



City of Cambridge

40.

IN CITY COUNCIL

March 15, 1993

COUNCILLOR MYERS

WHEREAS: A letter has been received from a constituent regarding the city's long-term debt; and

WHEREAS: Whether one agrees or disagrees with the conclusions that are stated, the letter does raise provocative questions about the long-term financial condition of the city with regard to our debt; and

WHEREAS: It would be very helpful and important to have information about the debt of the city prior to this year's budget cycle; now therefore be it

RESOLVED: That the City Manger be and hereby is requested to prepare a report clearly outlining the long-term debt obligations of the city at the present time; and be it further

RESOLVED: That this report be requested to be presented to the City Council prior to the City Council meeting of April 12.

In City Council March 15, 1993.
Adopted by the affirmative vote of nine members.
Attest:- D. Margaret Drury, City Clerk.

A true copy;

ATTEST:- *D. Margaret Drury*

D. Margaret Drury
City Clerk

Next Year's Budget under Prop 2 1/2

How Increased Debt Service Costs Will Restrict Expenditures

In the next few months when the Council deals with the budget, it will be operating under the constraints of Proposition 2 1/2. Because the City's bonded indebtedness has been increased by \$25 million in the last decade, there will be about \$3 million more required for debt service, and thus, an equal amount not available for operating expenses (police, fire, schools, public works, etc.)

The fiscal policy of the administration during the past ten prosperous years has been extremely shortsighted. Instead of reducing the city's debt, we have increased it. We did not need to stop financing all long-term projects with bonds. All we had to do was refrain from incurring long term debt at a rate faster than we were retiring old debt. A prudent policy would have been to issue fewer bonds than we retired, and thereby decrease our annual cost for debt service and leave more money for operating expenses.

This unwise debt policy did not hit us between the eyes before this time, because the City had not reached the limitations of Proposition 2 1/2. Now in Fiscal Year 94, which begins on July 1, 1993, we will. Proposition 2 1/2 limits how much the City can tax to cover all expenses, including debt service.

From FY82 to FY93, managing the City's finances was easy. There was no shortage of taxable resources, nor any limitations under Prop 2 1/2 during the building boom. The assessed valuation of the city tripled from \$2.7 to \$8.1 billion. It was possible to double tax collections, to increase City operating expenditures by 75%, and to cover increased debt service costs without any significant increase in tax rates.

Not only was strong fiscal management not required in that boom period, it was also not evident. Operating costs were not kept under tight control, and more debt was incurred than paid off.

The City of Peabody provides an example of what Cambridge might have done. According to a recent article in the Boston Globe, "The city is relatively free of debt, despite years of building infrastructure. Since fiscal 1985, the city has spent \$23 million on capital projects . . . all without borrowing." For comparison purposes, it should be noted that Peabody has almost exactly one half the population of Cambridge and a tax base one fourth of ours.

As a result of this pay-as-you-go policy, Peabody currently is taxing at \$6.3 million (15.5%) below its allowable levy limit of 40.5 million, whereas Cambridge is only about \$2.4 million (1.8%) below its limit of \$134 million.

The popular impression that Cambridge has had superb fiscal management is not justified by the facts.

Although our bond rating is tops, that rating only means that Moody's and Standard and Poors believe that there is little, if any, risk to a buyer of bonds issued by Cambridge. With a tax base that was tripling Cambridge had a source of revenue more than adequate to cover all indebtedness and operating expenses. Now, as we hit the limit of Proposition 2 1/2, Moody's and Standard and Poors may not be so bullish on Cambridge bonds, and our rating may drop.

Our fiscal management during a decade of unique prosperity has been short-sighted. The City's debt is higher and more of our city budget must go to paying it off. As a result, the ability of the City to provide services has been curtailed. In a manner similar to the Federal government, although in no way to the same degree, we have put off to the uncertain future the expenses we should have paid during the boom.

~~Consent~~

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Whereas a letter has been received from a constituent regarding the City's long-term debt;

Whereas whether one agrees or disagrees with the conclusions that are stated, the letter does raise provocative questions about the long-term financial condition of the City with regard to our debt;

Whereas it would be very helpful and important to have information about the debt of the City prior to this year's budget cycle;

Therefore be it resolved that the City Manager be and is hereby requested to prepare a report clearly outlining the long-term debt obligations of the city at the present time;

Be it further resolved that this report be requested to be presented to the City Council prior to the City Council meeting of April 12.

Next Year's Budget under Prop 2 1/2 How Increased Debt Service Costs Will Restrict Expenditures

In the next few months when the Council deals with the budget, it will be operating under the constraints of Proposition 2 1/2. Because the City's bonded indebtedness has been increased by \$25 million in the last decade, there will be about \$3 million more required for debt service, and thus, an equal amount not available for operating expenses (police, fire, schools, public works, etc.)

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MAR. 15 1993

City Council

Adopted by the affirmative vote

of 9 members

M. Margaret Quincy
City Clerk

CONSENT ORDER #40

CM 70

Councillor Myers report outlining the
long term debt obligations.

In City Council,

March 15, 1993

Order Adopted