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Steven J Murphy
Managing Director
Public Finance Ratings

Standard & Poor's
A Division of The McGraw-Hill Companies

December 30, 2002

Mr. Louis DePasquale
Acting Finance Director
City of Cambridge
795 Massachusetts Avenue
Cambridge, MA 02139-3201

Re: ***$28,675,000 City of Cambridge, Massachusetts, General Obligation Bonds, dated: January 15, 2003, due: January 1, 2023***

Dear Mr. DePasquale:

Pursuant to your request for a Standard & Poor's rating on the above debt obligations, we have reviewed the information furnished to us and, subject to the terms and conditions of the *MEMORANDUM OF AGREEMENT* on the reverse side hereof, have assigned a rating of 'AAA' to the obligations. S&P views the outlook for this rating over the intermediate to longer term as stable.

Please note that the ongoing information required includes annual audits and budgets and, for revenue bond ratings in connection with construction financing, progress reports, not less often than quarterly, covering the project being financed and should be forwarded to:

Standard & Poor's Ratings Services
Public Finance
55 Water Street, Muni Drop Box No. 1, 38-3-10 - New York, NY 10041-0003

S&P relies on the issuer and its counsel, accountants and other experts for the accuracy and completeness of the information submitted in connection with the rating. In addition, it should be understood that the rating is not a "*market*" rating nor a recommendation to buy, hold or sell these securities. Please note that the rating, as is the case with all of S&P's municipal ratings, does not address the likelihood that interest payable on the Bonds may be deemed or declared includable in the gross income of Bondholders by the relevant authorities at any time.

In the event that you decide to include this rating in an Official Statement, prospectus or other offering literature, we request that you include S&P's definition of the rating together with a statement that the rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, information.

We are pleased to have been of service to you. Thank you for choosing Standard & Poor's Ratings Services. If you have any questions, please contact us.

Very truly yours,

Steven J. Murphy

amh
cc: Mr. John L. Krause, Jr., Associate Director
Government Finance Group/ARD, Inc.

Publication date: 31-Dec-2002
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Cambridge, Massachusetts

Credit Analysts: Geoffrey Buswick, Boston (1) 617-371-0313; Joshua R McIntyre, Boston (1) 617-371-0303

Credit Profile
$28.675 mil GO bnds dtd 01/15/2003 due 01/01/2023
AAA
Sale date: 07-JAN-2003

AFFIRMED
Outstanding GO bnds
AAA

OUTLOOK: STABLE

Rationale

The 'AAA' rating on Cambridge, Mass.' 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 history of consistent implementation of a capital improvement plan (CIP).

Proceeds of the bonds will be used to fund improvements to the city hall annex and a fire station, among other municipal buildings, and for sewer reconstruction, street reconstruction, and golf course improvements.

Cambridge (population 101,355) 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 2003 assessed value (AV) of $17.8 billion has increased 87% over the fiscal 1999 tax base of $9.5 billion. The AV growth is projected to continue, as building permits for new commercial and residential redevelopment remain strong and the national recession has shown little effect on Cambridge property demands. The market value per capita for fiscal 2003 is a very high $178,100. The employment base is largely professional, which contributes to an above-average median household effective buying income that is 4% greater than the commonwealth's average and 24% 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 continues to weather the current national recession with little to no effect on collection or service delivery levels. Cambridge's fiscal 2003 projected excess levy capacity under Proposition 2-1/2 limits is an impressive $36.2 million and represents 11% of the total city programs budget. 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 draft audit for fiscal 2002 is fully GASB 34 compliant, including the depreciation of fixed assets. The fiscal 2002 draft unreserved general fund balance of $69.5 million is equal to 23.7% of expenditures and transfers for public education. Audited fiscal 2001 closed with an operating surplus after transfers. The fiscal 2003 budget was conservatively constructed, and as a result is still on budget.

Overall net debt burden, including this issue, is low at $705 per capita and 0.4% of market valuation after allowing for self-supporting utility debt and reimbursements from the commonwealth for public education projects. Cambridge plans $175 million in bonds over the next five years for various public improvement projects, including a police station and library, while retiring $158 million in GO debt.

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 (8,722 employees); MIT (7,741); the city of Cambridge (2,934); Millenium Pharmaceuticals (1,882), Cambridge Public Health (1,671), and federal government (1,632--primarily the Transportation Research Center). Biotechnology/pharmaceuticals firms account for six of the top 25 employers in the city. Along with Millenium Pharmaceuticals, other biotechnology/pharmaceutical employers include Biogen (1,400 employees), Genzyme (1,161), Wyeth Genetics (803), Vertex Pharmaceuticals (510), and Transkeryotic Therapies (423). The sector is attracted to the area by the concentration of the intellectual capital at Harvard and MIT and the R&D think tank, Whitehead Institute. The sector continues to expand, even in the face of the national recession, with the recent announcement of Novartis, a major pharmaceutical company, to move its global R&C headquarters to Cambridge.

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 5.4% annually. The 2003 tax base totals $17.8 billion, or an average of 17% annually each of the past three years. The tax base is moderately concentrated, with the 10 leading taxpayers accounting for 16.4% of the fiscal 2003 AV. MIT has been investing in land throughout Cambridge for both educational and real estate investment purposes. The successful development of MIT-owned University Park, adjacent to the MIT campus, has helped push MIT's concentration to 5.5% of AV and 8.7% of the total tax levy. MIT and Harvard each have payments in lieu of taxes (PILOT) with the city and also pay taxes on non-educational-related properties. Negotiations for the PILOT agreements are constant as the property holdings of the schools change.

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 raised $4.9 million in the first year alone, and the commonwealth matched that amount dollar for dollar. Cambridge allocated $4.5 million to use the funds for renovation and construction of affordable housing, with small amounts allocated for open space purchases and historic preservation projects, while the rest was set aside for future use.

Finances
The fiscal 2003 budget of $332 million reflects a 4% increase from the previous year. This budget increase is chiefly attributed to a 3% salary increase for city employees, a 12% increase in debt service, and a 3% increase in school spending. Approximately 56% of the fiscal 2003 budget is funded through property taxes. Intergovernmental revenues have historically been between 15%-17% of total revenues, with the largest component coming in state aid. Much of the state aid is allocated directly to school building and

water and sewer construction reimbursements, and as a result are fixed in the future. The city's operations are not dependent on the commonwealth for funding, so the current state fiscal deficit will likely have little immediate effect on Cambridge's service delivery ability.

Cambridge's operating projections covering 2003-2007 indicate that expenditure increases totaling 28% will be met by a matching increase in revenues. The strongest revenue growth is in property tax revenues, with a 31%, or $58 million, increase attributable to projected strong tax base growth. Sewer user charge revenues are projected to grow by $9.5 million over the five-year period, a 39% increase. The city's conservative estimating is demonstrated in the fiscal 2003 budget, where each of the major revenue streams, except sewer service charges, were budgeted less than the fiscal 2002 actual collections. On the expenditure side, the city's debt service marks the highest increase, with a 101% growth, or an additional $17 million burden by 2007.

Massachusetts, in addressing its revenue shortfall, has eliminated the subsidy to the Massachusetts Water Resource Authority (MWRA). In turn, over the next few years, the MWRA assessments to local member municipalities are going to be greater than previously projected. Cambridge is a partial water participant (emergency source only) and a full sewer participant. Cambridge expects to be able to handle the increased assessment through rate increases near previous projected rates.

Debt

The city's 2003-2007 CIP totals $230 million, with about 72% of funding sources coming from GO bonds and 28% being funded on a pay-as-you-go basis. For the second year in a row, the updated CIP is $30 million below the prior year's CIP total. Amortization of debt continues to be slightly faster than previous years, with an extremely rapid 87.5% retirement in 10 years. The city's unfunded pension liability, dated Jan. 1, 2002, of $61 million is down to roughly 10% of the total obligation from a 32% unfunded liability in 1996. Future debt issues are for updates to the water and sewer system, a new library, and renovation of fire and police stations.

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OFFICE OF THE CITY MANAGER

Moody's Investors Service

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New York, New York 10007

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January 10, 2003

Mr. Robert Healey
City Manager
Cambridge (City of) MA
City Hall
795 Massachusettes Avenue
Cambridge, MA 01239

Dear Mr. Healey:

We wish to inform you that on January 8, 2003, Mood's Rating Committee assigned an Aaa rating to the Cambridge (City of) General Obligation Bonds, Municipal Purpose Loan of 2003.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information

Moody's will monitor this rating and reserves the right, at 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 verbal requests to Moody's rating desk.

Should you have any questions regarding the above, please do not hesitate to contact the analyst assigned to this credit, Jeffrey Kaufmann at 212-553-7782.

Sincerely,

Yaffa Rattner

Yaffa Rattner
Senior Vice President

YR: iab

Cc: Mr. John Krause
Division Director
Government Finance Group
1601 N. Kent Street – Suite 800
Arlington, VA 22209

Moody's Investors Service
Global Credit Research

Municipal Credit Research
New Issue
Published 9 Jan 2003

Cambridge (City of) MA

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Moody's Rating

Issue	Rating
General Obligation Bonds, Municipal Purpose Loan of 2003	Aaa
Sale Amount $28,675,000	
Expected Sale Date 01/23/03	
Rating Description General Obligation	

Moody's Assigns Aaa Rating to Cambridge, MA's $28.675 Million G.O. Bonds

Aaa Rating Affirmed, Affecting $213.5 Million of Previously issued Debt

Opinion

Moody's Investors Service has assigned a Aaa rating to the City of Cambridge, MA's $28.675 Million Municipal Purpose Loan of 2003. At this time, Moody's has also affirmed the Aaa rating on the city's $213.5 million of previously issued debt. The current issue will finance various infrastructure and building improvements and is secured by the city's general obligation, limited tax pledge as debt service on these bonds has not been exempted from the levy limitations of Proposition 2 ½. Moody's assignment of its highest quality long-term rating incorporates: a strong and forward-looking fiscal management approach that has sustained a trend of favorable financial operations; a significant level of available operating flexibility which positions the city well to address potential fiscal challenges; a diverse and substantial tax base benefiting from the continued strength of the local economy; a modest overall debt position supported by an expanding tax base, healthy enterprise systems, and state school building grants.

TREND OF POSITIVE RESULTS MAINTAINS STRONG FINANCIAL POSITION

Moody's expects the city will continue to maintain a very strong financial position given a prudently structured long-term fiscal approach and an ample degree of flexibility to address potential budgetary challenges. Cambridge maintains a very comfortable level of General Fund reserves (16.3% of revenues) that positions the city to accommodate anticipated state aid reductions. With a FY02 operating surplus resulting mainly from conservative revenue estimates, undesignated General Fund balances have reached $38.6 million or 12.1% of revenues. Transfers into the General Fund of balances previously held in the Health Claims Trust Fund, Stabilization Funds, Internal Service Fund and Overlay Reserve in accordance with GASB 34 augmented the audited undesignated fund balance position to a substantial $69.6 million or 21.8% of revenues. The city has historically maintained an ample level of operating flexibility outside the reserve position given the growing and significant tax levy margin under Proposition 2 1/2 ($36.2 million or 18% of the FY03 levy) and a large capital pay-as-you-go component in the budget. Moody's believes the city retains ample capacity to offset any state aid funding reductions (currently a moderate 15.3% of revenues) and anticipated budgetary demands associated primarily with debt service and health insurance cost increases.

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

Moody's expects the city will continue to experience expansion in its diverse $18.1 billion base, reflecting sustained development and appreciation. The city has realized assessed value growth of nearly 20% annually since 1998 and anticipates an additional $3.0 billion of A.V. growth over the next two years centered on the commercial sector. These estimates reflect substantial new construction (which provided 92% of the $10.3 million levy growth in FY03) and sustained residential value appreciation. City officials have prudently projected declining new growth revenues in the future which is expected to require increased tax rates through the utilization of excess levy capacity beginning in FY05. The city has seen a sizable deterioration of the commercial vacancy rates from 2000, with current estimates of 14.2%, though new construction has not been adversely impacted; approximately 1.8 million sq. ft. of new commercial space coming on line and the potential for upwards of 7 million sq. ft. of new mixed development over the longer term. Leveraging the presence of Harvard University and Massachusetts Institute of Technology - together enrolling 28,400 students and employing over 15,000 people - as well as the robust biotechnology sector, Novartis recently announced a $750 million development of high tech laboratory space in the city. Despite nearly one-third of the tax base being tax exempt, the city still maintains a substantial full value per capita of $178,000 given the 43% increase in market values recorded over the last two years.

FAVORABLE DEBT LEVELS BENEFIT FROM SUBSTANTIAL TAXBASE GROWTH

Moody's expects the city's debt position (0.7% adjusted debt burden) 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 kept low by the self-supporting nature of the MWRA sewer debt and the city's water enterprise 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 rises next year as a result of the ten-year maturity of the current issue, but declines quickly thereafter, allowing sufficient capacity for future borrowing. Overall debt is retired at a rapid pace of 87.6% in ten years. Despite the rapid paydown schedule, General Fund supported debt service comprises only 5.3% of FY02 expenditures and state revenues and hospital reimbursement further limit the tax levy support of this expenditure area. Management does anticipate a sizeable shift in the next five years to greater tax levy support for debt service. However, the five year capital borrowing plan of approximately $218 million reflects a continued decrease from prior capital plans and maintains the use of ten year maturity schedules for the majority of projects. The largest of the projects in this plan are for a Police Station renovation and Library Construction, though a sizable portion reflects self-supporting utility debt.

KEY STATISTICS

2000 Population: 101,355

2000 Per Capita Income: $31,156 (120.1%)

2002 Full Value: $18.05 Billion

Adjusted Debt Burden: 0.7%

Payout of principal (ten years): 87.6%

FY01 General Fund Balance: $46.5 million (16.3% of General Fund revenues)

FY02 Draft Undesignated General Fund Balance (GASB 34): $67.9 million (21.3% of revenues)

Tax Supported
New Issue

Cambridge, Massachusetts

Ratings

New Issue

General Obligation Bonds, Municipal Purpose Loan of 2003 .... AAA

Outstanding Debt

General Obligation Bonds .... AAA

Rating Outlook .... Stable

Analyst

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Issuer Contact

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New Issue Details

Approximately $28,675,000 General Obligation Bonds, Municipal Purpose Loan of 2003 are scheduled to sell via competitive bid on Jan. 21 with serial maturities Jan 1, 2004–2013 and semiannual interest payments on July 1 and Jan. 1, commencing July 1, 2003.

Security: The bonds are general obligations of Cambridge, payable from taxes levied on all taxable property, subject to statutory levy limitations.

Purpose: Bond proceeds will fund renovations to city hall and a fire station, as well as sewer, road, and golf course improvements.

■ Outlook

The rating outlook is Stable. The superior 'AAA' credit rating reflects Cambridge's strong local economy, characterized by a sizable and stable employment base, a substantial and growing tax base, healthy fund balances, and a low 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 (MIT) attracting substantial private research interests, growth continues despite the current national economic downturn. While assessed valuation (AV) growth through fiscal 2003 remains robust, the city has prudently forecast more modest gains in its multiyear financial plan. Although Proposition 2½ levy restrictions remain a challenge, Cambridge maintains ample levy capacity through strong AV growth and financial management.

■ Rating Considerations

The city's population grew 5.8% in 2000 to 101,355, exceeding county and state rates of 4.8% and 5.5%, respectively. The city's strong economy features a mix of high-technology companies, including computer, biotechnology, and other research/development companies, as well as several prominent institutions of higher learning. Commercial growth continued in 2002 with current plans promising expansions through the next few years. Consequently, the employment base remains healthy with Cambridge sustaining low unemployment rates, still hovering around 3%, as the region and nation face challenges in this area. The service sector remains stable, comprising 46% of total employment, led by health care, higher education, and business services. Income levels are higher than both state and national averages despite the high student population, which accounts for one in four residents. Market value per capita is remarkably high at $175,135, considering one-half of the city's land area is tax exempt.

General fund operations are strong with the city's audited fiscal 2002 operating surplus of $11.7 million bolstering undesignated fund balance approximately 25% over fiscal 2001 to $69.5 million, or 22% of expenditures, after Governmental Accounting Standards Board (GASB) 34 adjustments. In addition to general fund balances, Cambridge maintains other sources of flexibility through various other reserve funds. The strong growth in real estate values as well as solid financial management affords Cambridge the opportunity to stay well within the Proposition 2½ levy limitation and has reportedly the highest margin in the commonwealth using only 85% of its current capacity in 2003. The city's fiscal 2003 budget represents a 3.9% increase over the fiscal 2002 budget; however, all budgeted revenues are conservatively below fiscal 2002 audited receipts. Cambridge's debt burden is low at $1,237 per capita and 0.71% of fair market value. Amortization is rapid with 88% retired in 10 years.

Strengths

- Solid employment growth and very low unemployment rates in an economy with proven resilience to downturns.
- Strong financial management and long-term planning.
- Very broad real property base with tremendous growth in recent years.
- Consistently high fund balances.
- Low debt burden measured against real property valuations and rapid amortization.

Risk

- Remains vulnerable to Proposition 2½ tax levy limitations, although levy capacity is currently high.

Debt

Direct debt is a low $1,237 and 0.7% of fair market value. While the city is responsible for a portion of the Massachusetts Water Resources Authority's (MWRA) outstanding debt, the figure is not included in the overall debt calculations because the debt is self supporting from user charges. Debt levels include $25 million in outstanding general obligation bonds issued by the city for health and hospital facilities. The city continues to provide property tax support to the Cambridge Public Health Commission (CPHC), the successor entity to the city's department of health and hospitals. Although the CPHC pays debt service on general obligation debt issued for hospitals, the city ultimately remains legally obligated to pay debt service to bondholders. Self-support credit is given for principal retired through sewer and water fees and state school construction grants. Bond proceeds will finance renovations to city hall and a fire station as well as sewer, road, and golf course improvements.

The city's five-year 2003–2007 capital improvement program (CIP) totals $230 million and is a reduction from the $262 million plan starting in fiscal 2002. The plan includes funding for $90 million in water and sewer improvements and reconstruction, $36 million for public safety building needs, and $30 million for public works site acquisition and construction. Bond proceeds fund approximately 72% of the $230 million. If all anticipated debt is issued, direct debt ratios may rise slightly, but any increases will be mitigated by the city's rapid amortization schedule, with 85% retired over 10 years. Officials will amortize the larger projects over 20 years but use 10-year retirement schedules for other debt.

Debt Statistics

($000)

This Issue	28,675
Outstanding General Obligation Bonds	193,120
MWPAT Loans and Other	50,435
Total Outstanding Debt	243,555
Less: Self-Supporting Debt	
Water Bonds	51,346
Sewer Bonds	25,515
Commonwealth School Subsidies	12,263
MWPAT Loans	20,693
Hospital Bonds	24,000
Commonwealth Subsidy MWPAT Loans	23,742
Total Self-Supporting Debt	157,559
Total Debt	114,671

Debt Ratios

Direct Debt Per Capita ($)*	1,237
As % of Fair Market Value**	0.71

*Population: 101,355 (2000 census).
**Fair market value: $18,050,952,000 (fiscal 2003).
MWPAT – Massachusetts Water Pollution Abatement Trust.
Note: Numbers may not add due to rounding.

Finances

Cambridge has a history of positive operating results, strong financial management, and the requisite financial flexibility to withstand economic downturns. City officials budget conservatively and produce detailed financial plans for future years. In the early 1990s, the city faced the challenge of meeting its operating needs in the face of revenue-raising constraints imposed by Proposition 2½ and declines in state aid as the state economy soured. In fiscal years 1990–1993, while state aid declined 26%, city officials responded with timely drawdowns of fund balance and expenditure controls. Relying mainly on reserves to meet spending plans, Cambridge maintained an unreserved, undesignated general fund balance at a respectable 2.6% of spending at the end of fiscal 1993, when the fund balance was only about 28% of the fiscal 1990 level. During this period, the excess property tax levy capacity, constrained by Proposition 2½ restrictions, declined precipitously and reached a dangerously slim $185,035, or a mere 0.13% margin.

As the local economy recovered, revenue increases and well placed expenditure controls enabled the city to record operating results all but one year since 1994, with the fiscal 1999 $5.0 million general fund net deficit related to a $17 million transfer for capital improvements. Audited fiscal 2002 results, compliant with GASB 34 reporting requirements, continue this trend yielding $12 million in net income, despite the

General Fund Operating Results
($000, Fiscal Years Ended June 30)

	1996	1997	1998	1999	2000	2001	2002
Property Taxes	141,530	143,025	153,007	151,056	162,190	174,681	198,805
Motor Vehicle Excise Taxes	3,495	4,497	4,717	4,825	5,849	5,921	5,838
Hotel/Motel Excise Taxes	3,262	3,861	4,449	4,955	5,697	5,651	4,908
Payments in Lieu of Taxes	3,335	2,355	2,282	4,545	3,692	4,807	5,316
Other Local Revenues	35,972	38,429	38,598	40,690	47,603	47,271	46,455
State/Federal Aid	35,465	36,422	37,207	42,924	39,821	47,023	46,823
Total Revenues	223,059	228,589	240,260	248,995	264,851	285,354	308,145
Debt Service	7,384	9,883	10,281	12,683	11,492	11,368	16,388
Education	85,836	85,514	90,481	93,371	100,200	105,324	112,961
General Government	17,841	16,719	17,475	21,752	18,032	22,545	26,805
Public Safety	55,362	55,931	62,069	61,995	66,443	66,776	70,387
State Assessments	21,067	20,661	20,826	21,223	21,407	21,107	28,019
Other	41,124	31,181	32,208	32,981	38,760	41,271	41,907
Total Expenditures	228,614	219,889	233,340	244,005	256,335	268,390	296,467
Net Surplus*	2,149	9,636	2,467	(5,192)	388	3,047	6,899
Total General Fund Balance**	36,207	45,843	48,310	43,116	43,504	46,552	82,898
Unreserved/Undesignated General Fund Balance**	26,080	30,979	34,958	23,224	25,154	31,880	69,507
As % of Expenditures and Transfers Out	11.0	13.1	13.8	8.6	8.9	10.6	21.8

*After netting out transfers in and out. **Includes adjustments for Governmental Accounting Standards Board 34 in fiscal 2002.

national economic downturn, proving the city's wherewithal through economic cycles. Furthermore, since its low point in the early 1990s, the city's margin under the tax levy limitations remains ample, assuring continued financial flexibility.

In fiscal 2002, property taxes accounted for 61% of general fund operating revenues, a lesser proportion than prior years. The city continues its efforts to maximize nonproperty revenues to maintain levy capacity. Spurred by the strong regional economy in the late 1990s, motel/hotel tax receipts grew 28% from fiscal years 1998 to 2000, reaching $5.7 million; however, the economic slowdown has caused reductions over the last two years, with fiscal 2002 results below fiscal 1999 levels. The city mitigates such declines in revenue through a conservative budget process.

The city's largest spending item is education, totaling 35% of general fund expenditures in fiscal 2002. Public safety (22%) and general government (8%) are the second and third largest expenditures. Debt service comprises a low 5% of general fund expenditures, and although city projections show it increasing to 16% in 2007, the debt service burden on the budget should remain manageable given the conservative nature of city forecasts.

The general unreserved, undesignated fund balance for fiscal 2002 was 21.8% of expenditures and transfers out, and on a comparative basis considering GASB 34 adjustments, represents a 25% increase over fiscal 2001 levels. The increase in fiscal 2002 is consistent with the fiscal years 2000–2001 increase of 27%, and the city's operating plan shows reserve increases are likely to continue over the near term. In addition to the general fund balance, the city maintains ample reserves in special revenue funds (parking fund) and in separate city and school stabilization funds for extraordinary or one-time expenditures. The city's liquidity position remains strong with certified free cash increasing to $28.7 million in fiscal 2002, up from $25.0 million in fiscal 2001.

While local revenue-raising capacity has increased, Cambridge continues to rely, although less than other cities and towns, on intergovernmental revenues. State and federal aid was equal to 14.4% of general fund receipts in fiscal 2002; most of this aid is for relatively stable education funding. With much uncertainty surrounding the scope of the commonwealth's current budget problems and how local aid may be affected, the city has prudently included reductions in state aid in its five-year operating plan, decreasing to 9.4% in fiscal 2007.

Cambridge has steadily lowered property tax rates over the past four fiscal years. With AV growing, tax rates declined from $9.21 for residents and $23.39 for commercial properties in fiscal 2001 to $7.26 and $18.67, respectively, in fiscal 2003. Current tax collections, net of refunds, are high and have risen steadily since fiscal 1992, with fiscal 2002 collections at a full 100.5% of the net tax levy, less overlay reserves for abatements.

Extremely strong growth in residential and commercial AVs and the elimination of rent control as of Jan. 1, 1997 have fueled the rapid climb in levy capacity. Also, the city has built up reserves that can be tapped in a downturn. The city's excess property tax levy capacity is at a high of $29.3 million, or a 15% margin between the actual levy and the levy ceiling in fiscal 2003. Officials have conservatively projected margin declines from fiscal years 2004–2007.

The $324.3 million fiscal 2003 adopted general fund budget is a 1.9% increase above the fiscal 2002 adopted budget. The city prudently projects slower growth in revenues and continues its conservative practices with all line items budgeted below fiscal 2002 actual results. The $197.7 million property (gross) tax levy is a 3.1% increase above the prior year's budgeted levy.

Financial projections for fiscal years 2003–2007 indicate realistic and conservative revenue and expenditure estimates. City officials project spending to grow an average of 3.7% annually, netting water and capital expenditures. Total appropriations range from $356.5 million in fiscal 2003 to $420.8 million in fiscal 2007 for all departments, including schools and water, although water and sewer fees are expected to cover all expenditures in their respective funds. The city has prudently adjusted its prior estimates for health insurance increases from 9% to 12% annually from fiscal years 2003–2007. While some labor contracts are still in negotiations, the majority of the cost impacts are known and average 2.6% annually through 2007.

■ Economy

Cambridge is an important economic component of the Boston metropolitan area and Massachusetts. The city maintains its reputation as a leading center for higher education, technology, research and development, especially in biotechnology, and medical institutions. The city's population is ethnically diverse and includes a large student base.

The city's employment base remains relatively stable despite slight declines in 1999 and 2000. In 2001, employment grew 0.4%, lagging labor force growth, creating an increase in the unemployment rate from record low levels to a still low 2.5%. Consistent with national trends, unemployment increased again from November 2001 to November 2002; however, it remains low at 3.7%; below state and national averages of 5.0% and 5.7%, respectively.

In the past two decades, Cambridge's job base turned sharply away from manufacturing and toward services. In 2000, manufacturing accounted for only 11.8% of the private employment base, versus 22% in 1972. The largest sector, services, accounted for 46.0% of the total in 2000, versus 40% in 1972. The growth in education, health, and professional services has produced a dominant service component. In turn, professional, technical, and executive positions have attracted employment well beyond Cambridge's borders, from other towns in Massachusetts and adjoining states. Harvard and MIT remain the top two employers at 8,722 and 7,741, respectively, and serve as attractions for private employers in various fields, including research and development. While the local economy is less prone to the boom and bust cycles associated with manufacturing, vulnerability to real estate swings remains.

Real estate values have grown steadily in Cambridge from fiscal years 1996–1998 and then surged dramatically in fiscal years 1999–2001, with growth in these two periods at 27% and 15%, respectively. While the dramatic growth has quelled slightly, property values increased to $17.8 billion in fiscal 2003, up 5.4% over fiscal 2002. AVs are projected to increase an average of 5% from fiscal years 2003–2007, conservatively projected in accordance with city levy limits. The surge in demand over the last five years reverses the large declines in AV from fiscal years 1991–1995, when values dropped 22%. Building permit activity continues at a healthy pace, although significantly below the record high levels of fiscal years 2000 and 2001, with permit values a solid 3.7% of full value in fiscal 2002, reflecting an active construction environment.

The biotech industry continues to flourish, occupying a large portion of commercial space as the presence of several prominent research institutions makes the city an ideal place for high-end research. Biotech companies, such as Biogen and Amgen, in addition to constructing over 400,000 square feet of commercial space, have long-term commitments to the city. While it is possible that AV could fall significantly in another recession, the growth due to rent control elimination creates a favorable market condition that did not exist in the prior downturn and should help to sustain AV levels.

The top 10 taxpayers accounted for 16.4% of total AV in fiscal 2002. The top taxpayers include a mix of higher education, utilities, and commercial sectors and include MIT, Cambridge Gas & Electric, Boston Properties, Harvard College, and Lotus Development Corp.

Cambridge's wealth indicators are strong. By all measures, income levels are above state and national averages and show relative growth over the last five years. Per capita personal income in 2000 was 122% of the state average and 156% of the nation's. Furthermore, the market value per capita is extraordinary at $175,135, given the large student population and the significant tax-exempt portion of the city's property base.

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CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

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

January 27, 2003

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 December, 2002. 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

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Consent Agenda #11

City's Credit Rating.

In City Council January 27, 2003

REFERRED TO FINANCE COMMITTEE.