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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

September 28, 1998

To The Honorable, The City Council:

Please find attached for your information, a communication from Moody's Investors Services relative to the City's General Obligation Bond **Aaa** rating.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec
Attachment

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OFFICE OF THE CITY MANAGER

Moody's Investors Service

99 Church Street
New York, New York 10007

July 10, 1998

Mr. Robert W. Healy, City Manager
City of Cambridge
795 Massachusetts Avenue
Cambridge, MA 02139

Dear Mr. Healy:

We wish to inform you that on July 8, 1998, Moody's Rating Committee reviewed and assigned a **Aaa** rating to the City of Cambridge, MA General Obligation Bonds, 1998 August Series.

Moody's will monitor this rating and reserves the right, in its sole discretion, to revise or withdraw this rating at any time in the future.

The rating as well as any revisions or withdrawals thereof will be publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction Gary Mescher (212) 553-4133.

Sincerely,

Ditmar Kopf

Ditmar Kopf
Senior Vice President

DK:vs

Moody's Investors Service
Municipal Credit Research

New Issue Report
Published 07/08/98

Cambridge (City of) MA

Contacts

Gary Mescher	212-553-4133
Ditmar Kopf	212-553-4837

Moody's Rating

Issue		Rating
General Obligation Bonds, August Series		Aaa
Sale Amount	$40,700,000.00	
Expected Sale Date	07/28/98	
Rating Description	General Obligation Bonds	

Opinion

Moody's has assigned a rating of Aaa to Cambridge's general obligation bonds of 1998 issued in the amount of $40,700,000. In assigning the Aaa rating, Moody's notes the city's substantial and growing economic base, strong financial management, conservative debt structure, and prudent long-term capital planning.

Cambridge is a stable and relatively large city (population 95,802) located across the Charles River from Boston. The city is best known as the home of Harvard University and Massachusetts Institute of Technology. Together they enroll 28,400 students and employ over 15,000 people, thus providing a major stabilizing influence on the economy. The city's economic base is enhanced further by a considerable number of companies specializing in such diverse fields as biotechnology, computer software, pharmaceuticals, engineering, management consulting, and research and development. The city's industrial and commercial sector continues to grow and this has allowed the substantial $7.5 billion tax base to expand at a steady rate of 3.6% annually over the past three years. Office space availability is around 6% at this time, an indicator of the strength of the city's economy. The city's wealth levels (per capita income is 115% of the state's) are distorted downward by the large number of students. The April 1997 unemployment rate was a very low 1.5%.

As a result of conservative budgeting and improved property tax collections, the city has produced four consecutive years of sizable operating surpluses. This has allowed the city to rebuild reserves following a string of operating deficits in the recessionary period of fiscal 1991 through 1993, when tax collections slowed and state aid was reduced. At the close of fiscal year 1997, the General Fund balance rose to 20% of revenues. Several Stabilization Funds contain another $7.1 million. A sizable operating surplus is expected for the recently completed fiscal year 1998. Property taxes constitute the bulk of operating revenue (62% in FY 1997) and recent collections have been strong, averaging over 99%.

The city's cash flow position is strong as a result of quarterly receipt of tax revenues and state aid (78% of revenues) negating the need for cash flow borrowing. In addition, the city has available $12.3 million of unused property tax levy capacity under Proposition 2 1/2 (5.4% of revenues) which provides additional financial flexibility. Excess levy capacity is projected to remain in this range in the near future as a result of solid annual growth in assessed valuation.

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

The city's modest level of conservatively structured debt continues to be a key credit strength. Debt burden is a modest 1.2% and is kept low by the self-supporting nature of the MWRA sewer debt and the city's water debt. State aid for school construction costs lowers it further as does the city's agressive pay-as you-go funding plan. Annual debt service on general obligation bonds declines quickly, allowing plenty of room for further borrowing, and all GO bonds are retired rapidly (75% in ten years). Despite the rapid paydown schedule, debt service constituted under 5% of expenditures in FY 1997. The city has no short term debt outstanding. Regular updates of the 5-year capital improvement plan allow projects to be identified well in advance which are immediately funded with available cash or long-term debt proceeds, with no interim (BAN) borrowing necessary. The current issue will fund the first phase of construction on a new water treatment plant. An additional $36 million will be issued for the project over the next three years. The city has already increased water rates to accommodate this project and plans additional rate increases of between 3% and 9% annually over the next five years.

The current five year capital plan, including the water treatment plant, calls for $243 million in spending through 2002, which will require about $169 million of long term bonds. The largest projects include $30 million for a police station, $30 million for sewer separation project, and $14 million for various school improvements.

Outlook

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

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City Manager

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Consent Agenda #1 116F

Relative to a communication from Moody's Investors Services regarding the City's General Obligation Bond Aaa rating.

In City Council September 14, 1998

No Action Taken

SEP. 28 1998

PLACED ON FILE