CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
TEL. 498-9011

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

FOR IMMEDIATE RELEASE

June 11, 1987

Cambridge City Manager Robert W. Healy today announced that Moody's Investors Service, Inc. and Standard & Poor's Corporation, the major credit rating agencies based in New York City, have granted credit rating increases to the City of Cambridge. The rating increases occurred as a result of application for a rating of $11,400,000 in general obligation bonds sold on June 10, 1987 and applies to all outstanding bonds of the City. The award of the bonds was made to the syndicate managed by Salomon Brothers Inc. & Associates, which offered the City the lowest True Interest Cost of all three bidders of 5.6396%.

According to Mr. Healy, the low interest rate reflected the recent upgrading of the City's credit rating by both Moody's Investors Service, Inc. and Standard & Poor's Corporation. Another reason cited for the low bid was the increased competition for the bonds. Historically, the City has received bids from two underwriting syndicates. The June 10 bond sale drew attention from three syndicates. The syndicates that bid on the bonds were those managed by Salomon Brothers, Prudential Bache Securities, and The First National Bank of Boston.

Moody's Investors Service raised the City's credit rating from "A" to "Aa". According to Moody's, "Bonds which are rated 'A' are judged to be of high quality by all standards". This is the third consecutive year that

Moody's has increased the City's credit rating. Standard & Poor's Corporation raised the City's credit rating from "A" to "A+". This is the third time since 1984 that Standard & Poor's has increased the City's credit rating.

At a time of rising interest rates, one way of minimizing the adverse impact of this type of market environment is to have a higher credit rating. Conversations with the syndicates that bid on the June 10 bond sale indicated that there was a savings of approximately 15 basis points (15/100 of 1 percent) on the True Interest Cost (TIC) of the bonds and savings of as much as 25 basis points on the longer term maturities due to the higher credit ratings awarded. This represents a total debt service savings of approximately $100,000 over the life of the bonds. These estimates reflect some acknowledgement on the part of the investment community that Cambridge was already trading at a level above its "A" rating.

A higher credit rating from these two institutions results in a lower interest cost since the City's debt is perceived to be less risky in the municipal bond marketplace. The full letter upgrade granted by Moody's is considered unusual and reflects an acknowledgement of the very strong financial and economic position of the City. According to "Moody's Bond Survey", of the 254 municipal rating upgrades granted by Moody's in 1986, only 11 of the non-refunded investment grade ("Baa" and higher) rating increases were for a full letter grade.

The increase to "Aa" by Moody's also returns the City to the rating that it enjoyed prior to the passage of Proposition 2-1/2. At the time that Proposition 2-1/2 was passed, Moody's suspended 44 ratings, and when the credits were reevaluated, 39 of those were returned with downgradings. The

City of Cambridge suffered the greatest rating downgrade, from "Aa" to "Baa". In just three years, the City of Cambridge was able to restore its credit rating to its previous high quality investment grade. By comparison, Standard & Poor's assigned "A+" rating places the City of Cambridge in the upper boundaries of jurisdictions rated as having a strong capacity to pay interest and repay principal on its outstanding obligations.

Factors contributing to the City's rating increase include continued improvement in the City's financial position; substantial increases in assessed valuation and the margin between the actual tax levy and the legal levy limit; major increases in the year-end fund balance; development of a Capital Improvement Plan which addresses the needs of the City; and the implementation of several management improvement actions, including the expansion of the in-house computer system.

The City was assisted in the bond sale by its financial advisors: the Government Finance Research Center, Washington, DC, and Government Finance Associates, Princeton, New Jersey.

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June 15, 1987

To the Honorable, the City Council:

Enclosed please find copy of a press release relative to a credit rating increase granted to the City of Cambridge by Moody's Investors Service, Inc. and Standard & Poor's Corporation.

Very truly yours,

Robert W. Healy
City Manager

RWH/mbf
Enc.

Agenda Item No. 2F-273

Re: enclosed press release on a credit increase granted to the City by Moody's Investors Service, Inc. & Standard & Poor Corp.

In City Council,

June 15, 1987

Placed on File