CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
TEL. 498-9011

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

June 25, 1986

FOR IMMEDIATE RELEASE

Cambridge City Manager Robert W. Healy today announced that Moody's Investors Service, Inc., a major credit rating agency based in New York City, has granted a credit rating increase to the City of Cambridge.

Moody's Investors Service, Inc. raised the City's bond rating from BAA1 to A. The Moody's increase represents the second consecutive year that this agency increased the City's credit rating. The other major credit rating agency, Standard & Poor's Corporation, sustained its rating of A after granting rating increases in 1984 and 1985.

The rating increase occurs as a result of application for a rating of $3,360,000 in general obligation bonds sold on June 25, 1986 and applies to all outstanding bonds of the City. The proceeds will be used for the construction of a public parking facility located in the Lechmere Square area. The rating increase is significant in that it marks the second time in slightly over a year that Moody's has determined that improvements in the City's creditworthiness and financial position merited an increase in bond rating. In obtaining such an increase, Cambridge is bucking national trends which are running in the opposite direction. Historically, Moody's Investors Service has downgraded more issues than it has increased. For example, in 1985 Moody's downgraded 295 ratings while increasing only 241.

The City Manager stated he was extremely pleased by the recognition of the credit rating agencies and investment community that Cambridge is experiencing unprecedented economic growth and exhibits many indicators of continued strong performance. The change is a significant achievement for several reasons. First, the upgrade places the City above the lowest tier of "investment grade" ratings for the first time since the City's ratings were lowered due to Proposition 2-1/2. Second, moving into this rating category should enable the City to achieve additional debt service savings. The spread in yields demanded by investors is greatest between the A-rated and Baa-rated credits. Third, the rating of Moody's is now at the same level as Standard and Poor's. The Moody's upgrade clearly reflects a confirmation that the City's financial performance has improved measurably and shows confidence in the City sustaining its recent strong economic performance.

The factors contributing to the rating increase include continued improvement in the City's financial position, major increases in year-end general fund balance, significant reductions in the level of short-term borrowing and substantial growth in the City tax base and levy limit capacity. The benefits accruing to the City from strong economic growth include substantial increases in assessed valuation, strong growth in building permits and new construction, and continued very low levels of unemployment. The recent management improvement actions undertaken in the areas of assessment practices, fixed asset accounting and pension fund actuarials were contributing factors to the rating increase. Moody's officials also acknowledged the levels of City contributions to the City Pension Fund were well above State-mandated minimum levels. The City's approach to fully fund the unfunded liability, rather than continue on a "pay-as-you-go" basis, was seen as a positive trend.

The City Manager believed that the overall approach of making a commitment to prudent fiscal policy and debt management during times of expanding revenues made a very positive impression with the credit analysts at Moody's. The City Council has done a commendable job of directing City resources towards improving the public infrastructure, holding the line on operating expenses, yet continuing to provide the high quality of services demanded by the residents of the City of Cambridge.

The rating upgrade is especially notable in light of the City's recent major increases in the size of the City's capital spending program. In May 1986 the City Council approved a 5-year Public Investment Program of nearly $80 million, a 62-percent increase over last year's submission. The City documented to the rating agencies the need to rebuild the City's infrastructure and public works in light of new growth and the declines in Federal assistance for local capital projects. The program calls for increased reliance on long-term bonds to finance needed capital improvements. The City has increased water and sewer rates to help fund certain of these projects. The increase in rating reflects confidence in the City's approach to capital planning and financing.

The results of the bond sale, a net interest cost to the City of 6.14 percent for the $3,360,000 issue, clearly reflect the upgrade by Moody's and the continued confidence shown in the City by the investment community.

Healy concluded by stating that the City's financial success is a good example of what can happen when the public, the City, the State, and the business community work cooperatively with each other to improve the City.

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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

June 30, 1986

To the Honorable, the City Council:

Enclosed please find copy of a press release announcing that Moody's Investors Service, Inc. has granted a credit rating increase to the City of Cambridge for the second consecutive year.

Very truly yours,

Robert W. Healy
City Manager

RWH/mbf
Enc.

Agenda Item No. 10 P-281

Re: enclosed press release on Moody's Investors Service, Inc. granting a credit rating increase to the City for the second consecutive year.

In City Council,

June 30, 1986

Placed on File