Moody's Municipal Credit Report

Cambridge, Massachusetts

June 7, 1991

	New Issue	General Obligation/Special Tax
sale:	$7,310,000	Municipal Purpose Loan of 1991
date:	For bids June 12	

Moody's rating: Aa1 (revised from Aa)

opinion:

At a time when many Massachusetts municipalities are experiencing financial pressures, resulting from a three-year trend of reduced Commonwealth local aid and the effects of the current economic slowdown, the availability of substantial reserves, excess levy capacity under Proposition 2½, and management commitment to sound financial operations provide Cambridge with operating margins and flexibility not available to many other communities. These factors combined result in the rating revision to **Aa1** from **Aa**. Also reflected in the rating revision is the city's substantial and stable economic base, a modest debt burden and well defined capital plan consistent with the city's sound debt management program.

key facts:

Debt Burden:	1.4%/[1] 0.8%
Payout, Ten Years:	100%
Tax Pledge, This Issue: Limited.	
F.V. per Capita, 1991:	$96,044
Five-Year Capital Plan:	$74 million
Population Decline, 1960-90:	15.2%
Average Annual Growth F.V., 1987-91:	23.4%
Unemployment Rate,	
2/91:	6.1%
State:	9.9%
U.S.:	7.2%
Per Capita Income as % of State,	
1979:	107.4%
1987:	108.5%

Unreserved General Fund Balance as % of Revenue,	
1989:	13.3%
1990:	13.8%
Property Taxes as % of General Fund Revenue, FY 1989:	52.3%
FY 1990:	52.7%
Commonwealth Aid as % of Revenues, FY 1989:	23.8%
FY 1990:	22.8%
Additional Taxing Capacity,	
FY 1992:	$2.5 million
As % of Budget:	1.0%
% MWRA Debt:	3.68%
Total MWRA Debt:	$44,160,000
Moody's Rating, Bonds dated 7/1/85, MBIA:	**Aaa**

[1] Net of Massachusetts Water Resources Authority debt.

update:

Since our last report dated June 11, 1990, audited financial statements for fiscal 1990 and estimates for fiscal 1991 reveal a continuation of strong financial operations and increasing reserve levels. An increase

Cambridge, Massachusetts

in the General Ffund balance in fiscal 1990 is reflective of conservative budgeting and sound financial management practices, a trend well established since the early 1980s. Officials project ending the current fiscal year on budget despite reduced Commonwealth support and a sluggish regional economy.

nalysis:

Over the past few years, the combined effects of reduced Commonwealth local aid and a slowed regional economy have placed financial pressure on many Massachusetts municipalities. Reduced levels of Commonwealth local aid and the effects of the current economic recession have required many communities to draw upon reserves and reduce expenditures to balance budgets. For most communities, any available excess levy capacity (under Proposition 2½ limitations) generated during the growth years of the mid 1980s has all but been exhausted in recent years. In contrast, the City of Cambridge has positioned itself well to accommodate such pressures through conservative budgeting practices and management initiatives, begun in the early 1980s, which have contributed to its strong financial position. Included in the initiatives was the establishment and annual funding of a number of reserve funds and a commitment to increase undesignated General Fund balances over time.The availability of such reserves (which total more than $25 million, including approximately $15 million in free cash) has helped insulate the city from local aid cuts and reduced revenues associated with the current recession. Additional flexibility is provided by the availability of $2.5 million excess levy capacity, an option not currently available to most other municipalities.

In each of the last three years, the city has been able to adjust to reduced local aid without any material effect on operations. For fiscal 1992, a $4.1 million projected decrease in local aid (1.5% of budget) will be offset by property tax increases, the first increase for residential customers since 1984, and departmental budget cuts. The cuts include 38 layoffs from various departments and 35 from the school department. Further reductions in local aid would be absorbed from a combination of increased property taxes and additional budget cuts. For the current fiscal year, officials anticipate ending the year on budget with a General Fund balance that will approximate fiscal 1990 levels. An improving cash position has not required TAN borrowings since 1987, nor is it expected to occur in the future.

Cambridge's debt position is characterized by a modest debt burden and rapid bond retirement. All debts since the inception of Proposition 2½ are limited tax. Because of the city's financial flexibility and well developed capital program, debt exclusion attempts have not been necessary to date. Proceeds of this sale will be used for a variety of capital projects, including construction of a cover over the city's water reservoir. Associated debt service costs for this project are expected to be paid from user fees. The city is in the midst of addressing its capital needs through a multi-year capital plan, with an emphasis on infrastructure improvements. While the scope of work to be performed has been scaled back due to the current economic climate, future borrowing plans appear easily manageable, given the aggressive rate of bond retirement and substantial taxable resources.

Cambridge derives economic stability, diversity, and strength from its concentration of major educational and research institutions, proximity to Boston, and an extensive transportation network. The strong commercial and residential growth evident throughout most of the 1980s has slowed since 1989 as the region slid into the current recession. For the City of Cambridge, the effects of the recession will result in a drop of total taxable values by approximately 9% in fiscal year 1992, caused by the sharp downturn in the local real estate market after several years of unprecedented growth. Despite the drop, both commercial and residential real estate markets remain healthier than those of surrounding communities. City officials anticipate one more year of flat real estate values followed by modest annual increases in real estate values, albeit at a slower rate than the boom years of the mid-1980s.

Cambridge, Massachusetts

details of bond sale:

Legal Name of Issuer: City of Cambridge, Massachusetts.

Security: G.O., LT.

Date of Bonds: June 15, 1991.

Denomination: $5,000.

Annual Maturities 6/15 ($ 000)

Year	Amount	Year	Amount
1992-93	$735	1994-2001	$730

Interest Rate: To be determined.

Average Life of Issue: 5.60 years.

Interest Payable: Semiannually, beginning December 15, 1991.

Call Features: None.

Registrar: The Depository Trust Company, New York.

Paying Agent: The Depository Trust Company, New York.

Delivery: On or about June 27.

Bond Counsel: Palmer & Dodge, Boston.

Financial Officer: Robert W. Healy, City Manager.

Advisors: Government Finance Research Center, Washington, D.C.

Auditor: KPMG Peat Marwick, Boston (FY 1990).

rating history:

June 1991:	Aa1
June 1987:	Aa
June 1986:	A
June 1985:	Baa1
July 1981:	Baa
March 1981:	Suspended
Prior to 1981:	Aa

analyst: Karl R. Jacob
(212) 553-4833

Cambridge, Massachusetts

ebt factors:

Debt Statement as of 5/30/91 ($ 000)

	Amount
Bonded debt outstanding	$ 56,675
Current offering (6/12/91)	7,310
Gross bonded debt	$ 63,985
MWRA obligation	44,160
Leases	472
Gross bonded and direct net debt	$108,617
Overlapping debt	10,851
Overall net debt	$119,468
After state aid [1]	110,843
Net of MWRA debt	66,683

[1] State school construction grants receivable as of June 30, 1990, subject to annual legislative appropriation, are estimated to be $13,169,690. Relative amounts allocable to principal and interest are not available.

For additional information please refer to Moody's 1989 Municipal and Government Manual, page 2687.

Security: G.O., LT.

Defaults: No record.

Debt Ratios

Net Debt	Per Capita	Median [1]	% F.V.	Median (%) [1]
Direct	$1,188	$558	1.2	1.4
Overall	1,307	861	1.4	2.7
[2]	730	-	0.8	-

[1] Cities with 50,000-99,999 population.
[2] Net of MWRA debt.

Rate of Retirement

Principal Amount Due	Amount ($ 000)	% of Total
In 5 years	$44,445	69.5
In 10 years	63,985	100.0

Use of Proceeds: Construct a cover over water reservoir, renovate several fire stations, construct an athletic facility, open space improvements.

Structure: Declining debt service, rapid retirement.

CIP/Future Borrowing: Authorized but unissued: $30.5 million. Five-year capital plan through fiscal 1995 totals $74 million, primarily to finance public safety improvements, streets and sidewalks, economic development, and human resources projects. Major funding sources include $39 million bonds (53% of sources), $8 million block grants (10.6%), $6.8 million utility fees (9.2%), and $10 million of General Fund appropriations (13.5%). Next bond offering expected in 1992 for a variety of capital projects.

dministrative ictors:

Form of Government: Council/manager; nine-member city council elected at-large for two-year terms. Council selects one of its members as mayor; also appoints a city manager. Mayor also serves as chairman of separately elected school committee. City provides full services, which include municipally run hospital subsidized by city. Cambridge Hospital is a modern 182-bed secondary care facility, which serves as teaching hospital for Harvard and Tufts Universities. The hospital has a 25% market share of the city. City has invested in building and equipment improvements over the last several years to provide modern facilities.

Public Employees: Approximately 4,100 full- and part-time, including school department; about 79% covered under 21 collective bargaining groups. All contracts in place through June 30, 1991 or later

Cambridge, Massachusetts

except substitute teachers (70 employees), which expired August 31, 1990 and is currently being negotiated.

City has two retirement systems, recording pension costs for the contributory system on a pay-as-you-go basis (amounts determined annually by the state division of insurance), and for the contributory plan on the basis of actual cash payments to pensioners. Recent actuarial study indicates an unfunded pension liability of $123 million as of January 1, 1990.

The city entered into the State Pension Reserves Investment Trust in December 1989 and has benefitted from state grants offered in this program, which were used to systematically reduce the unfunded pension liability over a 40-year period.

The city has been able to maintain comfortable taxing margins in recent years, due to continued construction within Cambridge. The taxing margin for fiscal year 1992 decreased to $2.5 million, among the highest in the entire state. Officials anticipate the margin to narrow over the next five years, as new construction and redevelopment in this fully developed city continue to slow.

School District Data: Grades K-12 provided.

Trend of Enrollment: 7,757 reported for 1990-91 school year. After years of steady decline, enrollment is projected to slightly increase over next four years.

Capacity: Excess at all levels; however, renovations needed at various school buildings; 13 elementary schools, one high school, one administrative building, three miscellaneous buildings.

property valuation and tax data:

Cambridge

Fiscal Year	Assessed Valuation (000) [1]	% Change	Tax Rate/ $1,000 A.V. [1]	Net Levy (000)	% Current Collected	% Total Collected [2]
1987	$5,975,032	[1] 65.2	$ 9.81 *20.76*	$ 80,678	[2] 49.9	101.8
1988	6,147,944	2.9	9.79 *21.15*	84,893	97.3	100.6
1989	7,327,847	19.2	9.23 *20.06*	92,586	96.4	99.0
1990	8,528,769	16.4	9.51 *18.16*	106,610	94.5	101.9
1991	8,662,907	1.6	10.13 *19.15*	115,000	In process	In process

[1] Reflects tax rates for residential; figures in italics represent commercial-industrial property.

[2] Due to delay in 1987 revaluation, second-half bills were mailed after June 15, 1987 and were not payable until after the close of the fiscal year.

1991 Full Valuation:	$8,777,325,000	Average Annual Growth F.V., 1987-91:	23.4%
1991 Equalization Rate:	98.7%	1991 F.V. per Capita:	$96,044

Cambridge, Massachusetts

Largest Taxpayers [1]	Business	1991 A.V. ($ 000)
Commonwealth Energy	Utility	$281,817
Boston Properties	Real estate	253,287
Massachusetts Institute of Technology	Taxable real estate	214,207
Asahi Seimei Prudential Associates	Commercial	172,936
Harvard University	Taxable real estate	152,897
Robert Jones & K. George Najarian	Commercial	170,645
Spaulding and Slye Corp.	Commercial	162,242

[1] Ten largest taxpayers account for 25.7% of total levy.

economic factors:

Population:

Year	Population	% Change
1960	107,716	-10.8
1970	100,361	-6.8
1980	95,322	-5.0
1990	91,389	-4.1

Source: U.S. Census Bureau.

Location: Middlesex County, across the Charles River from Boston.

Area: 6.30 square miles

Population Density: 14,506 per square mile

Population and Housing Characteristics: Cambridge

	1980	Norms 1980 [2]	U.S. 1980
Population:			
Median age	28.6	31.3	30.0
% school age	11.5	18.7	20.9
% working age	72.8	61.3	60.7
% 65 and over	11.4	13.7	11.3
No. persons/household	2.1	2.6	2.75
Income:			
Median family income	$17,845	$19,331	$19,908
% below poverty level	15.1	11.7	12.5
Per capita income [3]	$8,010	$6,932	$7,313
Housing:			
% owner occupied	22.8	49.9	64.4
% built before 1939	67.7	51.8	26.1
% built since last census	10.6	12.7	25.9
Owner occupied median value	$61,400	$47,787	$47,300
Median gross rent	$257	$248	$243
Occupied housing units	[1] 38,836	-	-

Source: U.S. Census Bureau.

[1] 1970-80 % change: 6.6%.

[2] Norms are for all cities with population greater than 20,000 in the New England Region.

[3] 1987 per capita income: $15,613.

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Labor Market Characteristics: Cambridge City

Year	Labor Force	Total Employment	% Unemployed City	State	U.S.
1980 [1]	51,868	49,234	5.1	5.6	7.1
1981 [1]	53,042	49,956	5.8	6.4	7.6
1982 [1]	53,827	50,243	6.7	7.9	9.7
1983 [1]	53,375	50,311	5.7	6.9	9.6
1984 [1]	55,591	53,362	4.0	4.8	7.5
1985 [1]	55,790	53,945	3.3	3.9	7.2
1986	56,304	54,506	3.2	3.8	7.0
1987	53,538	52,221	2.5	3.2	6.2
1988	53,662	52,363	2.4	3.3	5.5
1989	53,763	52,282	2.8	4.0	5.3
1990	53,184	51,177	3.8	6.0	5.5
2/90 [2]	53,592	51,810	3.3	5.8	5.8
2/91 [2]	51,443	48,322	6.1	9.9	7.2

Source: Department of Labor, Bureau of Labor Statistics.

[1] Data not consistent with preceding years due to changes in the benchmarking process.

[2] Monthly data not seasonally adjusted.

Largest Employers

	Employees 1991		Employees 1991
Harvard University	10,537	Draper Laboratory [1]	1,749
Massachusetts Institute of Technology	6,683	Bolt, Beeranek and Newman, Inc. [1]	1,546
Polaroid [1]	2,275	Arthur D. Little, Inc. [1]	1,189
Lotus Development Corp.	2,200	Youville Hospital	905
Mount Auburn Hospital	1,900	U.S. Department of Transportation [1]	560

Source: Official statement.

[1] Companies engaged in research and development.

financial factors:

Operating Funds Financial Performance (fiscal years ended 6/30 $ 000) [1]

	1988	1989	1990	% Change 1989-90
Revenues	$173,052	$181,156	$195,034	7.7
Expenditures	158,814	179,093	191,697	7.0
Operating surplus	4,238	2,062	3,337	-

[1] General Fund (modified accrual method of accounting).

Cambridge, Massachusetts

1990 Sources of Revenue	%
Property taxes [1]	52.7
Intergovernmental	22.8
Sewer charges	5.2
Other	5.0
Health department	4.5
Motor vehicle excise	1.4
Hotel/motel excise tax	1.3
Investment earnings	1.2

[1] Includes $2.1 million payments in-lieu-of-tax receipts.

1990 Items of Expenditure	%
Education	34.2
Public safety	22.8
Community maintenance and development [1]	10.4
State assessments	6.5
General government	6.3
Health Department	4.2
Debt service	3.0

[1] Primarily public works.

General Fund Financial Position (fiscal years ended 6/30 $ 000)

	1988	1989	1990
Cash and investments	$39,365	$40,236	$21,532
Other current liabilities	24,412	20,238	20,046
Year-end cash surplus	$14,953	$19,998	$1,486
Receivables (net)	$ 4,602	$ 5,267	[1] $28,850
Fund balance	$25,156	$27,218	30,555
Unreserved fund balance	17,973	24,145	26,840

[1] 21,531,907 due from Commonwealth delayed local aid distribution.

Statutory Basis ($000)

	1986	1987	1988	1989	1990	19991
Surplus revenue [1]	$15,727	$14,290	$20,618	$22,066	$21,341	$19,500
Free cash [1]	10,694	12,255	17,390	15,082	17,983	14,500

[1] Free cash is surplus revenues less overdue property taxes. Surplus revenue is the amount by which unrestricted cash, accounts receivable, and other assets exceed liabilities and reserves. It is not reduced by overlay deficits (tax abatements in excess of the overlay reserve) or revenue deficits (non-property tax receipts being less than estimates), both of which are added to the next tax levy.

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CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL 349-4300
FAX 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

June 24, 1991

To The Honorable, The City Council:

Attached is the report issued by Moody's Investors Service relating to the recent upgrade of the City's bond rating from Aa to Aa1 by that Agency. The report describes in detail the various fiscal, economic, and administrative strengths of the City which contributed to the recent increase in the credit rating.

Very truly yours,

Robert W. Healy
City Manager

RWH/mev
attachment

 F-316

CONSENT AGENDA

Comm. relative to a report issued by Moody's Investors Service relating to the recent upgrade of the City's bond rating from Aa to Aa1 by that Agency.

In City Council,

June 24, 1991

Placed on file