fully registered physical certificate, rather than in book-entry form through the facilities of The Depository Trust Company ("DTC"). The successful bidder seeking the issuance of the Notes in this manner shall bear any and all costs of any re-registration or transfer of Notes from time to time. Any bidder seeking to have the Notes issued in the form of fully registered physical certificates, rather than in book-entry form, shall indicate this preference to the City at the time of the submission of the winning bid. The City reserves the right to decline any request to issue the Notes in non-book entry form if it should determine, in its sole discretion, that issuing the Notes in this manner is not in its best interests.

On or prior to the date of delivery of the Notes, the successful bidder shall furnish to the City a certificate acceptable to Bond Counsel to the effect that (a) as of June 13, 2013 (the "Sale Date"), the purchaser had offered or reasonably expected to offer all of the Notes to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the price set forth in such certificate, plus accrued interest, if any, (b) such price represents the fair market price of the Notes as of the Sale Date, and (c) as of the date of such certificate, all of the Notes have been offered to the general public in a bona fide offering at the price set forth in such certificate, and at least 10% of the principal amount of the Notes actually has been sold to the general public at such price. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Notes, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Notes for federal tax law purposes. If the purchaser is purchasing the Notes for its own account and not on behalf of another party, and the purchaser does not presently intend to resell the Notes, the successful bidder will be required to so certify.

Principal of and interest on the Notes will be payable upon maturity in federal reserve funds at the U.S. Bank National Association, Boston, Massachusetts. The Notes will not be subject to redemption prior to maturity. The Notes will be issued by means of a book-entry system evidencing ownership, in principal amounts of \$1,000, or integral multiples thereof, with the exception of one \$1,404 denomination of the Series A Notes and one \$1,449 denomination of the Series B Notes, and transfer of the Notes on the records of DTC and its Participants pursuant to the rules and procedures adopted by DTC, unless the issuance of a fully registered note certificate is requested by the winning bidder and the issuance of such certificate is approved by the City. (See Preliminary Official Statement, "Book-Entry Transfer System").

The purchaser(s) will be furnished the opinion of Edwards Wildman Palmer LLP, Boston, Massachusetts approving the legality of the Notes (see "Tax Exemption" in the Preliminary Official Statement) and stating that they are valid and binding general obligations of the City of Somerville, Massachusetts, and unless paid from the bond proceeds in anticipation of which they are issued or from other sources, are payable as to both principal and interest from ad valorem taxes which may be levied upon all the property within the territorial limits of the City and taxable by it, subject to the limitation imposed by Chapter 59, Section 21C, of the General Laws.

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

It shall be a condition of the successful bidder's obligation to accept delivery of and pay for the Notes that, contemporaneously with or before accepting Notes and paying therefore, it shall be furnished, without costs, with (a) the approving opinion of the firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, with respect to the Notes, (b) a certificate in form satisfactory to said firm, dated as of the date of delivery such Notes and receipt of payment therefore, to the effect that there is no litigation pending, or to the knowledge of the signer or signers therefore, threatened affecting the validity of such Notes or the power of the City to levy and collect taxes to pay them, and (c) a certificate of the City Treasurer to the effect that, to the best of his knowledge and belief, both the Preliminary Official Statement as of the date of sale and the Final Official Statement as of the date of delivery of such Notes referred to below, do not contain any untrue statement of a material fact and do not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

It is anticipated that CUSIP identification numbers will be printed on the Notes. All expenses in relation to the printing of CUSIP numbers on said Notes shall be paid for by the issuer, however, the City assumes no responsibility for any CUSIP Service Bureau or other charge that may be imposed for the assignment of such number.

The Notes will be delivered to The Depository Trust Company, or to the office of its custodial agent, or to the registered owner if a fully registered certificate is requested by the winning bidder and approved by the City, on or about June 28, 2013, against payment to the City in federal reserve funds.

Additional information concerning the City of Somerville and the Notes is contained in the Preliminary Official Statement dated June 6, 2013 to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes, 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 Notes 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 may be obtained from the First Southwest Company, 54 Canal Street, Suite 320, Boston, Massachusetts 02114 (Telephone: 617-619-4400). Within seven business days following the award of the Notes and receipt of necessary information from the successful bidder, 5 copies of the Final Official Statement will be made available to the successful bidder. Upon request, additional copies will be provided at the expense of the successful bidder.

CITY OF SOMERVILLE, MASSACHUSETTS
/s/ Peter K. Forcellese, Jr., Treasurer/Collector

June 6, 2013

OFFICIAL STATEMENT
CITY OF SOMERVILLE, MASSACHUSETTS
\$14,079,404 SERIES A GENERAL OBLIGATION BOND ANTICIPATION NOTES
and
\$8,887,449 SERIES B GENERAL OBLIGATION BOND ANTICIPATION NOTES

This Official Statement is provided for the purpose of presenting certain information relating to the City of Somerville, Massachusetts (the "City") in connection with the sale of \$14,079,404 principal amount of Series A General Obligation Bond Anticipation Notes (the "Series A Notes") and \$8,887,449 principal amount of Series B General Obligation Bond Anticipation Notes (hereafter referred to as the "Series B Notes", and together with the Series A Notes, the "Notes"). The information contained herein has been furnished by the City except information attributed to another governmental agency or official as the source.

The Notes

The Series A Notes will be dated June 28, 2013 and will be payable by U.S. Bank National Association, Boston, Massachusetts, or its successor, as Paying Agent, on October 25, 2013. The Series B Notes will be dated June 28, 2013 and will be payable by U.S. Bank National Association, Boston, Massachusetts, or its successor, as Paying Agent, on June 27, 2014. The Notes will bear interest payable at maturity, calculated on the basis of 30 day months and on a 360-day year, at the rate or rates determined upon their sale in accordance with the Notice of Sale dated June 6, 2013. The Notes will be issued by means of a book-entry-only system, evidencing ownership of the Notes in principal amounts of \$1,000, or integral multiples thereof, with the exception of one denomination in the amount of \$1,404 for the Series A Notes and one denomination in the amount of \$1,449 for the Series B Notes, with transfers of ownership effected on the records of The Depository Trust Company (DTC), unless the delivery of a fully registered physical note certificate is requested by the winning bidder of a series and the issuance of such certificate is approved by the City. (See "Book-Entry-Transfer System" herein.)

Authorization of the Notes and Use of Proceeds

The following table sets forth the principal amounts, purposes, statutory references and other relevant details for the current offering of General Obligation Bond Anticipation Notes.

SERIES A- payable October 25, 2013

<u>Purpose</u>	<u>This Issue</u>	<u>Original Bond Authorization</u>	<u>Bond Anticipation Notes Outstanding</u>	<u>Statutory Reference (Chapter 44 of the Massachusetts General Laws), as amended</u>	<u>Date of Authorization</u>
Building Renovations	\$ 336,000	\$ 336,000	\$ 336,000	7(3A)	6/10/2010
Park Improvements- Veterans Memorial Ice Rink	226,550	227,500	189,193	7	6/10/2010
School Renovation	313,635	313,635	313,635	7(3A)	7/13/2010
Street Resurfacing	338,187	354,166	338,187	7(6)	7/13/2010
Public Safety Building Repairs	727,957	784,157	727,957	7(3A)	7/13/2010 & 11/1/2011
School Remodeling	8,000,000	33,185,258	2,385,257	7(3A)	12/6/2010
Morse-Kelley Park Renovations	294,000	298,220	275,451	7(25)	6/15/11
Dickerman Park Renovations	169,720	169,720	169,720	7(25)	6/15/11
Ice Skating Rink	2,435,355	2,435,355	2,435,355	7(2A)	6/28/11
High School Roof Repair and Replacement	150,000	150,000	150,000	7(3A)	7/14/11
Departmental Equipment (Radio)	57,000	80,000	57,000	7(9)	8/31/11
School Building Remodeling	100,000	100,000	100,000	7(3A)	10/19/11
Remodeling (Fire Department Headquarters)	55,000	55,000	55,000	7(3A)	10/19/11
Remodeling (DPW Roof)	50,000	50,000	50,000	7(3A)	10/19/11
Departmental Equipment	750,000	750,000	750,000	7(9)	11/1/11
Firehouse Renovation	30,000	30,000	30,000	7(3A)	12/15/11
DPW Equipment	46,000	46,000	37,207	7(9)	12/22/11
Total	<u>\$ 14,079,404</u>		<u>\$ 8,399,962</u> (1)		

(1) To be renewed with Note proceeds.

Series B- payable June 27, 2014

Purpose	This Issue	Original Bond Authorization	Statutory Reference (Chapter 44 of the Massachusetts General Laws), as amended	Date of Authorization
ISD Office Renovations	\$ 13,500	\$ 150,000	7(3A)	2/16/2012
School and City Buildings Improvement	498,000	2,000,000	7(3A)	7/19/2012
Ladder Truck	1,106,000	1,125,000	7(9)	9/17/2012
Union Square Revitalization Plan	6,000,000	8,000,000	Ch. 40Q or Ch. 121B(20)	10/18/2012
Recreation Department Vehicle	37,000	52,000	7(9)	10/18/2012
Street Repair and Reconstruction	530,949	530,949	7(5) and/or 7(6)	11/29/2012
Network Infrastructure Replacement	702,000	704,000	7(28)	12/21/12
Total	<u>\$ 8,887,449</u>			

Tax Exemption

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

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

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

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

Notes purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Notes, or, in some cases, at the earlier redemption date of such Notes ("Premium Notes"), will be treated as having amortizable note premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable note premium in the case of obligations, such as the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, a Noteholder's basis in a Premium Note will be reduced by the amount of amortizable note premium properly allocable to

such Noteholder. Holders of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable note premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the value of, or the tax status of interest on, the Notes.

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

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

Book-Entry Transfer System

This section applies only to the Notes only if they are issued in book-entry form through the facilities of The Depository Trust Company ("DTC"), New York, NY.

DTC will act as securities depository for the Notes. The Notes will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered Note certificate will be issued for each interest rate, each in the aggregate principal amount bearing such interest rate, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or its Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the City or its Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or its Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical 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.

Security and Remedies

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for "qualified bonds" as described below (see "Serial Bonds and Notes" under "TYPES OF OBLIGATIONS" below) and setoffs of state distributions as described below (see "State Distributions" 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. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year "all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments". Specific provision is also made for including in the next tax levy payments of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid, if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, 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 limitation. (See "Tax Limitations" Under "PROPERTY TAX")

below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit.

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

Court Proceedings. Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town 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" under "PROPERTY TAXATION" below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, community preservation and affordable housing purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system 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 financings are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable 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 distributions the amount of any debt service paid on "qualified bonds" (See "Serial Bonds and Notes" under "TYPES OF OBLIGATIONS" 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 any public transportation authority (such as the Massachusetts Bay Transportation Authority or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority if the city or town is within the territory served by the Authority, for any debt service due on obligations issued to the Massachusetts School Building Authority, or for charges necessary to meet obligations under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater collection or treatment services or drinking water services to the city or town.

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 does 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. Moreover, adoption of the annual appropriation act has sometimes been 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 of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not currently authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy laws. In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth's oversight of the financially distressed city, town or regional school district. To date, no such filings had been approved or made.

Opinion of Bond Counsel

The unqualified approving opinion as to the validity of the Notes will be rendered by Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel. The opinion will be dated the date of the original delivery of the Notes and will speak only as of such date.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel are not passing upon and do not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and make no representation that they have independently verified the same.

Bank Eligibility

The Notes will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

Financial Advisory Services of First Southwest Company

First Southwest Company serves as financial advisor to the City of Somerville.

Disclosure of Material Events

In order to assist underwriters in complying with the requirements of paragraph (b)(5)(i)(C) of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule") applicable to municipal securities having a stated maturity of 18 months or less, the Issuer will covenant for the benefit of the owners of the Notes to file with the Municipal Securities Rulemaking Board (the "MSRB"), notices of the occurrence of any of the following events with respect to the Notes within ten business days of such occurrence: (a) principal and interest payment delinquencies; (b) non-payment related defaults, if material; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes; (g) modifications to rights of owners of the Notes, if material; (h) bond calls, if material, and tender offers; (i) defeasances; (j) release, substitution or sale of property securing the repayment of the Notes, if material; (k) ratings changes on the Notes; (l) bankruptcy, insolvency, receivership or similar event of the Issuer; (m) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Other than the Town, there are no obligated persons with respect to the Notes within the meaning of the Rule. The covenant will be included in a Significant Events Disclosure Certificate to be executed by the signers of the Notes and incorporated by reference in the Notes. The sole remedy available to the owners of the Notes for the failure of the Issuer to comply with any provision of the certificate shall be an action for specific performance of the Issuer's obligations under the certificate and not for money damages; no other person shall have any right to enforce any provision of the certificate.

The City has never failed to comply, in any material respect, with any previous undertakings to provide financial information and operating data or notices of material events in accordance with the Rule.

CITY OF SOMERVILLE, MASSACHUSETTS

General

The City of Somerville, Massachusetts is located in Middlesex County, three miles northwest of Boston. It is bordered by Cambridge on the south and southeast, Everett and the Charlestown section of Boston on the east, Medford on the north and Arlington on the west. Somerville has a population of 75,754 (Federal 2010 Census) and occupies a land area of 3.93 square miles. Settled in 1630 as a part of Charlestown, the City was established as a separate town in 1842 and incorporated as a city in 1872. The City has an elected Mayor and an eleven member Board of Aldermen and operates under a Charter. Under the Charter, the Board of Aldermen is the legislative body of the City. The following table sets forth the principal executive officers of the City.

PRINCIPAL CITY OFFICIAL

Town Title	Name	Manner of Selection	Entered Office	Term Expires
Mayor	Joseph A. Curtatone	Elected	January 2004	January 2014
Treasurer/Collector	Peter K. Forcellese Jr.	Appointed	December 2011	March 2014
Auditor	Edward F. Bean	Appointed	April 2000	March 2015
Clerk	John Long	Appointed	January 2001	August 2014
City Solicitor	Frank Wright	Appointed	May 2010	March 2014

Municipal Services

The City provides governmental services for the territory within its boundaries, including police and fire protection, disposal of garbage and rubbish, public education in grades K-12, water and sewer services, street maintenance, and parks and recreational facilities. Water and sewer services are provided via connections to the Massachusetts Water Resources Authority. The Somerville Housing Authority provides housing for low income and elderly residents of the City.

Transportation services include commuter bus, commuter train and public transit service to Boston, which is provided by the Massachusetts Bay Transportation Authority.

Education

The City's public school facilities include ten elementary schools, two schools for specialized programs, a Charter School and a comprehensive senior high school. Most elementary schools currently house grades kindergarten through 8. The City completed a \$25 million renovation and remodeling of the senior high school in the mid 1980's and completed the building of a new West Somerville Community School in September 1996, a new Kennedy elementary school in 1998, a new Healey elementary school in 1999 and a new Capuano early childhood center (PK-2) in 2003. The high school now houses students in grades 9 through 12. The capacity of the school system is approximately 7,000 students. The table below shows the recent trend in public school enrollments.

PUBLIC SCHOOL ENROLLMENTS (as of October 1)

Grades	Actual					Projected
	2008	2009	2010	2011	2012	2013
Elementary (Pre K-8)	3,453	3,474	3,521	3,526	3,627	3,700
Senior High and Vocational	1,501	1,460	1,388	1,414	1,365	1,325
Somerville Charter School	329	366	365	457	458	460
Totals	<u>5,283</u>	<u>5,300</u>	<u>5,274</u>	<u>5,397</u>	<u>5,450</u>	<u>5,485</u>

SOURCE: Office of the Superintendent of Schools.

Economy

The City of Somerville has a series of neighborhood commercial districts or “squares” which provide neighborhood retail, banking and other services to city residents and employees. Somerville has two major central business districts: Davis Square and Union Square. These commercial districts contain small retail, banking, professional offices, services, restaurant and entertainment uses. Other commercial uses include fast food restaurants, automotive repair, sales, rental and service stations. In addition, the City has an older industrial, manufacturing and warehousing base, some of which has transformed to office, high technology, telecommunications and biotechnology uses. Over the past twenty years, a number of the City’s older, non-conforming industrial and manufacturing properties have been converted to residential use as property values and the demand for new housing has increased.

In the commercial and industrial segments of the local economy, Somerville continues to experience substantial growth.

EMPLOYMENT AND PAYROLLS

The chart below uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

Industry	Calendar Year				
	2007	2008	2009	2010	2011
Construction	700	637	516	524	461
Manufacturing	1,175	1,156	1,018	902	843
Trade, Transportation & Utilities	4,908	4,872	4,701	4,647	4,691
Information	212	258	337	439	401
Financial Activities	616	608	566	560	576
Professional and Business Services	4,149	3,992	3,374	3,775	4,304
Education and Health Services	4,972	5,408	5,611	5,365	5,840
Leisure and Hospitality	2,024	2,138	2,015	2,095	2,299
Other Services	1,628	1,719	1,739	1,843	1,896
Public Administration	1,066	1,068	1,707	1,111	1,090
Total Employment	21,450	21,856	21,584	21,261	22,401
Number of Establishments	1,485	1,498	1,512	1,559	1,646
Average Weekly Wages	\$ 837	\$ 844	\$ 850	\$ 789	\$ 801
Total Wages	\$ 934,015,665	\$ 958,699,021	\$ 931,447,870	\$ 872,671,766	\$ 932,994,610

Source: Massachusetts Department of Education and Training. Data based upon place of employment, not place of residence.

Labor Force, Employment and Unemployment Rates

According to the Massachusetts Department of Employment and Training preliminary data, in March 2013, the City had a total labor force of 46,762 of which 44,807 were employed and 1,955 or 4.2% were unemployed as compared with 6.8% for the Commonwealth (seasonally unadjusted). The following table sets forth the City’s average labor force and unemployment rates for each of the calendar years 2008 through 2012 and the unemployment rate for the Commonwealth and nation as a whole for the same period.

Year	City of Somerville		Massachusetts	United States
	Labor Force	Unemployment Rate	Unemployment Rate	Unemployment Rate
2012	46,982	4.5 %	6.7 %	8.1 %
2011	46,343	5.2	6.6	8.3
2010	46,711	6.4	8.5	9.6
2009	46,684	6.3	8.1	9.3
2008	46,098	3.8	5.3	5.8

SOURCE: Mass. Department of Employment and Training, Federal Reserve Bank of Boston and U.S. Bureau of Labor Statistics. Data based upon place of residence, not place of employment.

LARGEST EMPLOYERS

The following table provides a listing of the largest employers, including the City itself, in Somerville with 100 employees or more.

<u>Name</u>	<u>Function</u>	<u>Number of Employees</u>
Tufts University*	Educational Institution	2,193
ABM Industries	Janitorial Services	2,000
Somerville School Department	Municipal	1,100
Cambridge Health Alliance	Health Care	1,014
City of Somerville	Municipal	700
Angelica Textiles	Laundry	546
Federal Realty Investment Trust	Real Estate	510
Gentle Giant	Local Trucking	375
Rogers Foam Corporation	Foam Products	300
Van der Weil	Engineering/Consulting	300
Visiting Nurses	Healthcare	250
Harvard Vanguard	Healthcare	225
FISEVR	Data Processing	220
Star Market/ Shaw's	Grocery	217
Home Depot	Retail	210
Target	Retail	200
Green Cab Association	Cab Company	200
MS Walker	Liquor Wholesale	185
Shaws Supermarket	Grocery	180
Somerville Fire Department	Municipal	151
United Parcel Service	Package Delivery Service	131
Cataldo Ambulance	Healthcare	100
Unisys Corporation	Information Technology	100
Citizens Bank	Banking	100
Somerville Mental Health Association	Health Care	133
Diamond Staffing	Temp Services	175
Stop & Shop	Grocery	155
Arrowstreet	Architecture/Design Firm	150
Food Master	Grocery Retail	150
Triumvirate	Environmental Services	140
Grossman Marketing	Paper Company	120
Somerville Housing Authority	Development/Management	105
Holiday Inn	Hotel	100
K-Mart	Retail	100

Source: Company or institution listed.

*Approximately fifty percent of the campus is in Somerville and the balance is in Medford, Massachusetts.

MAJOR PRIVATE CAPITAL INVESTMENT PROJECTS

There has been significant private capital investment in real estate and construction in the past several years in the City. The following table lists the major projects completed in the City or in the process of being permitted since 2005 and the estimated value of each project.

Major Building Permits - Calendar Years 2006 to 2012

Project	Description	Approximate Value
Calendar Year 2012:		
3 Assembly Row	Assembly Square - mixed-use building	\$ 32,189,418
115 Pearl Street	East Somerville Community School renovations	31,000,000
4 Assembly Row	Assembly Square - 5 story mixed-use building	30,922,941
1 Assembly Row	Assembly Square - 5 story mixed-use building	30,444,377
50 Middlesex Avenue	Assembly Square - 6 story building	8,100,000
Butler Drive	St. Polycarp Apartments Phase 3	4,401,348
1323 Broadway	Exterior renovations - Veteran's Home	2,673,990
56 Clyde Street	New Construction 9-unit residential	2,000,000
70 Inner Belt Road	New Construction commercial building	1,750,000
0 Tyler Street	Renovations, commercial building	1,584,500
10 Lower Campus Road	Renovations - residence hall, Tufts University	1,536,915
75 Cross Street	New construction 8-unit residential	1,229,782
16 Linden Avenue	New construction 8-unit residential	1,169,000
25 Latin Way	Renovation, dining hall, Tufts University	1,000,500
25 Latin Way	Renovation, dining hall, Tufts University	910,000
503 Boston Avenue	Exterior renovations	800,000
779 McGrath Highway	Commercial interior renovation	800,000
99 Dover Street	Commercial interior renovation	800,000
44 Park Street	Commercial interior renovation	750,000
149 Broadway	Commercial interior renovation	723,352
63 Summer Street	New construction residential	650,000
5 Tower Center	Residential addition	600,000
52 Thurston Street	Interior renovation for handicap accessibility	503,765
Total:		\$ 156,539,888
Calendar Year 2011:		
50 Innerbelt Rd.	Reno 7800 Sq Data Fac	\$ 600,000
520 Columbia Street		980,000
130 Broadway		1,400,000
75 Packard Ave	Educational Facilities	2,138,226
8 Butler Drive	St. Polycarp Phase II	4,951,082
Total:		\$ 10,069,308
Calendar Year 2010:		
Continued Clarendon Hill Towers	Renovation 167 Apts & Ext	\$ 8,500,000
Continued Max Pax	3 Townhouses D2	1,400,000
Continued 100 Fellsway West	4 Story, 19 Residential & Commercial	1,945,000
Continued 50 Inner Belt Road	Renovation 7,800 s.q. Data Facility	5,000,000
Continued 70 Inner Belt Road	Build out	2,500,000
Continued 377 Summer Street	6 residential, office and retail	2,850,000
42 Browning Road	Renovation after fire	804,446
45 Day Street	Add rest to bowling	275,000
67 Florence Street	Add 5 residential units	625,000
230 Highland Avenue	Renovation medical arts building	2,611,000
35 McGrath Highway	Renovation 18,960 Data Storage	1,600,000
259 McGrath Highway	6,600 s.q. additional reno showroom	3,915,000
61 Medord Street	Renovation RM 533	467,762
9 Pitman Street	5 Residential units	1,370,000
Total:		\$ 33,863,208
Calendar Year 2009:		
Continued 50 Innerbelt Rd.****	Renovation to a Data Center	\$ 12,000,000
Continued 70 Innerbelt Rd. ****	Tenant Fit Up	3,000,000
515 Somerville Ave.	36 Residential/Commercial Units	6,000,000
Capen Court*****	95 Units Elderly Housing 86,000 sf	18,000,000
377 Summer Street ***	6 Residential Units; Ground floor commercial	TBD
Clarendon Hill Towers	2nd floor office	TBD
100 Fellsway West ***	Renovation of 500 Residential Units	TBD
520 Columbia Street ***	New 19 Residential Units 5,000 s.f. office	TBD
600 Windsor Street	23,500 s.f. expansion of existing commercial laundry facility	TBD
62 Talbot Avenue	Renovation of 22,800 s.f. building for relocation of Green Cab	TBD
	Renovation Chemistry Classrooms	1,967,875
Total:		\$ 40,967,875

Project	Description	Approximate Value
Calendar Year 2008*:		
56-61 Clyde St***		
Max Pak Phase I***	65 Residential Units (estimate)	\$ 10,500,000
Max Pak Phase II ***	134 Residential Units	22,000,000
Assembly Square Mixed Use	Residential 2,100 Units	TBD
	Office 1,500,000 sf	
	Hotel 180 Rooms	
	Retail 600,000 sf	
IKEA Store****	340,000 sf Store	42,000,000
	Parking Structure	31,000,000
St. Polycarps****	84 Units Res/Comm 101,000 sf	19,400,000
Visiting Nurse Assoc. Project	99 Units Res, 106,000 sf	17,900,000
50 Innerbelt Rd. ****	Renovation to a Data Center	12,000,000
70 Innerbelt Rd. ****	Tenant Fit Up	3,000,000
200 Innerbelt Rd.	Interior Fit Out	10,000,000
57 Endicott Ave.	New 3 Family	500,000
2 Benton Rd	Interior Demolition	465,000
56 Professors Row	Renovate Dorm	708,740
100 Properzi Way	2 Story Addition	1,500,000
51 McGrath Hwy.	Renovate Storage Fac.	992,698
202 Holden Green	Renovate 3 Bldgs 23 Units	2,200,000
49 Endicott Street	New 8 residential units	890,000
35 McGrath	New Data Center	1,600,000
259 McGrath****	Auto Dealership new 2nd floor	100,000
308 Beacon St****	demo 3-fam, 6 new units	1,500,000
56 Webster St****	expansion/rehab of existing structure	4,800,000
44 Professors Roadway	Upgrade HVAC	524,853
44 Davis Square	Renovation Office Bldg.	473,857
221 Beacon Street	New 8 residential units	1,200,000
73 Cross Street	8 Residential Units	800,000
39 Endicott Ave	New 8 residential units	790,000
2 Highland Road	New 2 Townhouses	625,000
	Total:	\$ 187,470,148

* Through October, 2008; rezoning approved; comprehensive permit approved.

** Rezoning approved.

*** SP/SPSR Approved.

**** Phase I Completed.

***** Under Construction.

Calendar Year 2007:

1 Davis Square	Steel Framed Building	\$ 4,185,000
1 Davis Square	Fit Out	597,600
55 Columbus Ave	Restoration of Group Home	760,000
9 Everett Ave.	New 6 Unit Building	618,000
6 Giles Park	Renovate 6 Units	635,000
70 Innerbelt Rd	Renovate Interior	2,500,000
70 Innerbelt Rd	Demo Existing Space	74,000
100 Talbot Ave	Renovate Seryery	2,034,103
5 Middlesex Ave.	Tenant Fit-Out Gym	460,000
1 Davis Square	Fitness Club 2nd Floor	1,090,905
114 Temple St.	Int/Ext Renovation	595,023
546 Broadway	R&R Fieldhouse	2,000,000
44 Professor's Row	R&R Ceilings HVAC	665,875
343 Broadway	Tenant Fit-Out for Bank	942,000
6 Highland Ave.	Renovate 5 Apts	500,000
405 Alewife Brook Pkwy.	Assisted Living 99 Units	14,687,500
70 Innerbelt Rd.	Tenant Fit-Out for Data Center	1,300,000
99 Dover St.	Tenant Fit-Out for Office	1,300,000
	Total:	\$ 34,945,006

Calendar Year 2006:

200 Innerbelt Rd.	Enc Dock, Ins Elec, HVAC Roof	\$ 5,700,000
70 Webster Ave.	New 46 Res Units	3,300,000
1188 Broadway	New 4 Story Structure	2,608,000
131 Willow	New 10 Unit Bldg	1,750,000
230 Highland Ave.	Renovate Main Floor	1,550,000
61 Medford St.	Renovate Storage Area	1,503,600
1 Summer St.	Renovate Bldg - Add to Prev BP	1,240,000
63 Gorham St.	Renovate Interior	860,000
126 Cross St.	Renovate Interior	748,885
44 Professors Row	New Kitchen - Café	700,000
13 Talbot Ave.	Cost Increase BP05861	680,807
35 Charlestown St.	Renovate Interior	650,000
51 Dimisk St.	Complete Renovation 6 Family	556,947
4 Foskett St.	New 3 Unit Bldg	525,000
103 Orchard St.	Renovate 8 Units	500,000
	Total:	\$ 22,873,239

Building Permits

The table below sets forth the recent trend in estimated dollar value of residential and non-residential new construction and alterations. The estimated dollar values are builders' estimates and are generally considered to be conservative.

Calendar Year	New Construction		Additions/Alterations		Total	
	No.	Value	No.	Value	No.	Value
2012	16	\$113,504,866	1,752	\$84,323,076	1,768	\$197,827,942
2011	17	39,850,737	1,610	57,069,436	1,627	96,920,173
2010	12	19,865,000	1,724	50,768,239	1,736	70,633,239
2009	10	10,637,648	1,497	37,337,144	1,507	47,974,792
2008	9	12,247,500	1,709	66,001,003	1,718	78,248,503

SOURCE: City Building Inspector.

The following table compares retail trade data for the City of Somerville with that of the Commonwealth of Massachusetts as a whole.

RETAIL SALES

	Somerville	Massachusetts
Establishments:		
2002	178	25,761
1997	208	26,209
1992	348	38,491
Sales(000):		
2007	\$761,543	\$88,082,966
2002	603,989	73,903,837
1997	558,967	58,578,048
1992	471,776	47,663,248
Per Capita Sales:		
2007	\$10,061	\$13,553
2002	7,796	11,640
1997	7,335	9,736
1992	6,190	7,922

SOURCE: 2007, 2002, 1997 and 1992 U.S. Census of Retail Trade.

ECONOMIC DEVELOPMENT

The City of Somerville working through the Mayor's Office of Strategic Planning and Community Development (OSPCD) has taken the lead role in planning and implementing major economic projects designed to increase the City's tax base and create new jobs. With the 2012 approval of the SomerVision Comprehensive Plan, Somerville is pursuing a strategy to add 30,000 new jobs and 6,000 new housing units in the next 20 years.

SomerVision: A Strategy for Growth and Conservation

In 2008, the City of Somerville and its community partners began work on SomerVision, the City's first-ever Comprehensive Plan. In April 2012, the SomerVision Comprehensive Plan was adopted by the Somerville Planning Board, and formally endorsed by the Somerville Board of Aldermen as the official master plan for the City under Massachusetts General Law.

The SomerVision process was structured to build consensus around strategies to preserve Somerville's identity as an accessible, mixed-income, multicultural city, while at the same time identifying an actionable policy agenda to invite and leverage public and private investment in transit-oriented development and generate economic opportunity for all Somerville residents. Work was overseen by a 60-member Steering Committee comprised of residents, business owners, nonprofit agencies and elected officials. More than 60 public meetings were held using creative public engagement techniques, including World Café facilitation, multilingual interpreters, graphic recording, online and mailed surveys and unedited meeting broadcasts on community access television. Hundreds of Somerville residents saw their own words fed through a series of iterative feedback loops, yielding tremendous public buy-in for SomerVision's statement of values, vision statement, future land use map, and more than 500 goal, policy and action statements.

SomerVision calls for the City and its partners to conserve Somerville's great residential neighborhoods, enhance its commercial squares and corridors, and transform former industrial districts into engines of economic and housing growth. It articulates goals, policies and actions related to civic engagement, housing opportunity, provision of public services, workforce development, small business assistance, infrastructure upgrades, open space improvements and environmental sustainability.

Major Areas for Economic Development

Assembly Square

Assembly Square is included on a short list of sites with the greatest potential for redevelopment in the Metro Boston Area. Assembly Square is a 145-acre district located at the northeast corner of the City on the Boston line.

Assembly Square ("District") is located just two and half miles from downtown Boston and within two miles from Kendall Square in Cambridge. Its location, as well as, its existing transportation infrastructure makes it one of the premier development sites in New England. Assembly Square is directly accessible from Interstate 93 and State Route 28. For autos, it is within minutes of downtown Boston and for pedestrians and cyclists, the site will have a connection to the Minute Man Commuter Bikeway via the Somerville Community Pathway extension planned to be under construction in 2013. Two commuter rail lines pass through the district. In December 2011, the MBTA commenced construction of the MBTA's Orange Line in Assembly Square expected to be operable by October 2014. Assembly Square contains over 6 acres of waterfront open space located along the banks of the Mystic River, To capitalize on these strengths, the City has undertaken an aggressive planning and redevelopment effort designed to convert this former industrial district to a transit-oriented, mixed use "urban village", using smart growth principles to maximize development potential.

In 2002, the Assembly Square Urban Renewal Plan was extensively revised and extended for an additional twenty years. The amended plan set forth the new vision for Assembly Square as a vibrant, 18-hour mixed-use district. In 2005, Federal Realty Investment Trust (FRIT), a publicly traded REIT on the New York Stock Exchange (symbol FRT) bought the Assembly Square Mall buildings and surrounding properties for the sum of \$64 million. In the fall of 2006, a landmark accord was reached between FRIT, IKEA, and the Mystic View Task Force (a citizens' group that had been opposed to earlier plans for development in Assembly Square) demonstrating a strong will on the part of the community to move forward with the proposed developments.

On December 14, 2006, FRIT and IKEA entered into a Development Covenant with the City which, among other commitments, included a contribution of \$15 million toward the design and construction of the new Orange Line MBTA Station. This contribution, combined with the \$25 million of federal highway funds garnered by U.S Senators Kennedy and Kerry, and U.S. Representative Capuano, almost equaled the then cost of a new T station.

Also on December 14, 2006, the Somerville Planning Board approved a Preliminary Master Plan for the Planned Unit Development (PUD) submitted by FRIT on behalf of itself and IKEA. The PUD Master Plan proposed 2,100 residential units, 1.75 million square feet of office, 1,150,800 square feet of retail space including a 340,000 square foot IKEA store, and a 200-room hotel. The PUD called for permitting in six phases, of which two phases have already been approved by the Planning Board. At full build-out, the development is projected to yield \$18.6 million of local net fiscal gains, more than 14,800 jobs and \$798 million in wages and salaries. These benefits are expected to accrue gradually at first, and then accelerate after 2016.

In early 2007, the Assembly Square Marketplace was re-permitted as Phase 1AAA of the Preliminary Master Plan. The Marketplace is occupied by retailers with national name recognition, including the Christmas Tree Shops, AC Moore, Bed, Bath and Beyond, TJ Maxx, Sports Authority, K Mart, and Staples. The stores in the mall employ over 500 people.

Shortly after its initial acquisition of land in Assembly Square, FRIT began negotiating with IKEA to swap portions of FRIT's land for IKEA's property adjacent to the Mystic River Reservation – a winning strategy for both developers in that FRIT would gain waterfront parcels for residential development and land near the proposed Orange Line Station for office development, and IKEA would gain a location more clearly visible from I-93 for its retail store. In October 2007, the City reviewed and approved the Special Permit with Site Plan Review-A for Phase 1AA of the Preliminary Master Plan, consisting of the 340,000 square foot IKEA retail store and construction of a new Assembly Square Drive as the main boulevard for the fully built-out Assembly Square district.

In 2008, the Somerville Redevelopment Authority (SRA) sold its 9.4 acre parcel known as Yard 21 to FRIT for \$4.1 million. As part of the Land Disposition Agreement, the SRA required the developer to dedicate a portion of the Yard 21 parcel to a new Orange Line station.

Early in 2009, the City of Somerville received a Growth District Initiative grant of \$2 million to reimburse FRIT for preliminary planning, property acquisition, and soil remediation associated with the new Assembly Square Drive. In July 2009, Governor Deval Patrick announced that the Assembly Row Project had received preliminary approval for up to \$50 million in Infrastructure Investment Incentive (I-Cubed) state bond funding, as well as, an additional \$15 million in American Recovery and Reinvestment Act (federal stimulus) funds, to pay for the public infrastructure improvements associated with the Assembly Row project. On October 22, 2009, the Somerville Board of Aldermen voted to approve the final Joint Application to the Commonwealth for I-Cubed funds. The application was awarded for \$50M and was later amended in 2011 (detailed in the Tri-Party Agreement) to \$58M. The State initially provided a \$10M short-term BAN to FRIT. In 2012, the application was amended. To date, only \$10M of the \$58M award has been issued. The I-Cubed application will go through additional amendments as future phases of the Assembly row project provide additional revenues to support the additional sums.

In 2009, FRIT contracted Cranshaw Inc. for construction services including site preparation activities including the installation of underground utilities in the District. This work paved the way for the site to be “shovel-ready” as required for the ARRA funds. In 2010, Newport Construction went under contract with MassHighway for the \$14.2 million (including participating and non-participating costs) construction and realignment of Assembly Square Drive and associated offsite traffic improvements funded by ARRA. That 1 mile project commenced in the spring of 2010 and is now substantially completed.

In March 2010, FR Sturtevant Street LLC's, an affiliate of Federal Realty Investment Trust's (FRIT), submitted its Final Environmental Impact Report (FEIR) for the Assembly Square Mixed-Use Redevelopment prepared by Vanasse Hangen Bruslin, Inc (VHB). Also in 2010, FRIT submitted and received City approval of an amended Master Plan for the “Assembly Row” project in Assembly Square. The amended Master Plan did not change the development program, just mostly the configuration of the parcels and rebranded the project from Assembly on the Mystic to Assembly Row.

In December of 2010, the Board of Aldermen and the State unanimously approved Somerville's 32-acre Assembly Row District Improvement Financing (DIF) Plan application. In May 2011 the Board of Aldermen voted to issue bonds for the work identified in the DIF Plan.

Also in May 2011, FRIT, the Commonwealth, and the City entered into a Tri-Party Agreement binding each party to certain requirements, which includes DIF financing and the State's commitment to fund the Orange Line T Station. The Assembly Row DIF Plan defines a District that contains development blocks 1, 3, and 4 in Assembly Row and a majority of the roadways and utility improvements needed to service them. As part of the DIF Plan, the City received approvals to acquire the newly extended portion of Assembly Square Drive for \$12M, an internal roadway and utility network for \$10M, and a new storm water line and outfall for \$3M. The ASQ DIF was approved for an amount not to exceed \$25.75 million. To date, the City has acquired the new portion of Assembly Square Drive and the 72” Outfall for \$15M in aggregate.

Later in 2011, Federal Realty partnered with Avalon Bay, a residential developer, for Blocks 1 and 4. Federal Realty and Avalon Bay successfully filed for building permits on Blocks 1, 3, and 4, which include the development of 320k square feet of retail space in addition to Avalon's 448 residential units. Regarding FRIT's retail building known as Block 3, FRIT executed the first anchor tenant lease with AMC Cinemas for a 12-screen 62.6k square foot movie theater. This lease represents 20% of the retail space in the first four blocks (Blocks 1, 2, 3, and 4) of the development. FRIT continues to actively pursue and negotiate the remaining 150k of retail space in the first four blocks. Additional commercial tenants and the development of the remaining blocks are actively being pursued. All three of these blocks are under construction and on schedule for occupancy by spring 2014. Additionally, FRIT applied for a Special Permit and broke ground on Block 10 in 2011 for the development of a 4,500 square foot pad building on a 32,000 square foot parcel to include two retail bays. Today, this building is constructed and Burger Dive is operating its business there. Starbucks plans to open later in 2013.

In December 2011, the MBTA issued a Notice to Proceed for the construction of the Orange Line Transit Station at Assembly Row. This project is underway and is on schedule to make its targeted completion date that is in the second half of 2014. Also under construction in 2012 is SSG Development's storage building in Assembly Square by Highway 93 that is outside the bounds of the Assembly Row project. This project, which includes retail uses on the first floor, is scheduled to open in 2013.

In 2011, the Planning Board opted to extend IKEA's building permit for one year since IKEA had delayed its construction during the economic recession. However in July 2012, IKEA communicated that it no longer planned to move forward with building a store in this location. In early 2013, FRIT signed a Purchase and Sale to acquire the inland FRIT property site for redevelopment in line with the rest of the Assembly Row project and within the vision of the Assembly Square Urban Renewal Plan. Development is actively in the planning stages and the initially contemplated uses include a large grocery store, a medical building and a residential tower.

In January 2013, FRIT applied for two Special Permits for construction on Block 2A and Block 2B which include a pavilion and the main building of Block 2 that calls for a 132,708 sq ft mixed-level building. Block 2B includes first floor retail and three levels of office above it.

It is expected that FRIT will commence construction of the 6-acre waterfront park and commuter pathway extension project that are both DCR-owned.

Boynton Yards

The MBTA's planned extension of the Green Line into Union Square has generated new interest in Boynton Yards; the transit stop lies in the northwest corner of the district. In April 2009, the Board of Aldermen approved a rezoning of this important development area and much of Boynton Yards is now located in a Transit Oriented District (TOD), where highest density and greatest heights (up to 135 feet) would be allowed.

The City has negotiated development agreements with two property owners in the Boynton Yards district that affect the long term redevelopment of the area. In the case of Royal Hospitality, the City is allowing the commercial laundry facility to double the size of its operations for a 10 year period. At the end of that period, which can be extended at the City's discretion based on economic conditions, the property owner must abandon the industrial use and submit plans for the redevelopment of the property in accordance with the new TOD zoning. In the case of Green Cab, the City has issued a Special Permit which expires in 10 years to allow the property to be used as a taxi cab dispatch and storage center. At the end of the 10 years, the owner must submit plans to redevelop the site in accordance with the new TOD zoning, and may continue the use within the new development.

The City is under contact with Parsons Brinkerhoff who is nearing completion on a transportation and utility study of Boynton Yards. This is a first step in creating a new road network and utility infrastructure to support more intense commercial development.

Inner Belt

The Inner Belt district is a manufacturing and warehouse district that is anticipated to transition to higher-end office and biotechnology uses. An off-ramp which was constructed as part of the Central Artery Project (the "Big Dig") has improved regional automobile access to Inner Belt. To facilitate Inner Belt's transition to higher end uses, the City approved a significant privately financed infrastructure investment connecting Inner Belt to the fiber optic loop around Boston and Cambridge. The location of this major communications node makes Inner Belt a very competitive location for technology-oriented businesses.

Established employers, including MS Walker, Partners Healthcare, the MBTA Boston Engine Terminal, and Angelica Textiles continue to provide employment opportunities in Somerville. In addition, the City has seen the installation of two sizeable internet data centers and associated investment in the physical facility and equipment at 50 and 70 Inner Belt Road. The City, working through OSPCD, has completed various studies, including a planning study which identified public actions necessary to facilitate transformation of this district to office and biotechnology uses. Access studies were completed in 2005 that addressed the impact of economic development on traffic patterns in the Inner Belt, and a portion of a Federal grant will be used to advance these access issues and to develop a real estate market analysis for this section of the City.

The land use and planning firm Goody Clancy is working on an Urban Streetscape and Adaptive Reuse Plan that builds upon the work of Greenberg/CBT to prepare an area plan that will include an analysis of the existing roadway and utility network and develop alternatives that would improve circulation, land use and zoning to support redevelopment. This two year planning activity should be completed in 2013, and will include recommendations for new zoning to facilitate redevelopment in this area.

Davis Square

Davis Square is one of the City's most vibrant central business districts. This commercial center is located in close proximity to nearby Tufts University and has an MBTA Red Line subway station. The combination of this district's location and public transit access has resulted in strong demand for office, retail, restaurant and entertainment uses. Davis Square has limited vacancy in the retail and office market segments. In addition, Davis Square has become a regional dining and entertainment destination with some of the Boston area's finest restaurants, nightclubs, and live entertainment venues. For example, the Somerville Theater – a 1920's vaudeville theater with a 900 seat capacity – includes a cinema complex and regularly hosts national and international musical performances which attract patrons from the entire region. The residential neighborhood surrounding Davis Square has seen dramatic increases in property values and rents, which has resulted in considerable new investment and condominium conversion. A major commercial building with retail, offices, and a health club opened in the heart of the square in 2008. Another smaller mixed-use building was completed in the Central Business District in 2012.

In summer 2012 the Mayor's Office of Strategic Planning & Community Development began the process of planning a series of improvements to both aesthetics and function of Davis Square's streetscape. This project is comprised of several stages. The first phase gathered public input and explored options for improvements. Five public meetings took place from June through September, during which constituents expressed concerns and goals and gave extensive feedback on iterations of options the design team developed for the square.

While the main focus of the project initially focused on aesthetic improvements, it soon became clear through public input that constituents also prioritized minor changes such as signal reconfiguration and traffic calming design to improve the flow of all modes through the square. Based on feedback from these meetings, the design team developed an illustrative schematic plan for the square that helped define the scope of the improvements moving forward. Public charrette and discussion sessions developed options for increased safety, eased wayfinding, and traffic calming improvements for pedestrians, cyclists, and drivers.

The City is currently enlisting the services of Crosby Schlesinger and Smallridge to finalize the designs. Estimated investment in the next 24 months is \$7 million.

Union Square

Union Square is the City's most historic business district, known throughout the region as a multi-ethnic dining and arts destination. In 2002, the City initiated a revitalization effort for Union Square by funding a major transportation study and Master Plan. In 2003, the area was officially designated as a "Neighborhood Revitalization Strategy Area" under the guidelines of the U.S. Department of Housing & Urban Development, making the area eligible for a variety of incentives related to Community Development Block Grant funding. In 2004, the City worked with neighborhood residents, businesses, and property owners to create "Union Square Main Streets," a non-profit community organization based on the National Main Street Center's successful downtown revitalization model. In the past few years, the City has received a \$90,000 state grant to create an "ArtsUnion" arts and entertainment district for economic development, a \$42,000 grant to do a strategic plan for the development of city-owned properties in Union Square, over \$1,000,000 in new state and federal Brownfields funding for parcels in the area, the initiation of a Saturday farmers market partially funded by a Robert Wood Johnson Grant, and, in 2007, the construction of two small urban parks.

The City has completed both a \$24 million new elementary school at the edge of Union Square and a \$21 million reconstruction of Somerville Avenue between Union Square and Porter Square. In April 2009, the Board of Aldermen approved rezoning of the Union Square and Boynton Yards areas. In Union Square, this included a new Corridor

Commercial District (CCD) that increases the allowable FAR of future development, reduces the parking requirements, and increases flexibility in retenanting existing buildings. In addition, four Transit Oriented Districts ranging in height from 55 feet with a FAR of 3.0 to 135 feet and a FAR of 5.0 were mapped in the Union Square and Boynton Yard areas.

The Commonwealth of Massachusetts has committed to construct a Green Line light-rail service to Union Square. This Agreement was formalized in the Memorandum of Agreement (MOA) by and among the MBTA, Commonwealth of Massachusetts/MassDOT and the City of Somerville that was executed in July 2012. The MOA set the stage for the Union Square Urban Revitalization Plan (USRP), an urban renewal plan under G.L. Chapter 121B, which was adopted by the Board of Aldermen in October 2012 and approved by the Massachusetts Department of Housing and Community Development in November 2012. The USRP identifies a 117-acre Urban Renewal Area in the southeastern portion of Somerville and consists of three Transformation Areas: the Prospect/Webster Corridor, Boynton Yards, and McGrath/Medford. Within Transformation Area 1, the Prospect/Webster Corridor, the USRP identifies seven blocks for redevelopment and designates them as Acquisition and Disposition properties.

Following the vote to adopt the USRP, the Board of Aldermen acted to authorize \$8M in General Obligation Bonds for the City, through the SRA, to acquire property within the North Prospect Block identified in the USRP as Block A2/D2, as well as for the City to do a streetscape design and utility upgrades analysis for Union Square. The City is actively seeking to meet its MOA commitments by providing easements to the MBTA for the Green Line station and a drop off/pick-up area by spring of 2013. The City anticipates entering into a process to seek the redevelopment of the North Prospect Block for upwards of 650,000 square feet of mixed-use space by 2014. The new MBTA Green Line transit station is expected to serve Union Square by winter of 2016/2017.

In March of 2013, the City released an RFP for streetscape design and utility upgrades for Union Square. A firm that will develop conceptual plans should be under contract in the summer of 2013 and 25% construction drawings are scheduled for delivery the following year. The project will see the reconstruction of two major arterials through the square, extension of the newly separated Somerville Avenue storm and sanitary sewer lines, and expansion of the public plaza.

Gilman Square / Ball Square / Lowell Street

“Somerville by Design” is a philosophy of public participation that has grown from the successful SomerVision Comprehensive Plan. Somerville by Design encourages the City and its partners to be deliberate and proactive in planning for a built environment that is safe, attractive, vibrant and equitable. It recognizes that physical planning is an effective way to get average residents and community stakeholders involved in policymaking, and crowd-sources the expertise of our community to create a better public realm and better private redevelopment outcomes.

To ensure the highest and best use of available parcels, as well as the preservation of established neighborhoods and open spaces, the City has taken steps to consider land use policies surrounding the new Green Line stations. In April 2012, the City adopted a new Comprehensive Plan for the City, streetscapes called SomerVision. The SomerVision plan includes six key implementation steps. One of those steps involves the development of design-based plans for future Green Line station areas and that enhance connectivity to, from, and between them. Another involves the overhaul of the Somerville Zoning Ordinance to bring it in-line with SomerVision goals for station-area development as well as neighborhood conservation.

The Somerville by Design initiative will implement these key SomerVision strategies. It is funded in part by a grant from the federal Department of Housing and Urban Development’s Sustainable Communities program. Two “series” have already been held, the first centered on station area planning in advance of the green line extension project, the second focused on complete streets policy and design.

Business Assistance Programs

The City of Somerville has instituted several small business assistance programs to support and stimulate local economic development activities. The programs help to stabilize the tax base and insure the economic vitality of the local business community. These are described below.

Brownfield Program

The purpose of the Somerville Brownfield Program is to facilitate the assessment, cleanup and reuse or redevelopment of city-owned property.

In October of 1996, the City of Somerville was selected by the U.S. Environmental Protection Agency (EPA) to be a Brownfields Site Assessment Pilot Community. Utilizing grant funds totaling \$600,000 from the EPA and HUD funds of \$100,000, the City has facilitated development of Brownfields sites by providing environmental site testing services and remediation cost overrun coverage to interested redevelopers of Brownfields sites. Pilot project locations have included 220 Washington Street (Union Square), 56 Webster Avenue (Boynton Yards), 29, 30 & 33 Allen Street(Union Square), and 405 Alewife Brook Parkway (the Conwell School). In each instance, site testing and associated environmental engineering services were provided through the program so that redevelopment considerations regarding cleanup costs could be understood at an early stage.

Grant Awards 2009-2012

Grant	Sources	Awarded/Allocated	Use
1	State's Interagency Permitting Board (IPB) Chapter 43D Technical Assistance Grant '09	\$ 100,000	Permit streamlining for Priority Development Sites (PDS)
2	MassDevelopment - Brownfield Redevelopment Fund '10	\$ 95,000	Assessment of Kiley Barrel
3	MassDevelopment - Brownfield Redevelopment Fund '11	\$ 297,400	Assessment of Kiley Barrel
4	MassDevelopment - Brownfield Redevelopment Fund '12	\$ 950,000	Cleanup of Kiley Barrel
5	MassDEP Brownfield Coalition Grant '11	\$ 50,000	Assessment of Kiley Barrel
6	USEPA Brownfields Cleanup Grant '11	\$ 200,000	Cleanup of Kiley Barrel
7	USEPA Brownfields Cleanup Grant '11	\$ 200,000	Cleanup of Kiley Barrel
8	USEPA Brownfields Cleanup Grant '11	\$ 200,000	Cleanup of Kiley Barrel
9	USEPA Brownfields Cleanup Grant '12	\$ 200,000	Cleanup of Kiley Barrel
10	USEPA Brownfields Cleanup Grant '12	\$ 200,000	Cleanup of Kiley Barrel
11	USEPA Brownfields Cleanup Grant '12	\$ 200,000	Cleanup of Kiley Barrel
12	USEPA Brownfields Assessment Grant '10	\$ 200,000	Targeted for publically-owned sites city-wide
13	USEPA Brownfield Cleanup Revolving Loan Fund '10	\$ 400,000	Targeted for private sites city-wide
14	USEPA Brownfield Cleanup Revolving Loan Fund '12	\$ 450,000	Targeted for the rest of the North Prospect Block
15	USEPA Emergency Planning and Response Branch '12	Estimated at \$1.5M	Restores several abutting residential properties along Allen Street to healthy conditions

The former Kiley Barrel site is the largest known brownfield site owned by the SRA and the City of Somerville and exists within the North Prospect Block in Union Square. In 2009, the former Kiley Barrel site was designated as one of a handful of contaminated sites state-wide to join the Lt. Governor's Brownfield Support Team (BST), which is an initiative aimed to target Brownfield sites that exhibit the greatest need in areas of with the greatest economic promise. The BST brought forth collaboration between many state and federal and local agencies that resulted in a significant amount of assistance as shown above. In 2012, the former Kiley Barrel site's Assessment Phase concluded and the site's cleanup is fully funded and is expected to be complete by the fall of 2013.

In 2012, the City applied for a 2013, EPA \$200,000 City-Wide Hazardous Substances Assessment Grant and awaits word on its award.

Brownfield Cleanup Revolving Loan Fund (BCRLF)

The City's Brownfield Cleanup Revolving Loan (BCRLF) fund falls under the umbrella of the Somerville Brownfields Program. Somerville aims to utilize the BCRLF to accelerate the transformation of Brownfields from blighting influences on the neighborhood into assets for the community. The economic reuse of these sites will have a positive effect on the local economy by contributing to the commercial tax base and creating new jobs.

The BCRLF was first introduced to Somerville in September of 1999, when Somerville was approved by the U.S. Environmental Protection Agency (EPA) as a Brownfield Cleanup Revolving Loan Fund (BCRLF) pilot community. Through a \$460,000 initial grant, Somerville has launched a loan program that is available to eligible redevelopers of Brownfields properties within Somerville. In 2003, the EPA streamlined the rules and regulations of the program to make it easier for municipalities to administer it.

In 2009, the City made a loan to KSS Realty, Inc. for the MaxPak development that allowed for demolition of structures and soil cleanup at the site, as well as, provided a grant to the Community Action Agency of Somerville (CAAS) to fund the monitoring of conditions at the existing day care center.

In fall 2010, Somerville applied and received a \$400,000 increase in funding for the BCRLF and spent the award on cleaning up the Conway Park Ice Skating Rink. In 2012, the City applied and was awarded an additional \$450,000 in BCRLF funds and is actively working with developers to identify projects to use the funds.

Small Business Loan Program

2012 represented the fifth year of partnership between the City and ACCION USA to provide the Somerville community of entrepreneurs and microenterprises with financial resources and technical assistance to fuel a new wave of entrepreneurship and to support emergent immigrant business ventures.

During the five years of strategic partnership, the City and ACCION USA has worked together to make capital accessible to micro and small business, create new jobs and expand economic opportunities for new and existing immigrant entrepreneurs in Somerville. The Small Business Loan Program delivered around fifteen workshops and seminars to approximately 120 employees and/or owners of multilingual businesses in impoverished areas in Somerville, while offering access to capital to 23 immigrant business owners in the amount of \$137,000 via non-conventional banking products, microloans.

ACCION USA is proud of its business model (financial non-Profit institution) which focuses around supporting entrepreneurial activity targeted to micro and small business with less than 10 employees. ACCION's presence in Somerville is strong, with a particular office location in the Inner belt area of the City.

ACCION USA has also partnered with the Boston Beer Company. Food, beverage and hospitality entrepreneurs were invited to meet one-on-one with Boston Beer employees, ACCION USA employees and local business experts in areas of business planning, financial and credit management, legal counseling, marketing, public relations, branding, distribution, etc. A total of 109 attendees received not only professional advice, but also the opportunity to network and connect with like-minded professionals. Three Somerville entrepreneurs, as well as, a handful of individuals who distribute their products in conjunction with Somerville businesses, took part in one or both of these events.

Retail Best Practices Program

The second largest economic activity in Somerville is 'retailing'. The retail sector has a prominent role in defining the character of each of the commercial corridors and business districts of Somerville. Funky storefronts, great environments, cool interior design, and organic growth make retailing an important element of the City's economy.

The Retail Best Practices program has provided a strategic response to strengthen the retail industry in Somerville. The program has offered business development workshops and one-on-one consulting sessions with a retail specialist. Topics covered by the workshops have included marketing, business best practices, merchandising, branding, social media, and façade design. Retailers have received training on best practices within the industry, to help them attract and retain new and existing customers. Eligible participants have participated in one-on-one sessions with the City's retail consultant. Consulting services have been offered to qualified retailers and restaurateurs established in eligible Census-Tract areas and micro-enterprise retailers. The consultant provided the retail store participant with a five-page written analysis report highlighting areas-to-improve, potential strategies and recommendations.

Since the program's inception, a total of 48 retailers, including restaurants, have benefited from the program. These accomplishments have met multiple goals of the program including providing technical and micro-enterprise assistance to local area businesses, redesign of passive and out-of-date commercial facades, and job creation.

Storefront Improvement Program

The City of Somerville established the Storefront Improvement Program (SIP) to support businesses in the renovation of their exterior facades and to maintain viable commercial districts by providing design guidance and financial incentives to commercial property and/or local business owners.

The Program has offered design services and financial stimulus in the form of matching grants to renovate and upgrade commercial building facades in eligible commercial districts. In-house architectural services retained by the City have been provided to participants from project conceptualization to final design stage at no cost to the applicant. Under the program guidelines that are now being revised, funding has been provided through a matching grant for up to 75% of total project cost at a cap of \$35,000, whichever the lowest amount. Participants have been required to match the City's investment with a minimum of 25% of the total project cost. Funding has gone toward the installation of branding elements such as new signage, awnings, canopies, or structural components such as reconstruction of architectural details, removal of architectural barriers, new storefront construction, etc. or a combination of both.

During the last two fiscal years, the City completed twelve new projects located in Union Square and East Broadway. A total of six applicants received design services such as project analysis, conceptualization, preliminary design, bidding, final drawings and on-site final assessment. The following table summarizes the assisted projects during the last two fiscal years and highlights the level of funding committed to those projects:

Participant	Address	Funding
Ramadan Food Store LLC	96 Highland Ave	\$35,000.00
Fasika Ehiopian Rest.	147 Broadway	\$35,000.00
Mariachi Foods, Inc (El Potro)	61 Union Square	\$6,985.00
Advance Dental Care, LLC	36 Bow Street	\$3,400.00
130 Broadway LLC	130 Broadway	\$100,000.00
Bostonian Florist INC	92 Highland Ave	\$5,962.35
Aguacate Verde LLC	13 Elm Street	\$7,500.00
Sally O'Briens Bar & Grill	335 Somerville Avenue	\$7,335.00
Casa B LLC	253 Washington	\$25,000.00
Millers Rivers	561 Windsor Street	\$26,790.00
Guilman and Guidelli	561 Windsor Street	\$26,789.16
Taza Chocolate	561 Windsor Street	\$12,080.00
Design Services		\$24,000.00
Total		\$315,841.51

Since 2003, the Program has provided design services to 20 businesses and commercial property owners, and has financed 36 projects city-wide by networks such as the Union Square and East Somerville Main Streets.

East Somerville – Main Streets Program

East Somerville Main Streets (ESMS), formed in 2006, is a non-profit organization dedicated to improving the lives in the East Broadway community and beyond by establishing a vibrant heart and hub for East Somerville in the East Broadway Business District. ESMS new mission speaks by itself:

The East Broadway Business District is the heart of East Somerville. We are committed to building a safe, sustainable and prosperous multi-cultural community by focusing on the traditions, heritage and aspirations of our residents, our business-owners and our customers. By providing high quality, affordable products, services and customer experiences, we will create a vibrant, walkable, one-of-a-kind center for commerce and leisure activities for residents and a much sought after destination for visitors, investors and entrepreneurs.

ESMS helps East Somerville grow as a thriving, safe, friendly neighborhood and commercial district by supporting existing and new businesses; creating a cleaner, greener, pedestrian-friendly area; strengthen the business community; increasing collaboration and connection between residents; and finally, by marketing East Somerville as a destination within the region.

ESMS uses a nationally tested framework where committees address the variety of issues faced by commercial districts: design, promotion, economic support and development, and organization.

2012 marked East Somerville Main Streets' sixth year as a solid organization, and demonstrated its continued success. With the support of the City funding and its ability to raise new funding sources, ESMS was able to continue growing programs and initiatives such as providing direct financial, technical, and micro-enterprise assistance to local area businesses while gaining momentum on attracting crowds via festivals and events. ESMS also expanded its ability to leverage funds received, fundraising approximately \$25,000 in additional grants and donations during calendar year 2012.

Recently, East Somerville Main Streets undertook the large task of realigning the East Broadway Business District's reputation with the reality of the district. The intention was to move the reputation away from inaccurate and outdated perceptions, to one that reflects the strong positive attributes of the area, creating a foundation for future development led by community assets and vision.

ESMS conducted an intensive community branding process, reaching out to more than fifty community leaders to create a product that reflects the true character of the East Broadway Business District and East Somerville. The final product is a solid and robust branding plan available on the organization's website.

Tax Increment Financing/District Improvement Financing/Other Economic Development Tools

In May of 1994, the Massachusetts Economic Assistance Coordinating Council (EACC) designated the City of Somerville as an Economic Target Area (ETA), which makes it possible to use the mechanism of Tax Increment Financing (TIF) on key economic development projects. Since 1995, the City of Somerville has obtained approval from the EACC for five private sector projects to be eligible Economic Opportunity Areas (EOAs) under the State's Economic Development Incentive Program (EDIP). This approval enabled each project to utilize TIF and to qualify for a State Investment Tax Credit. Somerville's TIF projects to date include major new construction and rehabilitation of office and other commercial buildings. Through the TIF designation, \$485,000 in State Investment Tax Credit funds were enjoyed by participating businesses and developers, who in turn leveraged approximately \$10 million toward the various development projects.

All of the TIF projects have now expired, and the City is currently exploring other state programs aimed at incentivizing private development: in particular, implementing District Improvement Financing (DIF). In December 2010, the Board of Aldermen adopted the \$25.75M Assembly Row DIF that facilitated the construction of vital infrastructure including a new storm water outfall and construction of Assembly Square Drive and the interior streets.

In addition, the City received approval from the Commonwealth for \$58 million of state's Infrastructure Incentive Investment "I-Cubed" program to fund public infrastructure in Assembly Square in 2009. The first \$10 million in Bond Anticipation Notes have been issued and paid to Federal Realty Investment Trust, developer of Assembly Row.

Major Development Projects

Recent private and public development in the City of Somerville include:

Assembly Square (also discussed above)

■ *Under construction – commenced spring 2012:*

1. Avalon Bay:
 - a. Block 1 - 437,840 gsf building including 367 structured parking spaces; 67,530 retail, 195 rental units – 12.5% affordable
 - b. Block 4 - 439,660 gsf building including 505 structured parking spaces; 43,675gsf of retail & restaurant; 253 rental units (12.5% affordable)
2. FRIT:
 - a. Block 3 - 417,204 gsf retail building including 571 structured parking spaces; 60k retail space; 2310 movie theatre (AMC)
 - b. Block 10 -4,500 gsf building for restaurant and retail purposes
 - c. Roadway and Utility Infrastructure in Assembly Row Project
3. SSG Development, 50 Middlesex Avenue:

Storage Building & Retail Uses 135,295 gsf, six-story self-storage facility, with space on the first floor for a 1,498 square foot café/retail use, community bicycle storage space, and a 623 square foot public meeting space (which could also be part of the café/retail use)
4. MBTA Assembly Square Station – A \$40M public private partnership. The first rapid transit station to open in the Commonwealth since 1987. A six month test run followed by a station opening are on scheduled for November 2014 opening

■ *Forecasted Construction –2012 & 2013:*

1. FRIT:
 - o Block 2, 137,000 square foot spec commercial (office) with first floor retail
 - o Redevelop the formerly known IKEA site – City expects special permit application with exact uses and size by spring 2013; The City is contemplating medical office, residential and retail use.
2. DCR's Baxter Park designed and funded by FRIT – 6-acres including Community Pathway Extension (expected to break ground spring 2013)
3. Ten Hills and Assembly Row Rt. 28 Undercarriage connection project – funded by FRIT; DCR-owned (expected to break ground this spring)

Other Areas of Somerville

- **Maxwell's Green:** (formerly MaxPac) The project consists of the construction of a multi-building project including a total of 199 units of housing with dedication of substantial amounts of open space to the public, and construction of new public access to the community path adjacent to the site. This project was substantially completed in 2012, and should be fully occupied early in 2013.
- **Union Place:** The Union Place project is a mixed-use development, which contains residential, office, retail and structured parking uses. The development has helped to transform an older industrial and automotive district into a mixed-use residential/commercial/artist loft district. The location – between Union Square and the City of Cambridge near MIT – has tremendous development potential over the long term. The first three phases of the project have been constructed. Upon completion of all phases, the project is expected to involve \$15 million in private investment. The last phase of the project which includes three floors of office over first floor retail has yet to begin.
- **Arts at the Armory:** This former National Guard Armory, which was sold at auction in 2004 for \$2.6 million has been transformed from an abandoned, tax-exempt property into tax-generating, mixed-use visual and performance art center. The owners have invested approximately an estimated \$10-12 million in the facility, which includes 10-14 new live/work units, offices, a gallery/café, and two performance spaces. It will generate \$38,000 in real estate taxes for the City. The Armory held its grand opening in May 2009. Since its opening the Armory has been fully booked and also hosted several large-scale cultural and civic events, including the citywide celebration of Somerville's designation as an "All America City" by the National Civic League.
- **Biogen:** The Biogen/IDEC Company has leased property on Webster Street for the purpose of distribution and support services for their operations in nearby Cambridge. This facility is an active operation.
- **One Davis Square:** One Davis Square is a commercial property in the heart of Davis Square, which includes office, retail, and a large health club facility. This project opened in 2008 and consists of approximately 12,000 square feet

of retail space, and 25,000 square feet of office space, for a combined total of approximately 37,000 square feet of new development, and \$74,000 in new tax revenues.

- **1188 Broadway:** Developers have sold all of the units in this 30-unit condominium project in Teele Square, which has generated \$50,000 in new tax revenue for the City.
- **St. Polycarps:** This former Archdiocese of Boston property was purchased by a local non-profit developer to be redeveloped for a mixed-use, mixed income project for 130 rental apartments and 5,000 square feet of retail/office space. Phase I of the project, consisting of 24 rental units and 5,000 square feet of commercial space has been occupied. Phase II is substantially complete, and Phase III has begun construction.
- **VNA Assisted Living Facility:** The Visiting Nurses Association of Massachusetts completed construction of a 99-unit affordable assisted living facility on a former public school site in December 2008. This project received extensive public funding including tax credits. The VNA facility will generate \$83,000 in new real estate taxes for the City and create approximately 50 new jobs, in addition to providing excellent quality housing for low income elderly residents.
- **Conwell-Capen Housing:** In December 2008, the Somerville Housing Authority closed on approximately \$25 million in financing from a consortium of public and private lenders for a project consisting of the demolition of an existing (65) unit public housing development for seniors and people with disabilities to be replaced by new construction of a 95-unit public housing facility serving the same population. A certificate of occupancy was issued in May 2010.
- **377 Summer Street:** In spring 2009, the Zoning Board approved construction of a nearly 16,000 square foot building in Davis Square consisting of 4,600 square feet of retail, 5,000 square feet of office, and 6 housing units. Demolition of the existing structures on-site was completed in the summer and a groundbreaking was held in May 2010. The building is now complete and should soon be occupied.
- **Artisan's Asylum:** The Artisan's Asylum has leased and renovated over 20,000 SF of space from the recently vacated Ames Campus on Tyler Street. Ames Envelope, the largest (and one of the oldest) businesses in the City abandoned operations on this site in 2010 leaving a large unused industrial space. But now it houses a bustling community workshop and a growing number of small businesses.
- **Projects Currently In the Permitting Process:**
 - 70 Prospect Street: 14 Residential units with retail
 - 90 Washington Street: approx. 150 units of housing with retail
 - 181-197 Washington Street: 40 units affordable housing and 44 units market rate housing with retail and office
 - 625 McGrath Highway: 32 units housing
 - 771 McGrath Highway: 120 units housing with amenities including upgraded city park with a long-term agreement for developer to maintain public open space

Transportation and Infrastructure

Transit

As mentioned above, the City secured funding for a new Assembly Square Orange Line station (combination of federal, state and private funding). The station is currently under construction and is scheduled to open in the fall of 2014.

While the Assembly Square station promises to bring about critical smart-growth economic development, the MBTA's light rail Green Line Extension (GLX) through Somerville will, along with existing Red Line service, bring rapid transit to 85% of residents – thereby significantly improving the city's air quality, connectivity, and economic stability. All necessary state level environmental permits have been issued and the project is at 30% design. The state's transportation department (MassDOT) has started construction on Phase 1 will be a design/build contract for two bridges and building demolition. This phase is expected to be completed in the fall of 2014.

MassDOT continues to finalize design of phase 2/2A will be a construction management/general contractor (CMGC) contract for construction of stations at Washington St and Union Square. Phase 2/2A should be advertised for bids in the summer of 2013, with stations opening for fare collection in late 2016/early 2017.

MassDOT is also committed to full funding, via state bond for construction, phase 2/2A. Estimated project value is \$350 million. MassDOT and the City will be seeking a federal contribution to the project through the Federal Transit Administration (FTA) New Starts Funding for Phases 3 and 4 and has initiated that process in close coordination with FTA.

In conjunction with the proposed Green Line Extension, the City is planning for closer coordination and updates/adjustments of the MBTA bus routes in order to improve Green Line station access and to enhance intermodal circulation within Somerville, including the installation of over 30 miles of bike lanes and other markings over the past two years.

Roadway, Bridge and Open Space

Funded Projects:

The City of Somerville has secured over \$52 million in various Federal and State government appropriations and earmarks for various roadway, bridge and open space improvements and access studies. The projects include:

Roadway

- Broadway in East Somerville streetscape improvements (\$8M) – a streetscape and utility improvements currently under construction and scheduled to be completed in the summer of 2015.
- McGrath De-elevation Study (\$120,000) – study underway by state to prepare a locally preferred alternative for a de-evaluate/boulevard style roadway. Study conclusion in summer of 2013.
- Beacon Street (\$7M) – a streetscape and roadway reconstruction currently under design in the Boston Regions most bicycled roadway. Construction scheduled for spring 2014.
- I-93 in Somerville and Boston – (\$11M) funding is programmed for the repaving of I-93 in Somerville to Boston. Project completion in spring of 2014.
- Community Path from Cedar to Lowell Street (\$2M) – Extension of the Community Path from its existing terminus at Cedar Street to Lowell Street. Project completion in fall of 2013.
- Streetscape and Adaptive Re-Use (\$600K)– a citywide transportation study and associated analysis of the Inner Belt district will provide the City with a transportation “roadmap” for the next 25-30 years. Study completion in late 2013.
- Route 28 Undercarriage (\$1M) – a bicycle and pedestrian walkway currently under construction between the ten hills neighborhood of Somerville to the new Assembly Square Orange Line Station. Project completion in late 2013.

Bridges

- McCarthy Overpass Improvements (\$11M)– Improvements currently under construction to the existing elevated roadway structure and interim improvements to the existing signals, with significant bicycle and pedestrian upgrades. Project completion in early 2014.
- Cross Street Bridge (\$4.2M) – Reconstruction of the Cross Street Bridge in East Somerville. Project Completion in early 2014.
- Phase 1 Green Line Extension/ Medford Street Rail Bridge (estimated bridge total \$2.5M) – Reconstruction of the Medford Street Rail Bridge in East Somerville. Project completion in the spring of 2014.
- Gilman Street Rail Bridge (\$12M) – Reconstruction of the Rail Bridge over Gilman Street in East Somerville.

Open Spaces

- Chuckie Harris Park (\$906,000) – An innovative new park in East Somerville, project completion in the summer of 2013.
- Baxter Park (\$700,000) - Improvements to Baxter Park on the Mystic River, project completion in the late fall of 2013.
- North Street Park (\$1M) – A reconstruction and expansion of North Street Park, project construction to start in July.

Projects currently in the Planning Stages:

Beyond the \$53 million dollars currently under construction or contract listed above, the City is actively planning for continued growth and investment. These project include:

- Davis Square Streetscape (est. \$7M) - The City is currently enlisting the services of Crosby Schlesinger and Smallridge to finalize the designs. Estimated investment in the next 24 months is \$7 million.
- Union Square – (est. \$50M) - The City recently released an RFP for streetscape design and utility upgrades for Union Square. A firm that will develop conceptual plans should be under contract in the summer of 2013 and 25% construction drawings are scheduled for delivery the following year.

- Central Broadway (est. \$12M) – carrying the streetscape and utility improvements currently under construction on East Broadway west to Ball Square.
- Kenney Park in Davis Square (est. \$400,000) – The City has designed a rehabilitation and improvements to Kenney Park in Davis Square.

Transportation and Utilities

Encouraging a trend toward more pedestrian and bicycle travel, Somerville continues its commitment to providing better pedestrian circulation and access by pursuing expansion and improvements to existing pedestrian paths, and by striping bicycle paths throughout its street network. This commitment was recently recognized by Somerville’s designation as a “Bike Friendly Community” by the League of American Bicyclists. Accordingly, the City has made significant investments, painting over 30 miles of bike lanes and sharrows and increasing bike parking with the installation of bike racks and 10 bike corrals.

At the same time, the City’s streetscape projects make use of bumpouts, curb extensions, and raised intersections to calm traffic and improve pedestrian experiences, the Broadway project in East Somerville will be the cornerstone of this effort. This year the City attended the groundbreaking of the expansion of the Minuteman Trail, which now extends from Somerville to Lexington. We continue to work with MassDOT on the completion of the Community Path to NorthPoint in Cambridge. Several of these segments are under construction or were recently completed using various federal funds.

On the vehicle side, the City is served by Interstate 93, McGrath and O’Brien Highways, Route 38 (Mystic Avenue), Route 16 and the Fellsway. Rapid transit and bus service within the City and to neighboring communities, including Boston, is provided by the Massachusetts Bay Transportation Authority (MBTA). Transportation services for the elderly are funded by the City with assistance from the federal CDBG program, and have been provided by SCM Somerville Community Transportation, Inc. Other private carriers provide taxicab (with one locally owned cab company) and other transportation services to various city businesses and institutions such as Tufts University. Complete water and sewer services are provided for by connections to the Massachusetts Water Resources Authority (MWRA) system. Gas and electric services are provided by established private utilities.

POPULATION TRENDS

<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>
75,754	77,478	76,210	77,372

SOURCE: U. S. Bureau of the Census.

On the basis of the 2010 Federal census, the City has a population density of approximately 18,427 persons per square mile.

Income Levels and Population

According to the 2010 Federal census, median family income for the City of Somerville was \$69,245 compared with \$81,165 for the Commonwealth and \$51,144 for the nation. In 2010, per capita income was \$32,517 compared with \$33,966 for the Commonwealth and \$27,334 for the nation.

POPULATION AND INCOME

	<u>Somerville</u>	<u>Massachusetts</u>	<u>United States</u>
Median Age:			
2010	31.4	39.1	37.2
2000	31.1	36.5	35.3
1990	31.0	33.6	32.9
1980	29.9	31.2	30.0
Median Family Income:			
2010	\$69,245	\$81,165	\$51,144
2000	51,243	61,644	50,046
1990	38,532	44,367	35,225
1980	18,220	21,166	19,908
Per Capita Income:			
2010	\$32,517	\$33,966	\$27,334
2000	23,628	25,952	21,587
1990	15,179	17,224	14,420
1980	6,249	7,459	7,313

SOURCE: U. S. Bureau of the Census.

PROPERTY TAXATION

Tax Levy Computation

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

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

Although an allowance is made in the tax levy for abatements (see "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).

The table below illustrates the manner in which the tax levy was determined for the following fiscal years.

TAX LEVY COMPUTATION

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
Total Appropriations(1)	\$ 194,515,673	\$ 191,704,010	\$ 194,670,629	\$ 201,838,343	\$ 207,015,587
Additions:					
State Assessments	10,112,492	10,227,323	11,758,594	11,727,941	11,866,423
Overlay Reserve	1,425,728	1,482,905	1,373,464	1,338,607	1,499,886
Other Additions(2)	140,676	106,281	103,985	105,526	477,405
Total Additions	<u>11,678,896</u>	<u>11,816,509</u>	<u>13,236,043</u>	<u>13,172,074</u>	<u>13,843,714</u>
Gross Amount to be Raised	<u>206,194,569</u>	<u>203,520,519</u>	<u>207,906,672</u>	<u>215,010,417</u>	<u>220,859,301</u>
Deductions:					
Local Estimated Receipts	47,599,395	49,526,498	51,656,310	56,823,730	55,084,236
State Aid(3):					
Current Year	57,692,847	48,588,173	47,671,946	45,100,309	46,667,977
Available Funds:					
Free Cash	3,095,214	4,000,000	1,052,944	2,721,320	2,729,500
Other Available Funds(4)	5,304,421	4,912,816	6,976,480	5,599,771	6,454,552
Total Deductions	<u>113,691,877</u>	<u>107,027,487</u>	<u>107,357,680</u>	<u>110,245,130</u>	<u>110,936,265</u>
Net Amount to be Raised (Tax Levy)	<u>\$92,502,692</u>	<u>\$96,493,032</u>	<u>\$100,548,992</u>	<u>\$104,765,287</u>	<u>\$109,923,036</u>

- (1) Includes additional appropriations from taxation voted subsequent to the adoption of the annual budget but prior to the setting of the tax rate.
- (2) Approximately 80% of these amounts were to pay for students attending a "Charter School" which opened in Somerville under the Education Reform Act. Part of this cost was reimbursed to the City through increased state aid.
- (3) Includes state aid as well as other payments from the Commonwealth. See "CITY FINANCES--Revenues--State Aid". The City's general state aid was reduced by \$2,935,217 mid-year in fiscal 2009 from the amount shown above. See "Reduction of State Local Aid" on the next page for further discussion of state aid cuts in fiscal 2009 and fiscal 2010. State aid was further decreased in fiscal 2011 and fiscal 2012 as shown above.
- (4) Transfers from other available funds, including overlay surplus, parking revenues and the tax title collection reserve account are generally made as an offset to a particular appropriation item.

Reduction of State Local Aid

A total of \$2,935,217 was cut from the fiscal 2009 budget in mid-year to address the state aid reductions. The cut was absorbed without loss of programming or essential services. No personnel were laid off. Several vacant positions were eliminated and lag monies from vacant positions were utilized to close the gap. The apportionment of the cut was as follows: \$672,976 in City Departmental Personal Services Budget revisions; \$988,026 in Salary Contingency Budget reversions; \$474,215 in City Operations and Ordinary Maintenance Budget reversions; \$800,000 in School Department Budget reversions.

The City suffered a net state aid loss of \$9,216,239 or 21.29% in fiscal 2010. The final appropriated fiscal 2010 General Fund Budget is \$160,032,473, a reduction of \$4,988,179 or 3%, from the appropriated fiscal 2009 General Fund Budget. A number of measures were undertaken to balance the fiscal 2010 budget. They include:

- Hold on non-union and union cost of living increases
- 1 and 2 week furloughs for non-union personnel
- 1 week furloughs for 3 bargaining units
- Eliminated 27 positions in the School Department
- Eliminated 20 positions in the General Government
- Extended the pension funding schedule by 4 years from 2022 to 2026
- Increased non-union health insurance premium contributions by 5%
- Increased retiree health insurance HMO premium contributions by 15%
- Increased retiree health insurance indemnity contributions by 39%
- Raised fee, fine, and permit rates
- Implemented city-wide residential parking permits

The City approved a 0.75% local option meals and an increase from 4% to 6% on the hotel/motel taxes on August 27, 2009. The implementation date for both tax changes was October 1, 2009. According to estimates made by the State Department of Revenue, Somerville raised an additional \$620,715 in fiscal 2010 with these changes broken down as follows:

Meals Tax	\$480,311
Hotel/Motel Tax Increase	\$140,404

State aid was further reduced by \$2,397,317 in fiscal 2011 and by \$2,540,984 in fiscal 2012, resulting in a net amount to the City of \$31,682,397 and \$29,141,413, respectively. The City received a one-time state aid supplement of \$1,546,877 for fiscal 2012. After the one-time supplement the net reduction for fiscal 2012 was \$994,107. The City expects to receive level state aid in fiscal 2013.

Assessed Valuations and Tax Levies

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 required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation; the effective rate for open space must be at least 75 per cent of the effective rate for residential real property; and 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 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years, or pursuant to a revised schedule as may be issued by the Commissioner.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land 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". See "State Equalized Valuations" below.

The City of Somerville has used multiple tax rates for different classes of property since fiscal year 1986.

Professional reevaluations of all property in the City to full and fair cash value in compliance with Massachusetts law were mostly recently completed for use in fiscal year 2010. The next reevaluation will be completed in fiscal year 2014. The City conducts an interim year adjustment on values annually.

The table below sets forth the trend in the City's assessed valuations, tax rates, tax levies, and tax levies per capita for the following fiscal years.

Fiscal Year	Real Estate Valuation	Personal Property Valuation	Total Assessed Valuation	Tax Rate Per \$1,000 Valuation		Tax Levy	Tax Levy Per Capita(2)
				Resid.	All other		
2013	\$ 8,409,496,900	\$ 185,838,150	\$ 8,595,335,050	\$ 13.42	\$ 22.38	\$ 109,923,036	\$ 1,451
2012	8,212,040,400	178,531,790	8,390,572,190	13.09	21.85	104,765,287	1,383
2011	8,132,444,500	165,431,820	8,297,876,320	12.71	21.21	100,548,992	1,327
2010 (1)	8,112,165,500	149,114,320	8,261,279,820	12.30	20.44	96,493,032	1,274
2009	8,264,590,100	144,604,120	8,409,194,220	11.71	19.25	92,502,692	1,221

- (1) Professional revaluation year.
(2) Based on 2010 Federal Census figure.

Classification of Property

The following is a breakdown of the City's assessed valuation of real estate in fiscal years 2011, 2012, and 2013.

Property Type	2011		2012		2013	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Residential	\$ 7,027,712,955	84.7 %	\$ 7,099,067,112	84.6 %	\$ 7,293,246,502	84.9 %
Commercial	831,013,262	10.0	836,954,788	10.0	843,242,898	9.8
Industrial	273,718,283	3.3	276,018,500	3.3	273,007,500	3.2
Personal	165,431,820	2.0	178,531,790	2.1	185,838,150	2.2
Total Real Estate	\$ 8,297,876,320	100.0 %	\$ 8,390,572,190	100.0 %	\$ 8,595,335,050	100.0 %

- (1) Professional revaluation year.

LARGEST TAXPAYERS

The following table lists the ten largest taxpayers in the City based upon assessed valuation for fiscal 2013. All of the taxpayers listed below are current in their tax payments.

Name	Nature of Business	Total Assesed Valuation for Fiscal 2013	Amount of Tax	% of Total Levy
FR Assembly Square LLC	Shopping Mall	\$63,040,200	\$1,410,840	1.28 %
NSTAR Electric CO	Electric Company	61,485,440	1,376,044	1.25
Twin City Plaza LLC	Retail Mall	50,000,000	1,119,000	1.02
St Retail Inc. & FR Sturtevant St LLC	Developable Land Comm.	46,384,600	1,038,087	0.94
I-93 Somerville LLC	Retail	36,036,500	806,497	0.73
CRP 70 Inner Belt LLC	Telecom	34,051,800	762,079	0.69
Kadima Medical Properties LLC	Professional Building	32,624,000	730,125	0.66
National Tax Seach LLC Trustee	Office Building	23,000,000	514,740	0.47
NSTAR Gas Company	Gas Company	22,719,440	508,461	0.46
Clarendon Hill Somerville LP	Apartments	35,424,000	475,390	0.43
Total		\$404,765,980	\$8,741,263	7.95 %

State Equalized Valuation

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 determination of the fair cash value of the taxable property in each municipality as of January 1 of even numbered years. This is known as the "equalized value". Local assessed valuations are determined annually as of January 1 and used for the fiscal year beginning on the next July 1.

The following table sets forth the State equalized valuation of the City.

<u>January 1,</u>	<u>State Equalized Valuation</u>	<u>City % Increase</u>
2012	\$9,237,328,000	1.08 %
2010	9,139,060,000	(4.92)
2008	9,612,275,100	10.25
2006	8,718,572,100	19.17
2004	7,316,371,300	31.86
2002	5,548,714,800	43.82
2000	3,858,210,300	21.68

Abatements and Overlay

The City is authorized to increase each tax levy by an amount approved by the Commissioner of Revenue as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the resultant "overlay deficit" is required to be added to the next tax levy. An abatement granted after a tax payment has been made is accounted for as a refund on the books of the City. Any balance in the overlay account, in excess of the amount of the warrant remaining to be collected or abated, is transferred to a reserve fund to be used for extraordinary or unforeseen expenses. Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue.

The following table sets forth the amount of the overlay reserve for each of the last five fiscal years and actual abatements and refunds granted through June 30, 2012 against each levy.

<u>Fiscal Year</u>	<u>Net Tax Levy(1)</u>	<u>Overlay Reserve</u>		<u>Abatements Granted Through June 30, 2012</u>
		<u>Dollar Amount</u>	<u>As a % of Net Levy</u>	
2012	\$103,426,680	\$1,338,607	1.3 %	\$951,599
2011	99,175,528	1,373,464	1.4	889,246
2010	95,010,127	1,482,905	1.6	768,477
2009	91,076,964	1,425,728	1.6	995,335
2008	86,490,083	1,740,520	2.0	1,225,629

(1) Tax levy prior to addition of overlay reserve.

Tax Collections

Property tax bills are payable quarterly on August 1, November 1, February 1, and May 1 of each fiscal year. Interest accrues on delinquent taxes at the rate of 14 percent per annum. 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. 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 where it could not be enforced because of a legal impediment. The persons against whom real or 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 below.

The table below compares the City's net tax collections with its net (gross tax levy less overlay reserve for abatements) tax levies for the following fiscal years.

TAX COLLECTIONS

Fiscal Year	Gross Tax Levy	Net Tax Levy(1)	Collections During Fiscal Year Payable(2)		Collections as of June 30, 2012 (2)	
			Dollar Amount	% of Net Levy	Dollar Amount	% of Net Levy
2012	\$104,765,287	\$103,426,680	\$102,975,330	99.56 %	\$102,975,330	99.56 %
2011	100,548,992	99,175,528	98,703,495	99.52	98,703,495	99.52
2010	96,493,032	95,010,127	94,988,009	99.98	94,988,009	99.98
2009	92,502,692	91,076,964	91,213,775	100.15	91,213,775	100.15
2008	88,230,603	86,490,083	86,635,835	100.17	88,717,954	102.58

(1) Net after deduction of overlay for abatements.

(2) Actual dollar collections net of refunds. Does not include abatements or other non-cash credits.

Tax Titles and Possessions

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 such 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. Uncollectible 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 tax and charging surplus.

The following table sets forth the amount of tax titles and possessions outstanding at the end of each of the last five fiscal years.

Fiscal Year	Total Tax Titles and Possessions
2012	\$ 2,139,324
2011	3,517,302
2010	3,645,507
2009	3,250,703
2008	2,688,486

Sale of Tax Receivables

Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk. The City does not expect to utilize this option at this time.

Taxation to Meet Deficits

As noted elsewhere (see "Overlay" above) 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, i.e. those 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.

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

Tax Limitations

Chapter 59, Section 21C of the General Laws, also known as Proposition 2½, imposes two separate limits on the annual tax levy of a city or town.

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

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2 1/2 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 limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the “growth” limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

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

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

Proposition 2 1/2 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 attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures or for the city or town’s apportioned share for certain capital outlay expenditures by a regional governmental unit. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the city council of a City may vote to exclude from the 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 by an independent authority, commission or district) for water or sewer purposes, provided that the municipality’s sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA 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”. Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district’s governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member

districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

The following table sets forth the trend in the City's tax levies and levy limits under Proposition 2 ½.

	Unused Levy Capacity (1)				
	For Fiscal Year				
	2013	2012	2011	2010	2009
Primary Levy Limit(2)	\$183,040,840	\$209,764,305	\$176,539,345	\$206,531,996	\$210,229,856
Prior Fiscal Year Levy Limit	104,838,480	100,575,781	96,513,179	92,534,464	88,265,083
2.5% Levy Growth	2,620,962	2,514,395	2,312,830	2,313,362	2,206,627
New Growth (3)	2,463,708	1,738,914	1,649,518	1,662,301	2,062,754
Overrides	-	-	-	-	-
Growth Levy Limit	109,923,150	104,829,090	100,475,527	96,510,127	92,534,464
Debt Exclusions	-	-	-	-	-
Capital Expenditure Exclusions	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Tax Levy Limit	109,923,150	104,829,090	100,575,527	96,510,127	92,534,464
Tax Levy	109,923,036	104,765,287	100,548,992	96,493,032	92,502,692
Unused Levy Capacity (4)	114	63,803	26,535	17,095	31,772
Unused Primary Levy Capacity (5)	\$73,117,690	\$104,935,215	\$76,063,818	\$110,021,869	\$117,695,392

(1) Source: Massachusetts Department of Revenue

(2) 2.5% of assessed valuation.

(3) Allowed increase for new valuations (or required reduction) – certified by the Department of Revenue.

(4) Tax Levy Limit less Tax Levy.

(5) Primary Levy Limit Less Growth Levy Limit.

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.

Community Preservation Act

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

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

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge on the real property tax levy. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory

formula which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge based on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

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

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

On November 6, 2012, the City adopted the CPA. The CPA will be implemented in the first quarter of fiscal year 2014.

CITY FINANCES

Budget and Appropriation Process

Pursuant to the City Charter, City department heads are required to submit their budget requests to the Mayor between January and February in each year. The Mayor then submits a budget request and recommendation for the next fiscal year beginning on July 1, to the Board of Aldermen in March or April in each year. Under the Charter, the Board of Aldermen must adopt a budget by June 30.

The Mayor is required to submit a budget. The Board of Aldermen may make appropriations for the recommended purposes and may reduce or reject any item. Without a recommendation of the Mayor, the Board of Aldermen may not make any appropriation for a purpose not included in the proposed budget (except by a two-thirds vote in case of the failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the Board of Aldermen). The Board of Aldermen may not increase any item without the recommendation of the Mayor (except as provided by legislation, subject to local acceptance, under which the school budget or regional school district assessment can be increased upon recommendation of the school committee and the two-thirds vote of the Board of Aldermen, provided that such increase does not cause the total annual budget to exceed the property tax limitations). If the Board of Aldermen fails to act on any item of the proposed budget within 45 days, that item takes effect.

If the Mayor does not make a timely budget submission, provision is made for preparation of a budget by the Board of Aldermen. Provision is also made for supplementary appropriations upon recommendation of the Mayor. Water department expenditures are required to be included in the budget adopted by the Board of Aldermen. As a result of an initiative law adopted in November 1980, school committees are no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the amount appropriated by the Board of Aldermen, but the school committee retains full power to allocate the funds appropriated.

Mandatory items, such as state assessments, the overlay for abatements, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "Security and Remedies" and "PROPERTY TAXATION--Tax Levy Computation".)

The table below sets forth the trend in operating budgets in the format recommended by the Mayor and voted by the Board of Aldermen for the following fiscal years.

BUDGET COMPARISON

	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>
General Government	\$ 11,404,192	\$ 10,857,271	\$ 10,464,312	\$ 10,969,850	\$ 12,280,768
Public Safety	30,747,793	30,798,642	31,263,135	32,021,518	35,419,878
Education	48,785,700	47,704,034	48,677,466	49,489,422	52,545,257
Libraries	1,920,327	1,619,143	1,563,937	1,627,831	1,770,440
Recreation	674,135	529,213	381,152	414,458	591,756
Debt Service	7,733,562	8,606,839	9,158,057	9,805,690	8,998,327
Insurance	24,734,465	28,585,212	29,874,524	30,307,808	22,445,461
Compensation and Pensions	16,538,242	9,120,783	14,450,405	14,479,571	12,288,503
Public Works	20,320,113	19,696,084	19,230,496	20,129,311	20,549,329
Water & Sewer	25,356,062	26,599,994	28,838,065	29,706,814	30,449,860
Other	560,692	392,940	403,812	426,600	4,836,611
Grand Total	<u>\$ 188,775,283</u>	<u>\$ 184,510,155</u>	<u>\$ 194,305,361</u>	<u>\$ 199,378,873</u>	<u>\$ 202,176,190</u>

Revenues

Property Taxes: Property taxes together with State aid are the major sources of revenue for the City. The total amount of property taxes to be levied is subject to certain limits prescribed by law; for a description of those limits see "PROPERTY TAXATION--Tax Limitations".

State Aid: The City's State aid entitlement is based upon a number of different formulas, and while said formulas 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 actual payments may vary from the estimate.

Motor Vehicle Excise: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a uniform rate of \$25 per \$1,000 of valuation. The excise tax is collected by and for the benefit of the municipality in which the owner of the motor vehicle resides. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 per cent per annum. Provision is also made for the non-renewal of registration and operator's license by the registrar of motor vehicles. In fiscal 2011, the City's motor vehicle excise receipts totaled \$4,894,601. In fiscal 2012, the City's motor vehicle excise receipts totaled \$4,926,447.

Water and Sewer Rates and Services: Beginning in fiscal 2006, the City's water and sewer operations are fully self supporting and accounted for in separate Water and Sewer Enterprise Funds. Effective July 1, 2011, water rates range between \$3.62 and \$5.68 per 100 cubic feet and sewer rates range between \$6.07 and \$8.41 per 100 cubic feet, and are billed tri-annually. These rates are set annually by the Department of Public Works Commissioner and approved by the Mayor. Water and sewer rate revenues collected in fiscal year 2011 (including prior year commitments) were \$31,265,729. Water and sewer rate revenues collected in fiscal year 2012 (including prior year commitments) were \$29,421,575.

Room Occupancy Tax: Under G.L. Chapter 64G, s. 3A local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed six percent (6%) of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located. The City levied the full 4% as permitted under the law and revenues from this source totaled \$350,815 in fiscal 2009. The City approved an additional 2% on August 27, 2009. Revenues from the 2% increase totaled \$374,364 in fiscal 2010. Revenues totaled \$514,202 in fiscal 2011 and \$603,840 in fiscal 2012.

Meals Tax: On August 27, 2009, the City approved a local meals tax of 0.75%. The tax is paid by the vendor to the State Commissioner of Revenue, who in turn pays the tax to the municipality in which the meal was sold. Revenues from the Meals Tax generated \$786,934 in fiscal year 2011. Revenues from this tax generated \$1,100,874 in fiscal year 2012.

Other Revenues: Other major sources of General Fund revenues in fiscal 2011 included fees, fines and charges, \$24,676,953 and interest income, \$384,629. Other major sources of General Fund revenues in fiscal 2012 included fees, fines and charges, \$20,413,151 and interest income, \$302,076.

State Distributions

The City's State aid entitlement is based upon a number of different formulas, and while said formulas 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 actual payments may vary from the estimate.

State School Building Assistance Program

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

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has

assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

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

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

The range of reimbursement rates for new project grant applications submitted to the Authority on or after July 1, 2007 has been reduced to between 40% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

Education Reform

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 and related programs, and may affect the level of state aid to be received 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. Fiscal year appropriations by the City have exceeded the minimum required funding levels.

Investment of City Funds

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

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

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.

A breakdown of current investments may be obtained from the City Treasurer.

Summary of Significant Accounting Policies of the City

See Appendix A.

Annual Audits

The City's accounts were independently audited for the fiscal years ended June 30, 1995 through 2012 by Powers & Sullivan, Certified Public Accountants, the most recent copy of which is attached in Appendix A.

The attached report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Financial Statements

Set forth on the following pages are Governmental Funds Balance Sheets for the fiscal years ended June 30, 2012, June 30, 2011 and June 30, 2010, and Statements of Revenues, Expenditures and Changes in Fund Balance for fiscal years ended June 30, 2008 through June 30, 2012. Water and Sewer Enterprise financial statements are also included for the fiscal year ended June 30, 2012, June 30, 2011 and June 30, 2010. All of these statements were extracted from the City's audited Financial Statements.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET JUNE 30, 2012 (1)**

	General	Strategic Planning & Community Development	Capital Projects Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 47,603,416	\$ 273,440	\$ 15,914,422	9,582,591	73,373,869
Receivables, net of uncollectibles:					
Real Estate and Personal Property Taxes	1,117,682	-	-	-	1,117,682
Tax liens	2,139,706	-	-	-	2,139,706
Motor vehicle excise taxes	229,049	-	-	-	229,049
Departmental and other	5,600,444	-	-	-	5,600,444
Intergovernmental	22,205,000	4,706,594	-	1,638,558	28,550,152
Loans	-	12,297,586	-	1,577,740	13,875,326
Due from other funds	-	-	-	586,487	586,487
TOTAL ASSETS	\$ 78,895,297	\$ 17,277,620	\$ 15,914,422	\$ 13,385,376	\$ 125,472,715
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable	2,042,454	-	15,409,599	25,879	17,477,932
Other liabilities	1,728	-	-	-	1,728
Accrued payroll	1,240,548	24,506	2,112	210,846	1,478,012
Health claims payable	22,642	-	-	-	22,642
Tax refunds payable	1,415,000	-	-	-	1,415,000
Payroll withholdings	828,467	-	-	-	828,467
Abandoned property	655,673	-	-	-	655,673
Deferred revenues	31,076,034	4,706,594	-	719,645	36,502,273
Due to other funds	-	-	-	586,487	586,487
Notes payable	-	-	8,399,962	-	8,399,962
TOTAL LIABILITIES	37,282,546	4,731,100	23,811,673	1,542,857	67,368,176
FUND BALANCES					
Nonspendable	-	-	-	433,126	433,126
Restricted	-	12,546,520	-	11,409,393	23,955,913
Committed	21,929,103	-	-	-	21,929,103
Assigned	5,948,451	-	-	-	5,948,451
Unassigned	13,735,197	-	(7,897,251)	-	5,837,946
TOTAL FUND BALANCES	41,612,751	12,546,520	(7,897,251)	11,842,519	58,104,539
TOTAL LIABILITIES AND FUND BALANCES	\$ 78,895,297	\$ 17,277,620	\$ 15,914,422	\$ 13,385,376	\$ 125,472,715

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET JUNE 30, 2011 (1)**

	General	Strategic Planning & Community Development	Capital Projects Bond Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 50,177,803	\$ -	\$ 2,796,378	18,210,176	71,184,357
Receivables, net of uncollectibles:					
Real Estate and Personal Property Taxes	1,059,707	-	-	-	1,059,707
Tax liens and foreclosures	3,517,685	-	-	-	3,517,685
Motor vehicle excise taxes	217,360	-	-	-	217,360
Departmental and other	5,989,747	-	-	-	5,989,747
Intergovernmental	25,853,230	5,397,405	-	2,267,095	33,517,730
Loans	-	12,743,399	-	1,710,661	14,454,060
Due from other funds	-	-	-	435,437	435,437
Other assets	896	-	-	-	896
TOTAL ASSETS	\$ 86,816,428	\$ 18,140,804	\$ 2,796,378	\$ 22,623,369	\$ 130,376,979
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable	3,262,296	-	-	155	3,262,451
Accrued payroll	1,656,542	48,997	4,396	201,157	1,911,092
Health claims payable	2,788,084	-	-	-	2,788,084
Tax refunds payable	958,000	-	-	-	958,000
Payroll withholdings	244,184	-	-	-	244,184
Abandoned property	727,830	-	-	-	727,830
Deferred revenues	36,479,332	5,397,405	-	2,074,960	43,951,697
Due to other funds	-	435,437	-	-	435,437
Notes payable	-	-	2,834,331	-	2,834,331
TOTAL LIABILITIES	46,116,268	5,881,839	2,838,727	2,276,272	57,113,106
FUND BALANCES					
Nonspendable	-	-	-	433,126	433,126
Restricted	-	12,258,965	-	19,913,971	32,172,936
Committed	18,712,499	-	-	-	18,712,499
Assigned	10,242,471	-	-	-	10,242,471
Unassigned	11,745,190	-	(42,349)	-	11,702,841
TOTAL FUND BALANCES	40,700,160	12,258,965	(42,349)	20,347,097	73,263,873
TOTAL LIABILITIES AND FUND BALANCES	\$ 86,816,428	\$ 18,140,804	\$ 2,796,378	\$ 22,623,369	\$ 130,376,979

(1) Extracted from audited financial statements of the City.

CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET JUNE 30, 2010(1)

	General	Strategic Planning & Community Development	School Construction Fund	Capital Projects Bond Fund	Stabilization Funds	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	\$ 35,867,071	\$ 580,691	\$ 1,353,465	\$ 2,126,460	\$ 9,994,651	20,349,728	70,272,066
Receivables, net of uncollectibles:							
Real Estate and Personal Property Taxes	932,593	-	-	-	-	-	932,593
Tax liens and foreclosures	3,645,889	-	-	-	-	-	3,645,889
Motor vehicle excise taxes	44,504	-	-	-	-	-	44,504
Departmental and other	5,706,299	-	-	-	-	-	5,706,299
Intergovernmental	29,501,528	6,012,364	-	-	-	1,944,230	37,458,122
Loans	-	12,989,978	-	-	-	-	12,989,978
Other assets	713	-	-	-	-	-	713
TOTAL ASSETS	\$ 75,698,597	\$ 19,583,033	\$ 1,353,465	\$ 2,126,460	\$ 9,994,651	\$ 22,293,958	\$ 131,050,164
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Warrants payable	2,581,957	169,765	204,382	286,403	-	47,296	3,289,803
Accrued payroll	1,769,808	46,713	-	-	-	158,179	1,974,700
Health claims payable	1,861,562	-	-	-	-	-	1,861,562
Tax refunds payable	1,362,000	-	-	-	-	-	1,362,000
Payroll withholdings	22,693	-	-	-	-	-	22,693
Abandoned property	716,123	-	-	-	-	-	716,123
Deferred revenues	39,486,016	6,012,364	-	-	-	1,629,648	47,128,028
Notes payable	-	-	445,000	5,860,200	-	-	6,305,200
TOTAL LIABILITIES	47,800,159	6,228,842	649,382	6,146,603	-	1,835,123	62,660,109
FUND BALANCES							
Reserved for:							
Encumbrances and continuing appropriations	5,508,277	-	-	-	-	-	5,508,277
Loans	-	12,989,978	-	-	-	-	12,989,978
Stabilization	4,002,224	-	-	-	-	-	4,002,224
Employee benefits	6,400,233	-	-	-	-	-	6,400,233
Perpetual permanent funds	-	-	-	-	-	433,126	433,126
Unreserved:							
Designed for subsequent year's expenditures	3,500,000	-	-	-	-	-	3,500,000
Undesignated, Reported In:							
General fund	8,487,704	-	-	-	-	-	8,487,704
Special revenue funds	-	364,213	-	-	-	19,862,643	20,226,856
Capital projects funds	-	-	704,083	(4,020,143)	9,994,651	-	6,678,591
Permanent funds	-	-	-	-	-	163,066	163,066
TOTAL FUND BALANCES	27,898,438	13,354,191	704,083	(4,020,143)	9,994,651	20,458,835	68,390,055
TOTAL LIABILITIES AND FUND BALANCES	\$ 75,698,597	\$ 19,583,033	\$ 1,353,465	\$ 2,126,460	\$ 9,994,651	\$ 22,293,958	\$ 131,050,164

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 2012 (1)**

REVENUES:	General	Strategic Planning & Community Development	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
Real Estate and Personal Property Taxes net of Tax Refunds	\$ 102,575,530	\$ -	-	\$ -	\$ 102,575,530
Tax liens	1,297,050	-	-	-	1,297,050
Motor Vehicle and Other Excise Taxes	6,762,048	-	-	-	6,762,048
Payments in Lieu of Taxes	192,334	-	-	-	192,334
Intergovernmental	63,328,037	6,368,149	-	13,532,303	83,228,489
Departmental and Other	16,666,181	401,276	-	6,665,467	23,732,924
Contributions	103,178	-	-	1,257,842	1,361,020
Investment Income	313,768	2,637	-	4,473	320,878
Miscellaneous	71,679	-	-	-	71,679
Total Revenues	191,309,805	6,772,062	-	21,460,085	219,541,952
EXPENDITURES:					
Current:					
General Government	9,990,855	-	15,184,655	2,503,833	27,679,343
Public Safety	35,808,614	-	950,726	833,737	37,593,077
Education	50,504,799	-	12,289,863	12,898,228	75,692,890
Public Works	20,346,357	-	461,968	1,663,509	22,471,834
Community Development	-	5,462,027	-	-	5,462,027
Human Services	-	-	-	312,548	312,548
Culture and Recreation	2,906,174	717,320	2,537,595	393,331	6,554,420
Pension benefits	27,154,941	-	-	-	27,154,941
Employee Benefits	27,555,222	-	-	-	27,555,222
Claims and judgements	124,666	-	-	-	124,666
State and County Charges	10,922,689	-	-	-	10,922,689
Debt Service	-	-	-	-	-
Principal	7,173,552	300,000	-	-	7,473,552
Interest	2,489,382	5,160	-	-	2,494,542
Total Expenditures	194,977,251	6,484,507	31,424,807	18,605,186	251,491,751
Excess (deficiency) of revenues over expenditures	(3,667,446)	287,555	(31,424,807)	2,854,899	(31,949,799)
OTHER FINANCING SOURCES:					
Proceeds from long-term bonds	-	-	15,750,000	-	15,750,000
Premium form issuance of bonds	84,756	-	-	268,727	353,483
Sale of assets	16,384	-	-	-	16,384
Transfers in	4,478,897	-	7,819,905	-	12,298,802
Transfers out	-	-	-	(11,628,204)	(11,628,204)
Total Other Financing Sources	4,580,037	-	23,569,905	(11,359,477)	16,790,465
Net Change in Fund Balances	912,591	287,555	(7,854,902)	(8,504,578)	(15,159,334)
FUND BALANCES AT BEGINNING OF YEAR	40,700,160	12,258,965	(42,349)	20,347,097	73,263,873
FUND BALANCES AT END OF YEAR	41,612,751	12,546,520	(7,897,251)	11,842,519	58,104,539

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 2011 (1)**

REVENUES:	General	Strategic Planning & Community Development	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
Real Estate and Personal Property Taxes net of Tax Refunds	\$ 98,921,096	\$ -	-	\$ -	\$ 98,921,096
Tax liens	1,161,723	-	-	-	1,161,723
Motor Vehicle and Other Excise Taxes	4,894,601	-	-	-	4,894,601
Payments in Lieu of Taxes	398,281	-	-	-	398,281
Intergovernmental	64,689,557	7,545,929	-	13,058,328	85,293,814
Departmental and Other	17,424,907	464,300	-	6,056,839	23,946,046
Contributions	11,515	-	-	1,342,734	1,354,249
Investment Income	409,134	3,225	-	7,362	419,721
Miscellaneous	229,144	-	-	-	229,144
Total Revenues	188,139,958	8,013,454	-	20,465,263	216,618,675
EXPENDITURES:					
Current:					
General Government	11,810,847	-	647,737	2,385,013	14,843,597
Public Safety	31,234,105	-	442,187	1,310,428	32,986,720
Education	47,840,453	-	3,822,903	12,811,140	64,474,496
Public Works	19,334,968	-	1,253,896	726,666	21,315,530
Community Development	-	7,490,614	-	562	7,491,176
Human Services	-	-	-	7,095	7,095
Culture and Recreation	1,886,129	-	5,354	506,059	2,397,542
Pension benefits	25,986,011	-	-	-	25,986,011
Employee Benefits	28,783,865	-	-	-	28,783,865
State and County Charges	10,990,847	-	-	-	10,990,847
Debt Service					
Principal	6,499,951	300,000	-	-	6,799,951
Interest	2,389,746	14,985	-	-	2,404,731
Total Expenditures	186,756,922	7,805,599	6,172,077	17,746,963	218,481,561
Excess (deficiency) of revenues over expenditures	1,383,036	207,855	(6,172,077)	2,718,300	(1,862,886)
OTHER FINANCING SOURCES:					
Proceeds from long-term bonds	-	-	6,305,000	-	6,305,000
Premium form issuance of bonds	31,659	-	-	390,689	422,348
Premium from issuance of refunding bonds	9,355	-	-	-	9,355
Sale of assets	1,810,534	-	3,140,788	327,513	5,278,835
Transfers in	(427,513)	(5,784)	-	(4,845,538)	(5,278,835)
Transfers out	-	-	-	-	-
Total Other Financing Sources	1,424,035	(5,784)	9,445,788	(4,127,336)	6,736,703
Net Change in Fund Balances	2,807,071	202,071	3,273,711	(1,409,036)	4,873,817
FUND BALANCES AT BEGINNING OF YEAR	37,893,089	12,056,894	(3,316,060)	21,756,133	68,390,056
FUND BALANCES AT END OF YEAR	40,700,160	12,258,965	(42,349)	20,347,097	73,263,873

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 2010 (1)**

REVENUES:	General	Strategic Planning & Community Development	School Construction Fund	Bonded Capital Projects Fund	Stabilization Funds	Nonmajor Governmental Funds	Total Governmental Funds
Real Estate and Personal Property Taxes net of Tax Refunds	\$ 95,031,409	\$ -	\$ -	\$ -	-	-	\$ 95,031,409
Tax liens	1,078,578	-	-	-	-	-	1,078,578
Motor Vehicle and Other Excise Taxes	4,563,267	-	-	-	-	-	4,563,267
Payments in Lieu of Taxes	163,644	-	-	-	-	-	163,644
Intergovernmental	62,787,400	8,726,390	-	-	-	12,171,628	83,685,418
Departmental and Other	16,472,772	254,923	-	-	-	6,573,298	23,300,993
Contributions	-	-	-	-	21,900	1,140,445	1,162,345
Investment Income	539,957	4,857	-	-	26,831	12,383	584,028
Miscellaneous	-	-	-	-	145,000	167,803	312,803
Total Revenues	180,637,027	8,986,170	-	-	193,731	20,065,557	209,882,485
EXPENDITURES:							
Current:							
General Government	10,135,005	-	-	1,186	546,909	1,034,167	11,717,267
Public Safety	30,135,237	-	-	300,962	596,207	1,745,473	32,777,879
Education	47,550,217	-	574,729	110,592	-	12,412,383	60,647,921
Public Works	19,213,158	-	-	2,459,330	-	974,557	22,647,045
Community Development	-	5,935,365	-	-	-	187,984	6,123,349
Human Services	-	-	-	-	-	2,681	2,681
Culture and Recreation	2,109,456	-	-	810,727	-	671,080	3,591,263
Pension benefits	25,028,473	-	-	-	-	-	25,028,473
Employee Benefits	28,046,345	-	-	-	-	-	28,046,345
State and County Charges	9,815,484	-	-	-	-	-	9,815,484
Debt Service							
Principal	5,748,976	300,000	-	-	-	-	6,048,976
Interest	2,779,156	23,580	-	-	-	-	2,802,736
Total Expenditures	180,561,507	6,258,945	574,729	3,682,797	1,143,116	17,028,325	209,249,419
Excess (deficiency) of revenues over expenditures	75,520	2,727,225	(574,729)	(3,682,797)	(949,385)	3,037,232	633,066
OTHER FINANCING SOURCES:							
Proceeds from bonds and notes	-	-	2,579,800	8,065,200	-	-	10,645,000
Proceeds from refunding bonds	15,129,000	-	-	-	-	-	15,129,000
Payment to refunding escrow agent	(15,811,609)	-	-	-	-	-	(15,811,609)
Premium from issuance of bonds	10,000	-	-	-	-	-	10,000
Premium from issuance of refunding bonds	682,609	-	-	-	-	-	682,609
Sale of Capital Assets	8,635	-	-	-	-	-	8,635
Transfers in	1,960,976	-	484,203	-	850,000	-	3,295,179
Transfers out	(850,000)	-	-	(34,203)	-	(2,410,976)	(3,295,179)
Total Other Financing Sources	1,129,611	-	3,064,003	8,030,997	850,000	(2,410,976)	10,663,635
Net Change in Fund Balances	1,205,131	2,727,225	2,489,274	4,348,200	(99,385)	626,256	11,296,701
FUND BALANCES AT BEGINNING OF YEAR	26,693,306	10,626,966	(1,785,191)	(8,368,343)	10,094,036	19,832,579	57,093,353
FUND BALANCES AT END OF YEAR	27,898,437	13,354,191	704,083	(4,020,143)	9,994,651	20,458,835	68,390,054

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 2009 (1)**

REVENUES:	General	Strategic Planning & Community Development	School Construction Fund	Bonded Capital Projects Fund	Stabilization Funds	State Fiscal Stabilization Fund	Nonmajor Governmental Funds	Total Governmental Funds
Real Estate and Personal Property Taxes net of Tax Refunds	\$ 89,398,919	\$ -	\$ -	\$ -	-	-	-	\$ 89,398,919
Tax liens	1,165,496	-	-	-	-	-	-	1,165,496
Motor Vehicle and Other Excise Taxes	4,531,602	-	-	-	-	-	-	4,531,602
Payments in Lieu of Taxes	158,827	-	-	-	-	-	-	158,827
Intergovernmental	66,333,902	7,274,908	1,021,427	-	-	2,166,096	12,996,906	89,793,239
Departmental and Other	16,451,132	232,623	-	-	-	-	5,599,181	22,282,936
Contributions	-	-	-	-	-	-	160,049	160,049
Investment Income	958,237	25,600	-	-	70,267	-	42,675	1,096,779
Miscellaneous	-	-	-	-	1,870,020	-	10,400,881	12,270,901
Total Revenues	178,998,115	7,533,131	1,021,427	-	1,940,287	2,166,096	29,199,692	220,858,748
EXPENDITURES:								
Current:								
General Government	10,700,714	-	-	11,188	292,159	-	1,351,510	12,355,571
Public Safety	30,332,043	-	-	830,069	59,500	-	1,665,952	32,887,564
Education	46,413,304	-	1,558,539	144,294	-	1,961,096	12,990,264	63,067,497
Public Works	20,560,303	-	-	1,395,276	-	-	1,651,915	23,607,494
Community Development	-	9,119,719	-	-	-	-	383,573	9,503,292
Human Services	-	-	-	-	-	-	108,906	108,906
Culture and Recreation	2,478,626	-	-	-	-	-	628,780	3,107,406
Pension benefits	25,601,417	-	-	-	-	-	-	25,601,417
Employee Benefits	29,320,454	-	-	-	-	205,000	-	29,525,454
State and County Charges	9,628,426	-	-	-	-	-	-	9,628,426
Debt Service								
Principal	4,723,735	280,000	-	-	-	-	-	5,003,735
Interest	2,591,901	23,323	-	-	-	-	-	2,615,224
Total Expenditures	182,350,923	9,423,042	1,558,539	2,380,827	351,659	2,166,096	18,780,900	217,011,986
Excess (deficiency) of revenues over expenditures	(3,352,808)	(1,889,911)	(537,112)	(2,380,827)	1,588,628	-	10,418,792	3,846,762
OTHER FINANCING SOURCES:								
Sale of Capital Assets	7,838	-	-	-	-	-	-	7,838
Transfers in	851,753	-	219,615	140,199	1,000,000	-	-	2,211,567
Transfers out	(1,000,000)	(4,340)	-	-	(140,199)	-	(1,067,028)	(2,211,567)
Total Other Financing Sources	(140,409)	(4,340)	219,615	140,199	859,801	-	(1,067,028)	7,838
Net Change in Fund Balances	(3,493,217)	(1,894,251)	(317,497)	(2,240,628)	2,448,429	-	9,351,764	3,854,600
FUND BALANCES AT BEGINNING OF YEAR	30,186,523	12,521,217	(1,467,694)	(6,127,715)	7,645,607	-	10,480,815	53,238,753
FUND BALANCES AT END OF YEAR	26,693,306	10,626,966	(1,785,191)	(8,368,343)	10,094,036	-	19,832,579	57,093,353

(1) Extracted from audited financial statements of the City.

**CITY OF SOMERVILLE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
Fiscal Year Ended June 30, 2008 (1)**

REVENUES:	General	Strategic Planning & Community Development	School Construction Fund	Bonded Capital Projects Fund	Stabilization Funds	Governmental Funds	Total Governmental Funds
Real Estate and Personal Property Taxes net of Tax Refunds	\$ 85,100,033	\$ -	\$ -	\$ -	-	\$ -	\$ 85,100,033
Tax liens	870,517	-	-	-	-	-	870,517
Motor Vehicle and Other Excise Taxes	5,007,547	-	-	-	-	-	5,007,547
Payments in Lieu of Taxes	314,262	-	-	-	-	-	314,262
Intergovernmental	69,558,098	12,605,127	-	-	-	13,049,750	95,212,975
Departmental and Other	16,220,081	35,067	-	-	-	5,505,388	21,760,536
Contributions	-	-	-	-	1,100,000	173,574	1,273,574
Investment Income	1,415,843	48,892	-	-	59,720	80,979	1,605,434
Miscellaneous	-	-	1,700,000	-	-	-	1,700,000
Total Revenues	178,486,381	12,689,086	1,700,000	-	1,159,720	18,809,691	212,844,878
EXPENDITURES:							
Current:							
General Government	10,606,052	-	-	11,376	-	1,248,777	11,866,205
Public Safety	31,963,780	-	-	212,648	-	1,706,136	33,882,564
Education	46,055,565	-	6,852,833	167,396	-	12,620,514	65,696,308
Public Works	20,100,920	-	-	9,295,448	-	2,361,618	31,757,986
Community Development	-	7,704,677	-	-	-	316,959	8,021,636
Human Services	-	-	-	-	-	3,682	3,682
Culture and Recreation	2,519,268	-	-	-	-	546,352	3,065,620
Pension benefits	24,027,834	-	-	-	-	-	24,027,834
Employee Benefits	25,804,216	-	-	-	-	-	25,804,216
State and County Charges	9,083,059	-	-	-	-	-	9,083,059
Debt Service							
Principal	4,623,616	880,000	-	-	-	-	5,503,616
Interest	2,702,798	133,683	-	-	-	-	2,836,481
Total Expenditures	177,487,108	8,718,360	6,852,833	9,686,868	-	18,804,038	221,549,207
Excess (deficiency) of revenues over expenditures	999,273	3,970,726	(5,152,833)	(9,686,868)	1,159,720	5,653	(8,704,329)
OTHER FINANCING SOURCES:							
Proceeds from Bonds and Notes	-	-	8,488,522	522,500	-	-	9,011,022
Premium from issuance of bonds	62,957	-	-	-	-	-	-
Sale of Capital Assets	1,780	-	-	-	-	-	1,780
Transfers in	2,582,783	-	516,036	1,425	2,895,090	96,508	6,091,842
Transfers out	(2,696,508)	(340,272)	-	(356,902)	(1,209,203)	(1,488,957)	(6,091,842)
Total Other Financing Sources	(48,988)	(340,272)	9,004,558	167,023	1,685,887	(1,392,449)	9,012,802
Net Change in Fund Balances	950,285	3,630,454	3,851,725	(4,817,345)	2,845,607	(1,386,796)	5,073,930
FUND BALANCES AT BEGINNING OF YEAR	29,236,238	8,890,763	(5,319,419)	(1,310,370)	4,800,000	11,867,611	48,164,823
FUND BALANCES AT END OF YEAR	30,186,523	\$ 12,521,217	\$ (1,467,694)	\$ (6,127,715)	\$ 7,645,607	\$ 10,480,815	\$ 53,238,753

(1) Extracted from audited financial statements of the City.

PROPRIETARY FUNDS
Statement of Net Assets
June 30, 2012(1)

	Business-Type Activities - Enterprise Funds				Total
	Water	Veterans Memorial Ice Rink	Dilboy Stadium	Sewer	
ASSETS					
CURRENT:					
Cash and cash equivalents	\$ 5,569,396	\$ 235,884	\$ 33,000	\$ 11,857,689	\$ 17,695,969
Receivables, net of allowance for uncollectibles:					
User fees	<u>3,994,782</u>	<u>-</u>	<u>-</u>	<u>6,064,126</u>	<u>10,058,908</u>
TOTAL CURRENT ASSETS	<u>9,564,178</u>	<u>235,884</u>	<u>33,000</u>	<u>17,921,815</u>	<u>27,754,877</u>
NONCURRENT					
Capital assets, net of accumulated depreciation	<u>25,105,079</u>	<u>-</u>	<u>-</u>	<u>9,948,088</u>	<u>35,053,167</u>
TOTAL ASSETS	<u>\$ 34,669,257</u>	<u>\$ 235,884</u>	<u>\$ 33,000</u>	<u>\$ 27,869,903</u>	<u>\$ 62,808,044</u>
LIABILITIES					
CURRENT					
Accrued payroll	15,518	-	-	5,372	20,890
Accrued interest	52,735	-	-	29,470	82,205
Compensated absences	1,300	-	-	900	2,200
Bonds payable	<u>1,640,012</u>	<u>-</u>	<u>-</u>	<u>588,628</u>	<u>2,228,640</u>
Total current liabilities	<u>1,709,565</u>	<u>-</u>	<u>-</u>	<u>624,370</u>	<u>2,333,935</u>
NONCURRENT					
Compensated absences	38,300	-	-	18,100	56,400
Other post-employment benefits	550,053	-	-	124,965	675,018
Bonds and notes payable	<u>8,645,453</u>	<u>-</u>	<u>-</u>	<u>3,371,176</u>	<u>12,016,629</u>
Total noncurrent liabilities	<u>9,233,806</u>	<u>-</u>	<u>-</u>	<u>3,514,241</u>	<u>12,748,047</u>
TOTAL LIABILITIES	<u>10,943,371</u>	<u>-</u>	<u>-</u>	<u>4,138,611</u>	<u>15,081,982</u>
NET ASSETS					
Invested in capital assets, net of related debt	16,190,052	-	-	7,888,152	24,078,204
Unrestricted	<u>7,535,834</u>	<u>235,884</u>	<u>33,000</u>	<u>15,843,140</u>	<u>23,647,858</u>
TOTAL NET ASSETS	<u>\$ 23,725,886</u>	<u>\$ 235,884</u>	<u>\$ 33,000</u>	<u>\$ 23,731,292</u>	<u>\$ 47,726,062</u>

(1) Extracted from audited financial statements of the City.

PROPRIETARY FUNDS
Statement of Net Assets
June 30, 2011(1)

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT:			
Cash and cash equivalents	\$ 3,386,838	\$ 8,207,162	\$ 11,594,000
Receivables, net of allowance for uncollectibles:			
User fees	4,071,951	6,032,853	10,104,804
Tax liens	33,967	77,958	111,925
TOTAL CURRENT ASSETS	7,492,756	14,317,973	21,810,729
NONCURRENT			
Capital assets, net of accumulated depreciation	24,369,503	8,999,459	33,368,962
TOTAL ASSETS	\$ 31,862,259	\$ 23,317,432	\$ 55,179,691
LIABILITIES			
CURRENT			
Accrued payroll	22,270	8,853	31,123
Accrued interest	57,347	31,959	89,306
Compensated absences	900	800	1,700
Bonds payable	1,605,097	445,928	2,051,025
Total current liabilities	1,685,614	487,540	2,173,154
NONCURRENT			
Compensated absences	30,700	15,300	46,000
Other post-employment benefits	476,204	106,439	582,643
Bonds and notes payable	8,949,470	2,343,354	11,292,824
Total noncurrent liabilities	9,456,374	2,465,093	11,921,467
TOTAL LIABILITIES	11,141,988	2,952,633	14,094,621
NET ASSETS			
Invested in capital assets, net of related debt	13,814,936	6,210,177	20,025,113
Unrestricted	6,905,335	14,154,622	21,059,957
TOTAL NET ASSETS	\$ 20,720,271	\$ 20,364,799	\$ 41,085,070

(1) Extracted from audited financial statements of the City.

PROPRIETARY FUNDS
Statement of Net Assets
June 30, 2010(1)

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
CURRENT:			
Cash and cash equivalents	\$ 2,291,392	\$ 5,290,040	\$ 7,581,432
Receivables, net of allowance for uncollectibles:			
User fees	4,754,674	7,821,336	12,576,010
Tax liens	17,857	36,112	53,969
TOTAL CURRENT ASSETS	7,063,923	13,147,488	20,211,411
NONCURRENT			
Capital assets, net of accumulated depreciation	23,484,102	8,356,730	31,840,832
TOTAL ASSETS	\$ 30,548,025	\$ 21,504,218	\$ 52,052,243
LIABILITIES			
CURRENT			
Warrants payable	\$ 116,525	\$ 0	\$ 116,525
Accrued payroll	24,109	6,097	30,206
Accrued interest	22,063	33,282	55,345
Compensated absences	2,100	200	
Bonds and notes payable	2,091,741	789,688	2,881,429
Total current liabilities	2,256,538	829,267	3,083,505
NONCURRENT			
Compensated absences	48,100	7,700	55,800
Other post-employment benefits	443,065	99,032	542,097
Bonds and notes payable	10,130,566	2,789,282	12,919,848
Total noncurrent liabilities	10,621,731	2,896,014	13,517,745
TOTAL LIABILITIES	12,878,269	3,725,281	16,601,250
NET ASSETS			
Invested in capital assets, net of related debt	11,261,795	4,777,760	16,039,555
Unrestricted	6,407,961	13,001,207	19,409,168
TOTAL NET ASSETS	\$ 17,669,756	\$ 17,778,967	\$ 35,448,723

(1) Extracted from audited financial statements of the City.

PROPRIETARY FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Assets

Fiscal Year Ended June 30, 2012 (1)

	Business-Type Activities-Enterprise Funds				
	Water	Veteras Memorial Ice Rink	Dilboy Stadium	Sewer	Total
<u>OPERATING REVENUES:</u>					
Charges for services	\$ 11,972,625	\$ 270,626	\$ 90,527	\$ 17,139,421	\$ 29,473,199
<u>OPERATING EXPENSES:</u>					
Cost of services and administration	7,227,753	337,456	132,312	14,485,661	22,183,182
Depreciation	918,971	-	-	223,855	1,142,826
Total Operating Expenses	8,146,724	337,456	132,312	14,709,516	23,326,008
 OPERATING INCOME (LOSS)	 3,825,901	 (66,830)	 (41,785)	 2,429,905	 6,147,191
<u>NONOPERATING REVENUES (EXPENSES):</u>					
Investment income	5,272	-	-	150,004	155,276
Interest expense	(219,279)	-	-	(94,148)	(313,427)
Intergovernmental	-	-	-	1,322,550	1,322,550
TOTAL NONOPERATING REVENUES (EXPENSES), NET	<u>(214,007)</u>	<u>-</u>	<u>-</u>	<u>1,378,406</u>	<u>1,164,399</u>
 INCOME (LOSS) BEFORE TRANSFERS	 3,611,894	 (66,830)	 (41,785)	 3,808,311	 7,311,590
TRANSFERS:					
Transfers in	-	302,714	74,785	-	377,499
Transfers out	(606,279)	-	-	(441,818)	(1,048,097)
Total Operating Transfers	<u>(606,279)</u>	<u>302,714</u>	<u>74,785</u>	<u>(441,818)</u>	<u>(670,598)</u>
 Change in Net Assets	 3,005,615	 235,884	 33,000	 3,366,493	 6,640,992
 NET ASSETS AT BEGINNING OF YEAR	 <u>20,720,271</u>	 <u>-</u>	 <u>-</u>	 <u>20,364,799</u>	 <u>41,085,070</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 23,725,886</u>	 <u>\$ 235,884</u>	 <u>\$ 33,000</u>	 <u>\$ 23,731,292</u>	 <u>\$ 47,726,062</u>

(1) Extracted from audited financial statements of the City.

PROPRIETARY FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Assets

Fiscal Year Ended June 30, 2011 (1)

	Business-Type Activities-Enterprise Funds		
	Water	Sewer	Total
<u>OPERATING REVENUES:</u>			
Charges for services	\$ 11,488,263	\$ 15,631,261	\$ 27,119,524
Utility liens	583,101	979,566	1,562,667
 TOTAL OPERATING REVENUES	 12,071,364	 16,610,827	 28,682,191
<u>OPERATING EXPENSES:</u>			
Cost of services and administration	7,858,307	13,879,459	21,737,766
Depreciation	865,297	203,666	1,068,963
 OPERATING INCOME (LOSS)	 8,723,604	 14,083,125	 22,806,729
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Investment income	13,175	161,004	174,179
Interest expense	(310,420)	(102,874)	(413,294)
 TOTAL NONOPERATING REVENUES (EXPENSES), NET	 (297,245)	 58,130	 (239,115)
 CHANGE IN NET ASSETS	 3,050,515	 2,585,832	 5,636,347
 NET ASSETS AT BEGINNING OF YEAR	 17,669,756	 17,778,967	 35,448,723
 NET ASSETS AT END OF YEAR	 \$ 20,720,271	 \$ 20,364,799	 \$ 41,085,070

(1) Extracted from audited financial statements of the City.

PROPRIETARY FUNDS

Statement of Revenues, Expenses and Changes in Fund Net Assets

Fiscal Year Ended June 30, 2010 (1)

	Business-Type Activities-Enterprise Funds		
	Water	Sewer	Total
<u>OPERATING REVENUES:</u>			
Charges for services	\$ 9,968,139	\$ 15,654,243	\$ 25,622,382
Utility liens	523,709	890,201	1,413,910
TOTAL OPERATING REVENUES	10,491,848	16,544,444	27,036,292
<u>OPERATING EXPENSES:</u>			
Cost of services and administration	6,040,263	12,935,250	18,975,513
Depreciation	613,771	175,865	789,636
OPERATING INCOME (LOSS)	6,654,034	13,111,115	19,765,149
<u>NONOPERATING REVENUES (EXPENSES):</u>			
Investment income	20,517	139,269	159,786
Interest expense	(208,979)	(134,167)	(343,146)
TOTAL NONOPERATING REVENUES (EXPENSES), NET	(188,462)	5,102	(183,360)
CHANGE IN NET ASSETS	3,649,352	3,438,431	7,087,783
NET ASSETS AT BEGINNING OF YEAR	14,020,404	14,340,536	28,360,940
NET ASSETS AT END OF YEAR	\$ 17,669,756	\$ 17,778,967	\$ 35,448,723

(1) Extracted from audited financial statements of the City.

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 from available funds, which are not required to be included in the annual tax levy.

The following table sets forth the recent trend in Free Cash for the City.

<u>Year</u>	<u>Free Cash (July 1)</u>
2012	\$ 7,846,054
2011	7,646,537
2010	7,364,518
2009	6,378,420
2008	10,210,232

Stabilization Fund

The City maintains a stabilization fund, which is accounted for in the Trust Funds. Funded by an appropriation, the stabilization fund plus interest income may be appropriated at any Board of Aldermen meeting for any municipal purpose.

The following table lists the Stabilization Fund balances for the following fiscal years.

<u>Year</u>	<u>Stabilization Fund Balance (June 30)</u>
2012	\$14,153,204
2011	12,476,965
2010	13,996,874
2009	13,137,643
2008	7,645,608

Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the town or city's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2 ½.

The City has not established any such Development Districts at this time.

INDEBTEDNESS

Authorization Procedure and Debt Limitation

Bonds and notes are generally authorized on behalf of the City by a vote of two-thirds of all the members of the Board of Aldermen on the recommendation of the Mayor. Provision is made for a referendum on the filing of a petition bearing the requisite number of signatures. Borrowings for certain purposes require state administrative approval. Under State law the Treasurer with the approval of the Mayor, is authorized to borrow in anticipation of current revenues and state and federal grants.

The general debt limit of the City consists of a normal debt limit and a double debt limit. The normal debt limit is 5 per cent of the valuation of taxable property as last equalized by the State Department of Revenue. The City can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with approval of the State Municipal Finance Oversight 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, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

The amount borrowed in each fiscal year by the issue 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 fiscal year ends on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years. (See "Taxation to Meet Deficits" under "PROPERTY TAXATION" above.) In any event, the period from an original borrowing to its final maturity cannot exceed one year.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue ("DOR"). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as "qualified bonds" with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service paid by the State from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

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

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

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

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy.

**GENERAL OBLIGATION DEBT
DIRECT DEBT SUMMARY
PROJECTED AS OF JUNE 30, 2013**

Long Term Debt:		
General Obligation Bonds:		
Sewer Loan (1)	\$ 3,371,177	
Water Loan (2)	8,645,451	
General (3)	18,623,265	
School (4)	35,609,848	
DIF (5)	15,750,000	
Total Long-Term Debt Outstanding 6/30/2013	\$ 81,999,741	
Short Term Debt:		
Bond Anticipation Notes Outstanding	8,399,962	
These Issues- New Money	14,566,891	
Total Short-Term Debt Outstanding After These Issues (6)	22,966,853	
Total Direct Debt		\$ 104,966,594

- (1) \$1,081,080 is outside the City's debt limit.
- (2) Subject to a separate debt limit of 10% of the City's equalized valuation of \$9,237,328,000.
- (3) Subject to the City's debt limit. Includes bonds for street, equipment, building remodeling, parks, computers, library and land acquisition.
- (4) \$22,302,746 is not subject to the City's debt limit. School construction will be reimbursed by the State at the rate of 90% of principal and interest over the life of outstanding school bonds. The City expects to receive school construction grants from the Massachusetts School Building Authority in the amount of \$19,730,464.
- (5) Outside the City's debt limit.
- (6) Payable October 25, 2013 (\$14,079,404) and June 27, 2014 (\$8,887,449).

Debt Ratios

The following table sets forth debt as a percentage of assessed valuation and per capita debt at the end of the last five fiscal years. The table considers the principal amount of general obligation bonds of the City only and does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in whole, or part, by non-tax revenues.

Fiscal Year End	General Obligation Bonds Outstanding	2010 Federal Census Population	Local Assessed Valuation	Per Capita Debt	Bonds as a % of Assessed Valuation
2013 (1)	\$ 81,999,741	75,754	\$ 8,595,335,050	\$ 1,082	1.0 %
2012	91,149,568	75,754	8,390,572,190	1,203	1.1
2011	81,671,695	75,754	8,297,876,320	1,078	1.0
2010	83,900,079	75,754	8,261,279,820	1,108	1.0
2009	73,888,615	75,754	8,409,194,220	975	0.9

(1) Projected as of June 30, 2013.

Principal Payments by Purpose

The following table sets forth principal payments by purpose for the City's outstanding general obligation debt.

GENERAL OBLIGATION BONDS PRINCIPAL PAYMENTS BY PURPOSE Projected as of June 30, 2013

Fiscal Year	Sewer (1)	Water (2)	General (3)	School (4)	DIF (5)	Total Long-Term Debt
2014	\$ 585,982	\$ 1,547,441	\$ 2,342,883	\$ 4,628,716	\$ -	\$ 9,105,022
2015	576,059	1,448,034	2,365,882	4,510,240	350,000	9,250,216
2016	578,846	1,351,460	1,895,500	4,094,605	355,000	8,275,411
2017	470,290	1,148,711	1,851,000	4,250,605	365,000	8,085,606
2018	145,000	897,405	1,631,000	2,924,105	370,000	5,967,510
2019	145,000	782,600	1,396,000	1,964,105	380,000	4,667,705
2020	145,000	297,600	1,236,000	2,024,105	395,000	4,097,705
2021	145,000	242,600	1,261,000	2,069,105	405,000	4,122,705
2022	140,000	246,600	1,277,000	2,119,105	425,000	4,207,705
2023	95,000	83,000	1,267,000	564,105	445,000	2,454,105
2024	95,000	80,000	1,095,000	564,105	465,000	2,299,105
2025	105,000	80,000	980,000	564,105	485,000	2,214,105
2026	75,000	80,000	690,000	514,105	505,000	1,864,105
2027	70,000	80,000	705,000	514,105	525,000	1,894,105
2028	-	80,000	710,000	364,105	540,000	1,694,105
2029	-	100,000	40,000	364,105	555,000	1,059,105
2030	-	100,000	-	364,105	570,000	1,034,105
2031	-	-	-	364,105	590,000	954,105
2032	-	-	-	364,105	610,000	974,105
2033	-	-	-	364,105	635,000	999,105
2034	-	-	-	-	655,000	655,000
2035	-	-	-	-	680,000	680,000
2036	-	-	-	-	700,000	700,000
2037	-	-	-	-	725,000	725,000
2038	-	-	-	-	750,000	750,000
2039	-	-	-	-	775,000	775,000
2040	-	-	-	-	805,000	805,000
2041	-	-	-	-	830,000	830,000
2042	-	-	-	-	860,000	860,000
Total	\$ 3,371,177	\$ 8,645,451	\$ 20,743,265	\$ 33,489,848	\$ 15,750,000	\$ 81,999,741

- (1) \$1,081,080 is outside the City's debt limit.
- (2) Subject to a separate debt limit of 10% of the City's equalized valuation of \$9,237,328,000.
- (3) Subject to the City's debt limit. Includes bonds for street, equipment, building remodeling, parks, computers, library and land acquisition.
- (4) \$22,302,746 is not subject to the City's debt limit. School construction will be reimbursed by the State at the rate of 90% of principal and interest over the life of outstanding school bonds. The City expects to receive school construction grants from the Massachusetts School Building Authority in the amount of \$19,730,464.
- (5) Outside the City's debt limit.

Debt Service Requirements

The following table sets forth the required principal and interest payments on outstanding general obligation bonds of the City.

GENERAL OBLIGATION BONDS DEBT SERVICE REQUIREMENTS Projected as of June 30, 2013

Fiscal Year	Total Principal	Total Interest	MSBA Subsidy	Total Net Debt Service
2014	\$ 9,105,022	\$ 2,758,273	\$ (4,230,955)	\$ 7,632,340
2015	9,250,216	2,493,691	(4,230,955)	7,512,953
2016	8,275,411	2,208,503	(3,547,977)	6,935,937
2017	8,085,606	1,927,221	(2,157,052)	7,855,774
2018	5,967,510	1,665,051	(2,157,052)	5,475,510
2019	4,667,705	1,455,438	(1,135,491)	4,987,652
2020	4,097,705	1,282,837	(1,135,491)	4,245,051
2021	4,122,705	1,139,867	(1,135,491)	4,127,081
2022	4,207,705	985,429	-	5,193,134
2023	2,454,105	814,222	-	3,268,327
2024	2,299,105	726,690	-	3,025,795
2025	2,214,105	643,745	-	2,857,850
2026	1,864,105	563,835	-	2,427,940
2027	1,894,105	496,635	-	2,390,740
2028	1,694,105	437,375	-	2,131,480
2029	1,059,105	382,043	-	1,441,148
2030	1,034,105	352,511	-	1,386,616
2031	954,105	324,129	-	1,278,234
2032	974,105	293,247	-	1,267,352
2033	999,105	261,565	-	1,260,670
2034	655,000	233,963	-	888,963
2035	680,000	212,675	-	892,675
2036	700,000	190,575	-	890,575
2037	725,000	166,075	-	891,075
2038	750,000	140,700	-	890,700
2039	775,000	114,450	-	889,450
2040	805,000	87,325	-	892,325
2041	830,000	59,150	-	889,150
2042	860,000	30,100	-	890,100
Total	<u>\$ 81,999,741</u>	<u>\$ 22,447,319</u>	<u>\$ (19,730,464)</u>	<u>\$ 84,716,596</u>

Authorized Unissued Debt

The City has approximately \$64.6 million authorized but unissued debt as follows: \$35.9 million for school (a good percentage of which will be paid for with Massachusetts School Building Authority grant reimbursement payments), \$8 million for Union Square Revitalization Plan, \$1.4 million for renovations to City buildings, \$10 million for District Improvement Financing, \$2.6 million for rink renovations, \$1.7 million for the construction and reconstruction of various parks throughout the City and the balance for miscellaneous equipment and public improvements.

Overlapping Debt

The City of Somerville is a member of the Massachusetts Water Resources Authority and the Massachusetts Bay Transportation Authority.

The following table sets forth the outstanding bonded debt, exclusive of temporary loans in anticipation of bonds or current revenue, of the Massachusetts Water Resources Authority and the Massachusetts Bay Transportation Authority and the City's gross share of such debt and the fiscal 2013 dollar assessment for each.

Overlapping Entity	Outstanding Debt	Somerville's Estimated Share (1)	Fiscal 2013 Dollar Assessment (2)
Massachusetts Water Resources Authority(3)			
Water	\$ 2,099,794,000	3.15 %	\$ 6,167,896
Sewer	4,027,396,000	3.45	13,887,278
Massachusetts Bay Transportation Authority(4)	5,769,214,580	3.04	3,280,938

(1) Estimated share based on debt service only.

(2) Estimated dollar assessment based upon total net operating expenses, inclusive (where applicable) of debt service.

(3) SOURCE: Massachusetts Water Resources Authority. Outstanding debt as of June 30, 2012. The Massachusetts Water Resources Authority (the "MWRA") provides wholesale drinking water services in whole or in part to 48 cities, towns and special purpose entities and provides wastewater collection and treatment services to 43 cities, towns and special purpose entities. Under its enabling legislation, as amended, the aggregate principal amount of all bonds issued by the MWRA for its corporate purposes may not exceed \$6.1 billion outstanding at any time. Its obligations are secured by revenues of the MWRA. The MWRA assesses member cities, towns and special purpose entities, which continue to provide direct retail water and sewer services to users. The cities, towns and other entities collect fees from the users to pay all or part of the assessments; some municipalities levy property taxes to pay part of the amounts assessed upon them.

(4) SOURCE: Massachusetts Bay Transportation Authority ("MBTA"). Outstanding debt as of June 30, 2012. The Massachusetts Bay Transportation Authority (the "MBTA") was created in 1964 to finance and operate mass transportation facilities within the greater Boston metropolitan area. Under its enabling act, the MBTA is authorized to issue bonds for capital purposes, other than refunding bonds, and for certain specified purposes to an outstanding amount, which does not exceed the aggregate principal amount of \$3,556,300,000. In addition, pursuant to certain of the Commonwealth's transportation bond bills, the MBTA is authorized to issue additional bonds for particular capital projects. The MBTA also is authorized to issue bonds of the purpose of refunding bonds. Under the MBTA's enabling act debt service, as well as other operating expenses of the MBTA, are to be financed by a dedicated revenue stream consisting of the amounts assessed on the cities and towns of the MBTA and a dedicated portion of the statewide sales tax. The amount assessed to each city and town is based on its weighted percentage of the total population of the authority as provided in the enabling act. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year. (See "Tax Limitations" under "PROPERTY TAXATION" above.)

Contractual Obligations

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 interest, 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 for long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

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 facilities.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The City has a limited number of such contractual obligations, the largest of which are for rubbish disposal, school transportation, and equipment leasing. All are subject to annual appropriation by the Board of Aldermen.

The City has a ten-year contract expiring on July 1, 2015 with Waste Management, Inc. for the disposal of rubbish. The cost in fiscal 2011 and 2012 was approximately \$1,487,225 and \$1,491,283, respectively. The budgeted amount for fiscal 2013 is \$1,460,000.

The School Department has two transportation contracts. The first contract is for Special Education students which expires June 30, 2013. The cost of this three year contract is \$5,257,688. The second contract is for pupil transportation which expires August 31, 2014. The total cost of this three year contract is \$920,160.

RETIREMENT PLAN

The Massachusetts General Laws 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 teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

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

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

appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked.

The teachers and certain administrative and other professional employees of the City's school department participate individually in a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board. The City does not contribute to this plan.

Substantially all other employees of the City are participants in the City of Somerville Contributory Retirement System (the System). Under the provisions of the System, active employees contribute certain percentages of their pay (5%, 7% or 8%, depending upon date of employment) and are eligible for retirement benefits after meeting the prescribed age and period of service criteria. In addition, the City and the Somerville Housing Authority contribute to the System an annual amount, determined by the State Division of the Public Employee Retirement Administration, primarily on the basis of projected annual benefit payments for the year (the "pay-as-you-go" method).

Generally accepted accounting principles require the System to perform an actuarial valuation to determine the pension benefit obligation at least biennially, with an actuarial update to the date 12 months after that biennial valuation. The most recent actuarial valuation of the City was completed as of January 1, 2010.

The total unfunded pension benefit obligation applicable to the City's employees was \$123,329,286 at January 1, 2010 as follows:

Total pension benefit obligation	\$311,654,245
Net assets available for benefits, at market value	<u>188,324,959</u>
Unfunded pension benefit obligation.....	<u>\$123,329,286</u>

The City is currently on a funding schedule that will amortize its unfunded pension liability by June 30, 2035. Current law allows funding out as far as 2040.

In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The annual required contributions of the City to each retirement system for the 2009 through 2012 fiscal years and budgeted for fiscal year 2013 are as follows:

<u>Fiscal Year</u>	<u>Contributory</u>	<u>Non-Contributory</u>
2013 (budgeted)	\$ 11,084,135	\$274,001
2012	10,985,945	278,193
2011	10,830,988	333,431
2010	10,352,352	333,431
2009	11,792,112	399,950

For additional information on the retirement system see Appendix A.

Other Post-Employment Benefits

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

Fiscal Year	Amount
2012	\$ 10,036,871
2011	10,200,914
2010	16,325,784
2009	15,037,853
2008	13,690,506

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

As of June 30, 2010, the City had an unfunded actuarial liability (UAL) that totaled \$356,691,278 on a pay-as-you-go 3.5% basis and \$190,486,712 on a full prefunding 8% basis. The City's annual required contribution (ARC) totaled \$21,398,650 on a pay-as-you-go basis and \$13,342,902 on a full prefunding basis.

The City established an irrevocable trust fund on March 8, 2012 to fund the other post-employment benefit (OPEB) liability and appropriated \$200,000 to the fund before June 30, 2012. On August 1, 2009, contributions for the indemnity plan changed from 99% City - 1% retiree to 60% City - 40% retiree. Additionally, HMO and PPO plans changed from 90% City - 10% retiree to 75% City - 25% retiree. These changes will significantly reduce the OPEB liability.

EMPLOYEE RELATIONS

The City employs approximately 2,065 full and part-time workers, of whom 1,200 are employed by the School Department, 139 by the Police Department, 157 by the Fire Department, 98 by the Department of Public Works and the remainder by various other departments of the City. City and town 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. Of the approximately 2,065 employees of the City, approximately 1,560 are represented by unions including employees of the School, Police and Fire Departments.

The City's contracts with the Somerville Municipal Employees' Association (SMEA) Unit B (an unaffiliated local which represents blue collar workers, clerical employees, school nurses, and librarians) will expire on June 30, 2016. The City has in place a three-year contract settlement with the National Conference of Firemen and Oilers (which represents school custodians) which will expire on June 30, 2014. The City has in place a three-year contract settlement with the Somerville Police Superiors Association which expired on June 30, 2012. The City has in place a contract with SMEA Unit A (supervisory employees) which will expire on June 30, 2016. The City also has in place a contract with SMEA Unit D which will expire on June 30, 2016. The City has in place a three-year contract settlement with both groups (emergency 911 call takers and crossing guards) under the Service Employees International Union, Local 888; the contract with the emergency 911 call takers will expire on June 30, 2013 and the contract with the crossing guards will expire on June 30, 2014. Somerville school teachers are working under a contract that expired on August 31, 2012. School department contracts are negotiated and signed by the elected School Committee. The City had in place a one-year settlement with the Somerville Patrolmen's Association that expired on June 30, 2012. The City has in place a three-year settlement with the Somerville Firefighters that will expire on June 30, 2015. The union representing fire alarm operator's contract expired on June 30, 2012. All expired contracts are currently under negotiation.

LITIGATION

The City is a defendant in various lawsuits throughout the Commonwealth. However, in the opinion of the City Solicitor, none of the pending litigation, either individually or in the aggregate, is likely to result in final judgments against the City which would have a materially adverse effect on the City's financial position.

CITY OF SOMERVILLE, MASSACHUSETTS
/s/ Mr. Peter K. Forcellese Jr.,
Treasurer/Collector

June 6, 2013