C. C. 106

City of Cambridge

MASSACHUSETTS

In City Council 12/17, 2001

Mgr's Consent Agenda

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Mr. James Braude
✓				Ms. Henrietta Davis
✓				Ms. Marjorie C. Decker
✓				Vice Mayor David P. Maher
✓				Mr. Kenneth E. Reeves
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Mayor Anthony D. Galluccio

STANDARD &POOR'S	RATINGSDIRECT

Return to Regular Format

Research:

Cambridge, Massachusetts; Tax Secured, General Obligation

Publication Date: 07-Dec-2001

Analyst: Geoffrey Buswick, Boston (1) 617-371-0313; Philip Shapiro, Boston (1) 617-371-0310

Credit Profile

$32.6 mil muni debt muni issue due 2011 Sale date: 11-DEC-2001	AAA
AFFIRMED	
$190.643 mil. Cambridge	AAA
OUTLOOK:	STABLE

■ Rationale

The 'AAA' rating on Cambridge, Mass.' municipal purpose loan of 2001 GO bonds is based on the full faith and credit GO pledge of the city and reflects:

- Cambridge's wealthy local economy, which draws its considerable strength from education, research, biotechnology, and consulting services;
- An experienced and innovative management team;
- Strong financial operations supported by consistently prudent fiscal practices, including budget stabilization reserves; and
- A low debt burden with a favorable capital improvement plan (CIP).

Proceeds of the bonds will be used to fund renovations to a high school, improvements to city hall and the city hall annex, open space improvements, and sewer reconstruction, with the remainder used for construction of the water treatment plant and street reconstruction.

Cambridge (population 101,708) is across the Charles River from Boston and covers just 6.26 square miles. Cambridge's high-technology services area, anchored by the intellectual capital at Harvard and Massachusetts Institute of Technology (MIT), continues to be built out. The fiscal 2002 tax base of $14.7 billion is projected to continue its expansion from new commercial and residential redevelopment. The market value per capita for fiscal 2002 is a very high $145,000. There are 115,000 total jobs located in the city. These are largely professional, which contributes to average wealth that is 38% greater than the commonwealth's average and 66% greater than the nation's average. Over the past 20 years, the unemployment rate in Cambridge has been below both the commonwealth and national average.

Financial operations remain strong, and application of good fiscal policies has been consistent. The city is in good condition to weather the current recession. Cambridge's fiscal 2002 projected excess levy capacity under Proposition 2-1/2 limits is an impressive $24.3 million and represents 8% of total general fund projected revenues. The size of Cambridge's excess levy is considerable compared to other municipalities in Massachusetts. The excess levy provides ample flexibility since, under Proposition 2-1/2, the city can appropriate that excess without the need for exemptions or overrides. The fiscal 2000 unreserved general fund balance of $25.1 million is equal to 9.5% of expenditures and transfers for public education. Fiscal 2001 is expected to have closed with a surplus.

Overall net debt burden, including this issue, is low at $615 per capita and 0.5% of market valuation after allowing for self-supporting utility debt and reimbursements from the commonwealth for public education projects. Cambridge plans $172 million in bonds over the next five years for various public improvement projects including a police station and library.

Outlook

The stable outlook reflects Cambridge's consistently strong financial operations and deep and diverse local economy.

Economy

Cambridge is adjacent to Boston and covers 6.26 square miles with a population of more than 101,000. There is a large presence of university students that are educated at Harvard (approximately 18,700 students) and MIT (9,700). The local economy is strong and includes concentrations in high technology, biotechnology, engineering, medicine, education, finance, and management consulting. Among the leading city employers are Harvard (8,403 employees); MIT (7,426); the city of Cambridge (3,018); Cambridge Public Health (1,729); Lotus Development/IBM (1,620); and federal government (1,485—primarily the Transportation Research Center). Biotechnology firms account for four of the top 20 employers in the city, with Millennium Pharmaceuticals (1,348 employees), Biogen (1,155), and Genzyme (1,112) as the largest in the sector.

Cambridge's tax base continues its dramatic expansion from redevelopment of commercial and residential properties—a trend that is projected to continue at the current pace of about 8% annually. The 2002 tax base totals $14.7 billion, marking the third consecutive annual increase of 15%. The recent double-digit tax base growth has allowed a 31% and 22% reduction in commercial and residential tax rates, respectively, from 1999 to 2002. With just 6.26 square miles, this established city has long had to rely on redevelopment for new growth, but a 60-acre former railroad parcel is currently being marketed for development. This parcel at "North Point" is located across the Charles River from Boston's North Station with excellent highway access, minutes from Logan airport, and may receive an MBTA subway stop. The buildout is projected to begin soon and take up to 20 years.

At the general election on Nov. 7, 2001, residents of Cambridge passed the Community Preservation Act (CPA). The CPA allows the local option of a surcharge, exempt from Proposition 2-1/2, on real estate taxes to fund open space, historic preservation, and affordable housing. Cambridge adopted a 3% surcharge, with the first $100,000 in residential value and elderly filings exempt. The CPA is expected to raise $4.5 million to $4.8 million in the first year alone, and the commonwealth is expected to match that amount dollar for dollar. Cambridge expects to use the funds for renovation and construction of affordable housing, with open space purchases and historic preservation projects as opportunities arise.

Finances

The fiscal 2002 budget of $318 million reflects a 7.4% increase from the previous year. This budget increase is chiefly attributed to a 4% salary increase for city employees, a 21.2% increase in debt service, and a 6.5% increase in school spending. The city's unfunded pension liability of $52 million is down to 13% of the total obligation from a 32% unfunded liability in 1996. A new actuarial valuation dated Jan. 1, 2002, is expected to be complete by mid-year 2002.

Cambridge's operating projections covering 2002-2006 indicate that expenditure increases totaling 20% will be met by a matching increase in revenues. The strongest revenue growth is in property tax revenues, with a 32%, or $54 million, increase attributable to projected strong tax base growth. Sewer user charge revenues are projected to grow by $9 million over the five-year period—a 54% increase. On the expenditure side, the city's debt service marks the highest increase with a 152% growth, or an additional $22 million burden by 2006. The general operating budget will increase by $14 million over the period, or a conservative average annual increase of just 2.7%. Health insurance costs are projected to increase by $7 million, or 57%.

■ Debt

The city's 2002-2006 CIP totals $262 million, with about 66% of fund sources coming from GO bonds and 27.5% being funded on a pay-as-you-go basis. The 2002-2006 CIP is $30 million below the 2001-2005 CIP total. Amortization of debt continues to be slightly faster than previous years, with an extremely rapid 84% retirement in 10 years. Future debt issues are for updates to the water and sewer system, a new library, and renovation of fire and police stations.

Moody's Investors Service
Global Credit Research

Municipal Credit Research
New Issue
Published 6 Dec 2001

Cambridge (City of) MA

Contacts

Jeffrey Kaufmann	212-553-7782
Marianna Pisano	212-553-3898
Yaffa Rattner	212-553-4429

Moody's Rating

Issue		Rating
Municipal Purpose Loan of 2001		Aaa
Sale Amount	$32,630,000	
Expected Sale Date	12/11/01	
Rating Description	General Obligation Bonds	

Moody's Assigns Aaa Rating to Cambridge, MA's $32.63 Million G.O. Bonds

Highest Quality Rating and Stable Outlook Affirmed, Affecting $176 Million of Outstanding Debt

Opinion

Moody's Investors Service assigns a Aaa rating to the City of Cambridge, MA $32.63 million Municipal Purpose Loan of 2001. This issue is secured by the city's general obligation, limited taxing authority as debt service for these bonds has not been exempted from the limitations of Proposition 2 1/2 which restricts the tax levy to no more than 2.5% of assessed valuation. These bonds will primarily finance utility system upgrades and facility improvements, as well as various other capital construction. The highest quality rating and stable outlook, affecting $176.8 million of outstanding debt, reflects: a strong diversity in the substantial tax base and the regional importance of the local economy; well-maintained and ample financial position indicative of a history of strong fiscal planning; and a modest debt position supported by an expanding tax base, healthy enterprise systems, and state school building assistance grants.

TREND OF SIZABLE ANNUAL TAX BASE GROWTH ANTICIPATED, FURTHER BOLSTERING SUBSTANTIAL ECONOMY

Moody's expects the city will continue to experience sizable tax base expansion, both as a result of consistent market value appreciation as well as sustained levels of development. The city has realized assessed value growth of nearly 20% annually since 1998 with the anticipation that the city will record an additional $1.8 billion of A.V. growth in 2003 to complement the current $14.7 billion base. Current growth estimates have been favorably revised from last year as the city is predicting 15% annual residential growth from FY03-FY05 and approximately $6.3 billion of new growth overall through FY06 ($5.1 billion estimated last year for the five year period). These estimates reflect both the sustained annual increases in building permits and residential value appreciation given both the strong demand in the residential sector and the elimination of rent control restrictions. While fiscal 2000 building permits had represented the city's highest levels of activity, FY01 figures notably surpassed the previous year with a value of $826 million. The city has seen a sizable deterioration of last year's negligible commercial vacancy rate, with current estimates between 12%-15% as a result of declines in the software, communication and internet markets. Absorption of existing space appears favorable and new construction has not been adversely impacted as speculative development represents a modest level of on-going construction projects. With approximately 3.9 million sq. ft. of new commercial space under development (above last year's figure of 3.0 million) and the potential for upwards of 7 million sq. ft. of new mixed development over the longer term, strong sustained growth estimates appear reasonable, leveraging the continued expansion of the robust bio-technology sector. Cambridge is best known as the home of Harvard University and Massachusetts Institute of Technology which together enroll 28,400 students and employ over 15,000 people, thus providing a major stabilizing influence on the economy. Beyond being the largest employers in the city, MIT is also Cambridge's largest taxpayer with its extensive and growing taxable real estate holdings. Despite nearly one-third of the tax base being tax exempt, the city still maintains a substantial full value per capita of nearly $125,000 which is expected to grow significantly with anticipated taxable value increases.

FAVORABLE DEBT LEVELS GIVEN SUBSTANTIAL TAXBASE AND SELF-SUPPORTING ENTERPRISES

Moody's expects the city's debt position will remain positive given the anticipated tax base expansion, the sizable level of self-supporting debt, and the rapid debt retirement schedule. Debt burden is a low 0.8% and is kept low by the self-supporting nature of the MWRA sewer debt and the city's water debt. State aid for school construction costs as well as the city's aggressive pay-as-you-go funding plan maintains these favorable debt ratios. Annual debt service on general obligation bonds declines quickly, allowing ample room for further borrowing, and all GO bonds are retired rapidly (83.9% in ten years) as is reflected in the 10 year maturity of this issuance. Despite the rapid paydown schedule, gross debt service for non-utility purposes comprises only 6.9% of projected FY02 expenditures, which is further offset by hospital and state revenues. The well-structured five year capital plan of approximately $262 million reflects a 10% decrease from the FY01-05 plan. Utility self-support and sizable annual appropriations for pay-as-you-go financing is expected to limit tax supported borrowing to approximately $32 million annually over this time period, thereby maintaining the city's very favorable debt position. Debt service is expected to peak in FY05 at levels higher than last year's estimates given new projects like a police headquarters, though the timing of these projects are still under review. Nonetheless, Moody's believes the city maintains a strong capacity to absorb this planned borrowing and maintain the very favorable debt indices.

AMPLE LEVELS OF FINANCIAL FLEXIBILITY EXPECTED TO BE MAINTAINED

Moody's anticipates that Cambridge will continue to maintain a high degree of operating flexibility given the availability of healthy reserves, sizable taxing capacity and continued long-term financial planning. The city maintains a very comfortable level of reserves in various funds that, in conjunction with a sizable capacity to divert discretionary spending and raise additional operating resources, has positioned the city well to address expenditure pressures that may arise. The city's General Fund reserves of $43.5 million (or 16.4% of revenues as of FY00) is augmented by available balances in the Stabilization Fund, Parking Fund, and Health Claims Trust Fund that total an additional $25 million of resources. The ability to appropriate these reserves, divert the sizable level of annual expenditures dedicated to capital spending, and tap the ample and growing unused levy capacity under Proposition 2 1/2 ($24 million or 14% of levy), all represent a high degree of flexibility to address adverse fiscal conditions that may arise in the event of a weakening economy or continued sizable growth in specific expenditure areas, i.e. health care costs. The limited reliance on intergovernmental aid (15% of FY00 General Fund revenues) and conservatively estimated tax collections (averaging over 100% of net levy for the last five years) provide a reliable revenue stream to support operations.

KEY STATISTICS

2000 Population: 101,355

1990 Per Capita Income: $19,879 (115.4%)

1990 Median Housing Value as % of State Median: (162%)

2002 Assessed Value: $14.7 Billion

Debt Burden: 0.8%

Payout of principal (ten years): 83.9%

FY00 General Fund Balance: $43.5 million (16.4% of General Fund revenues)

FY01 Stabilization Fund: $7.0 Million

Press Release

FITCH
FITCH IBCA, DUFF & PHELPS

FITCH
One State Street Plaza
New York, NY 10004
(212) 908-0610
www.fitchratings.com

Fitch Assigns 'AAA' to Cambridge, Massachusetts GOs

Fitch-NY-December 3, 2001: Fitch rates the City of Cambridge, Massachusetts' $36,630,000 general obligation bonds 'AAA'. The bonds are scheduled to sell by competitive bid on Dec. 11 and will mature serially from Dec.15, 2002-2011. Fitch also affirms its 'AAA' rating on the city's $227 million of outstanding GO bonds. The bonds are secured by an ad valorem tax on all taxable property within the city, subject to statutory levy limitations. Bond proceeds will be used to finance various public improvements in accordance with the city's capital plan.

The 'AAA' rating reflects Cambridge's strong local economy, characterized by a sizable and stable employment base, a substantial and growing tax base, healthy fund balance reserves, and moderate debt burden. Financial planning and debt management are solid. The service based economy remained resilient to the downturn of the early 1990s, and with Harvard University and Massachusetts Institute of Technology attracting substantial private research interests, further growth is expected. While the recent jumps in assessed valuation are unsustainable, the city has prudently forecast more modest gains in its multi-year financial plan.

The city's strong economy features a mix of high-technology firms, including computer, biotechnology, and other research/development companies as well as several institutions of higher learning. Highlighting the strength of the employment picture, total employment rose to 115,620 in 2000, up 3.8% from 1999, the previous ten-year high. The growth in biotechnology has generated additional absorption and some new construction of commercial space. The service sector remains stable, comprising 45% of total employment, led by health care, higher education, and business services. The unemployment rate was a low at 1.6% in 2000, and while rising to 2.8% in September 2001, it is still well below the state and national average. Per capita income levels are higher than the nation, but lower than the state, primarily due to the large student population, which accounts for 1 in 4, residents.

Population in the city grew 5.8% in 2000 to 101,355, faster than the county and state, at 4.8% and 5.5%, respectively. The strong regional economy and the elimination of rent control after 1996 have fueled substantial commercial and residential development; assessed property values grew an annual 11.9% over the past five years. Fiscal 2000 showed a large increase in the value of commercial and residential building permits to $721 million, an increase of over 100% since 1998. Market value of taxable property of one hundred and forty five thousand on a per capita basis is remarkable considering one-half of the city's land area is tax exempt.

General fund operations have been strong, highlighted by the growth and stability of the unreserved/undesignated fund balance, which has ranged between 8.9%-13%, from 1997-2000. Cambridge has a number of reserve funds in place,

FITCH
One State Street Plaza
New York, NY 10004
(212) 908-0610
www.fitchratings.com

which provide additional flexibility in the face of an economic slowdown. The strong growth in real estate values now provides Cambridge with $23.7 million under the proposition 2 1/2-levy limitation, reportedly the highest margin in the commonwealth. Moreover, with the recent referendum passage of the 3% levy surcharge under the Community Preservation Act, the city was able to shift approximately $5 million from its limited tax levy to the surcharge, freeing up additional margin capacity. The city's adopted 2002 budget projects a 7.4% increase from the prior year, with the increases attributable to salary increases for city employees, and school spending.

Cambridge's debt burden is moderate on a per capita basis at $1,118, but low in relation to property value, at 0.7%. Overall debt is slightly higher at $2,736 per capita and 1.8% of property value. Amortization is rapid, with 49.5% retired in five and 85.3% in 10 years. The city's five-year public investment program totals $262 million, with 68% directed toward community maintenance and development. Seventy-percent of the plan will be funded from bond proceeds, and 27% will be funded with pay-as-you go capital.

Contact: Antonio Benjamin 1-212-908-0501 or Joe Mason 1-212-908-0638, New York.

cambridge 2001

City of Cambridge • Executive Department

Robert W. Healy, City Manager *Richard C. Rossi, Deputy City Manager*

December 17, 2001

To The Honorable, The City Council:

Enclosed for your information are copies of the credit rating analysis of Standard and Poor's, Moody's, and Fitch.

As you are aware, City Management and Finance leaders made presentations to these agencies in late November. All three agencies retained their Triple A rating for Cambridge Bonds. All three agencies also verbally advised caution given the economic circumstances.

I would like to take this opportunity to thank the City council for their support of our financial management recommendations.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec
Attachments

795 Massachusetts Avenue, Cambridge, Massachusetts 02139 Voice: 617.349.4300 Fax: 617.349.4307 TTY: 617.349.4242 Web: www.ci.cambridge.ma.us

FI

152

Consent Agenda #1

Relative to the City's Credit Rating.

In City Council December 17, 2001

PLACED ON FILE