CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

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

February 8, 2010

To the Honorable, the City Council:

I am pleased to inform you that the City of Cambridge retains the rare distinction of being one of approximately twenty-four municipalities in the United States with three Triple A ratings from the nation's three major credit rating agencies. The City has received Triple A ratings from Moody's Investors Service, Standard & Poor's and Fitch Ratings every year since 1999.

These ratings are in conjunction with the City's sale of $33.2 million in General Obligation bonds, which is scheduled to take place on February 16, 2010 to finance such capital projects as the CRLS Renovation Project, Sewer Reconstruction Projects and soil remediation related to the Yerxa Road Railroad Underpass Project.

In addition, Standard & Poor's reaffirmed its "strong" Financial Management Assessment (FMA) of the City. An FMA of "strong" indicates that practices are strong, well embedded and likely sustainable. The strong rating indicates that the government maintains most best practices deemed critical to supporting credit quality and that these are well embedded in the government's daily operations and practices. Formal policies support many of these activities, adding to the likelihood that these practices will continue into the future and transcend changes in the operating environment or personnel.

Based on this ongoing recognition from the rating agencies, especially during these challenging economic times, the City Council can be justly proud of its sound fiscal policies.

I am enclosing the rating opinions of Fitch Ratings, Moody's Investors Service and Standard & Poor's. Listed below are highlights from each credit agency report.

Fitch Ratings

Rating Rationale

- The city's exceptional financial management is reflected in consistently strong financial results and reserve levels.

795 Massachusetts Avenue, Cambridge, Massachusetts 02139
Voice: 617.349.4300 Fax: 617.349.4307 TTY: 617.349.4242 Web: www.ci.cambridge.ma.us

- The stable presence of higher education, healthcare, biotechnology, and life sciences industries underpins a deep, diversified, and wealthy economy.

- Debt levels are expected to remain manageable, aided by the city's rapid amortization rate.

Key Rating Drivers

- Ongoing sound financial management, which has benefited the city's financial position.

- Continued growth of the city's diverse, strong economy.

The city's tax base grew by a sound average 4% annually over the past three fiscal years, including 1.7% growth in fiscal 2010. Evidencing the city's conservative planning, officials prepared for a nominal decline in the fiscal 2010 tax base, as they have again for fiscal 2011. Fitch notes that Cambridge's substantial $98.6 million of excess levy capacity under Proposition 2½, along with its considerable reserve levels, provides the city with ample flexibility to weather the effects of the economic recession.

Exceptional financial management and planning are demonstrated by the city's strong financial position. Fiscal 2009 unreserved general fund balances equaled a high 35% of spending ($142 million), which was well in excess of the city's fund balance policy requiring an unreserved general fund balance equal to 15% of the ensuing year's budgeted revenues. Cambridge's $84.6 million of certified free cash for fiscal 2009 remained among the largest amounts in the city's history.

Net direct debt equals a moderate $2,499 per capita, but as a percentage of equalized valuation is much lower at 1%, highlighting the city's substantial tax base. Debt levels should remain manageable given the city's modest overall capital needs and rapid amortization rate; approximately 77% of debt retires within 10 years.

Moody's Investors Service

Highlights

The assignment of Moody's highest quality long-term rating reflects an exceptionally strong and resilient financial position which positions the city to weather uncertain economic conditions more favorably than most similarly-sized cities.

Additional factors supporting the Aaa rating are management's consistently conservative approach to budgeting, a large and diverse tax base with a significant tax-exempt sector and a favorable debt profile supported by healthy enterprise systems and historically strong commonwealth school building aid.

SOUND FINANCIAL POSITION PROVIDES FLEXIBILITY THROUGH RECESSION

Although Moody's expects local governments' recovery from the recession to lag the general economic recovery, Cambridge is expected to maintain a healthy financial position in the near term. The city continues to benefit from high financial flexibility and robust reserve levels, which position it to absorb several years of flat or declining state aid and local revenues with only moderate declines in reserves. Cambridge's strong management team has historically followed prudent fiscal strategy and beginning in fiscal 2008 has formally adopted fiscal policies in its annual budget. Steady revenue streams, generated by its substantial and economically vibrant tax base, provide a notable degree of flexibility to address future budgetary challenges.

Notably, for the third consecutive year the adopted fiscal 2010 budget includes formal investment, debt and reserve policies that had historically informally guided and maintained the city's financial health.

Key to Cambridge's robust financial position is the maintenance of solid balances in its Stabilization, Parking and Health Claims Trust Funds, which totaled $60.4 million in fiscal 2009.

Additional flexibility is derived from Cambridge's ample excess property tax levy capacity under Proposition 2 ½, historically maintained at robust levels and currently the highest of any Massachusetts city or town. Despite recessionary pressures and sluggish local revenue growth, the city's excess levy capacity reached $98.6 million in fiscal 2010 and has more than tripled since fiscal 2003 due to strong tax base expansion and controlled expenditure growth.

SIZEABLE TAX BASE ANCHORED BY PROMINENT HIGHER EDUCATION INSTITUTIONS

Cambridge's sizeable equalized value of $26 billion is expected to experience long-term growth, reflecting ongoing re- development activity throughout the city but moderate near-term declines in market values in many residential and commercial sectors. Growth in assessed valuation was a modest 1.7% in fiscal 2010, reflecting ongoing regional declines in residential values, and while contrary to state-wide trends of contracting tax base valuations, well below the 5.7% five-year average annual growth since 2003.

Cambridge's economy benefits from the presence of Harvard and MIT--which together enroll 28,400 students and provide employment for over 19,000 full-time equivalent positions--and the related vibrant biotechnology and life sciences employment base.

FAVORABLE DEBT PROFILE ENHANCED BY SELF-SUPPORTING ENTERPRISES

Moody's expects the city's debt obligations to remain affordable given a sizeable level of self-supporting debt, and a rapid principal retirement schedule.

Direct debt is retired at an above-average pace of 76.9% within 10 years.

Standard & Poor's

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Cambridge, Mass.' series 2010 GO bonds and affirmed its 'AAA' rating, with a stable outlook, on the city's preexisting GO debt.

The rating reflects the City's:

- Strong and dynamic local economy, anchored by Harvard University and Massachusetts Institute of Technology (MIT), as well as biotechnology and high-tech firms;
- Above-average wealth and income factors, including a high market value per capita:
- Very strong financial position, despite a decline in fiscal 2009, coupled with an experienced management team and strong management policies; and
- Low debt burden and manageable capital plan.

Outlook

The stable outlook reflects Standard & Poor's expectation that Cambridge will continue to maintain a strong financial position, given the current levels and the city's historical positive budget variances. We also expect the city's economy and property tax base to remain strong.

Economy: Diverse With Multiple Large Employers

Cambridge's commercial vacancy rate in the third quarter of 2009 was 12.8% compared with 9.5% for Boston, but the city's rate has historically been higher than Boston's due to a greater failure rate for start-up biotechnology firms. The third-quarter 2008 rate for Cambridge was about 10%. The city remains an employment center: In 2008, there were 107 jobs for every 100 city residents.

Cambridge is home to a concentrated cluster of world-recognized biotechnology and pharmaceutical firms that are attracted by the concentration of intellectual capital at

Harvard, MIT, and research and development think tank Whitehead Institute. Private biotechnology firms account for six of the city's 25 leading employers.

Very truly yours,

Robert W. Healy
City Manager

RWH/djk
Attachments

Tax Supported
New Issue

Cambridge, Massachusetts

Ratings

New Issue
General Obligation Bonds,
Municipal Purpose Loan of 2010 AAA

Outstanding Debt
General Obligation Bonds AAA

Rating Outlook

Stable

Analysts

Ryan A. Greene
+1 212 908-0315
ryan.greene@fitchratings.com

Ann Flynn
+1 212 908-9152
ann.flynn@fitchratings.com

New Issue Details

Sale Information: $32,225,000 General Obligation Bonds, Municipal Purpose Loan of 2010, competitively on Feb. 16.
Security: GOs of the city of Cambridge, payable principally from taxes levied on all taxable property, subject to statutory limitations.
Purpose: To fund various capital improvement projects in the city.
Final Maturity: Serially Feb. 15, 2011–2030.

Related Research

Applicable Critieria
- *Tax-Supported Rating Criteria, Dec. 21, 2009*
- *U.S. Local Government Tax-Supported Rating Criteria, Dec. 21, 2009*

Other Research
- *Commonwealth of Massachusetts, Nov. 9, 2009*
- *Cambridge, Massachusetts, March 9, 2009*

Rating Rationale

- The city's exceptional financial management is reflected in consistently strong financial results and reserve levels.
- The stable presence of higher education, healthcare, biotechnology, and life sciences industries underpins a deep, diversified, and wealthy economy.
- Debt levels are expected to remain manageable, aided by the city's rapid amortization rate.

Key Rating Drivers

- Ongoing sound financial management, which has benefited the city's financial position.
- Continued growth of the city's diverse, strong economy.

Credit Summary

Cambridge is a leading center for higher education institutions, including Harvard University and Massachusetts Institute of Technology, as well as many notable research and development, life sciences, and technology companies. The city's well-diversified economy is characterized by a low November 2009 unemployment rate of 5.5% and a high per capita money income figure that equals more than 150% of the national average. The city's tax base grew by a sound average 4% annually over the past three fiscal years, including 1.7% growth in fiscal 2010. Evidencing the city's conservative planning, officials prepared for a nominal decline in the fiscal 2010 tax base, as they have again for fiscal 2011. Fitch notes that Cambridge's substantial $98.6 million of excess levy capacity under Proposition 2½, along with its considerable reserve levels, provides the city with ample flexibility to weather the effects of the economic recession. Officials expect the city's excess levy capacity to stabilize at its current level over the next several years.

Exceptional financial management and planning are demonstrated by the city's strong financial position. Fiscal 2009 unreserved general fund balances equaled a high 35% of spending ($142 million), which was well in excess of the city's fund balance policy requiring an unreserved general fund balance equal to 15% of the ensuing year's budgeted revenues. Cambridge's $84.6 million of certified free cash for fiscal 2009 remained among the largest amounts in the city's history. The fiscal 2010 operating budget grew by a manageable 2% over the fiscal 2009 level and included the use of approximately $17 million in free cash for such purposes as supporting the tax rate, as is the city's practice. Various expenditure savings are expected to limit actual uses of free cash.

Net direct debt equals a moderate $2,499 per capita, but as a percentage of equalized valuation is much lower at 1%, highlighting the city's substantial tax base. Debt levels should remain manageable given the city's modest overall capital needs and rapid amortization rate; approximately 77% of debt retires within 10 years. The city plans to issue approximately $164 million of additional debt over the next four years, more than one-half of which will be supported by user fees. The Cambridge Retirement System

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	1/28/10
AAA	Affirmed	Stable	3/6/07
AAA	Assigned	—	10/7/99

was a strong 92% funded as of the Jan. 1, 2008 valuation date. However, like most pension systems, asset values have declined more recently, pushing out from 2013 the year by which the city's unfunded liability will be fully amortized. Officials created a trust fund with $2 million of seed money in December 2009 to help manage the city's sizable $599 million other post-employment benefits liability.

Debt Statistics

($000)

This Issue	32,225
Outstanding Debt	231,708
Direct Debt	**263,933**
Overlapping Debt	0
Total Overall Debt	**263,933**
Debt Ratios	
Direct Debt Per Capita ($)[a]	2,499
As % of Equalized Value[b]	1.0
Overall Debt Per Capita ($)[a]	2,499
As % of Equalized Value[b]	1.0

[a]Population:105,596 (2008 estimate).
[b]Equalized value: $26,124,313,000 (fiscal 2010).
Note: Numbers may not add due to rounding.

General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

	2005	2006	2007	2008	2009
Real and Personal Property Taxes	220,910	222,987	231,876	238,747	251,256
Intergovernmental	43,802	44,143	44,658	47,575	37,235
Other	73,470	87,692	98,588	97,721	87,157
Total Revenues	**338,182**	**354,822**	**375,122**	**384,044**	**375,648**
Expenditures	323,779	350,499	364,714	377,698	398,477
Net Transfers and Other Sources	9,879	8,097	5,579	8,512	11,806
Net Surplus	**24,282**	**12,420**	**15,987**	**14,858**	**(11,023)**
Total Fund Balance	124,254	136,674	152,661	167,519	156,495
As % of Expenditures and Transfers Out:					
Total Fund Balance	37.6	38.2	40.7	43.3	38.6
Unreserved Fund Balance	30.3	33.6	35.9	38.9	35.0
Unreserved, Undesignated Fund Balance	30.3	33.6	35.9	38.9	35.0

Note: Numbers may not add due to rounding.

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Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aaa TO CAMBRIDGE'S (MA) $32 MILLION GO BONDS

Global Credit Research - 01 Feb 2010

TOTAL OF $347 MILLION IN RATED DEBT OUTSTANDING, INCLUDING CURRENT ISSUE

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Municipal Purpose Loan of 2010	Aaa

Sale Amount	$33,225,000
Expected Sale Date	02/16/10
Rating Description	General Obligation

Opinion

NEW YORK, Feb 1, 2010 -- Moody's Investors Service has assigned a Aaa rating to the City of Cambridge's $32 million General Obligation Bonds, Municipal Purpose Loan of 2010. Concurrently, Moody's has affirmed the Aaa rating assigned to the city's $315 million in outstanding long-term general obligation debt. The bonds are secured by the city's general obligation, limited tax pledge as debt service has not been exempted from the levy limitations of Proposition 2 ½. The bonds are issued to fund the city's fiscal 2010 public investment program, which consists primarily of school construction and sewer reconstruction. The assignment of Moody's highest quality long-term rating reflects an exceptionally strong and resilient financial position which positions the city to weather uncertain economic conditions more favorably than most similarly-sized cities. Additional factors supporting the Aaa rating are management's consistently conservative approach to budgeting, a large and diverse tax base with a significant tax-exempt sector and a favorable debt profile supported by healthy enterprise systems and historically strong commonwealth school building aid.

SOUND FINANCIAL POSITION PROVIDES FLEXIBILITY THROUGH

RECESSION

Although Moody's expects local governments' recovery from the recession to lag the general economic recovery, Cambridge is expected to maintain a healthy financial position in the near term. The city continues to benefit from high financial flexibility and robust reserve levels, which position it to absorb several years of flat or declining state aid and local revenues with only moderate declines in reserves. Cambridge's strong management team has historically followed prudent fiscal strategy and beginning in fiscal 2008 has formally adopted fiscal policies in its annual budget. Steady revenue streams, generated by its substantial and economically vibrant tax base, provide a notable degree of flexibility to address future budgetary challenges. The city remains dependent on local property taxes, which represented nearly 64% of fiscal 2009 general fund revenues, and to a lesser extent on commonwealth aid, representing roughly 9.5% of fiscal 2009 revenues. After a sustained period of operating surpluses since 2004 averaging roughly $15 million annually, operations in fiscal 2009 yielded a modest deficit of $11 million. General fund balance dropped to $156 million, a still robust 39.8% of general fund revenues. Unreserved fund balance declined to $141 million, 36% of revenues, while free cash, the most conservative measure of legally available reserves as certified by the commonwealth, declined modestly to $84.5 million, a still-sound 22% of revenues, and a solid improvement from the previous five-year average free cash certification of $58 million.

Notably, for the third consecutive year the adopted fiscal 2010 budget includes formal investment, debt and reserve policies that had historically informally guided and maintained the city's financial health. The city is well above its policies requiring total and unreserved undesignated general fund balance equal or greater to 15% and 25%, respectively, of the ensuing fiscal year's operating revenue. Despite ongoing expenditure pressures and limited opportunities for revenue growth, Moody's expects the city to maintain a conservative approach to forecasting and monitoring revenues, to remain in compliance with its policies and to continue to develop long-range projections. The fiscal 2010 expenditure budget contains a modest overall 2% increase over the adjusted fiscal 2009 budget, driven by ongoing expenditure pressures in several areas including salaries, pension and health insurance, energy, debt service and regional wastewater assessments. The city's budget was balanced by a 5.3% property tax levy increase, roughly $2.7 million in newly-adopted local option meals and room occupancy taxes as well as a total appropriation of $19 million in free cash, stabilization and overlay reserves. Despite budgeted draws on reserves, Moody's expects operations

to again be balanced, with positive variances in revenues and expenditures expected, allowing it to maintain reserve and levy capacity levels approximating those in fiscal 2009. Conservative medium term projections indicate manageable budget growth averaging 3% annually through fiscal 2014 and driving annual property tax levy increases averaging a moderate 5.8%.

Key to Cambridge's robust financial position is the maintenance of solid balances in its Stabilization, Parking and Health Claims Trust Funds, which totaled $60.4 million in fiscal 2009. Further, in 2001 voters passed the Community Preservation Act (CPA), imposing a 3% surtax and qualifying the city to receive state matching funds; in all $92 million has been appropriated or reserved since adoption. CPA funds are available to fund affordable housing, historic preservation and open space conservation and notably have enabled the development or preservation of over 2,900 units of housing in the city. The city received roughly 1.78% ($7 million) of revenues from Payments-In-Lieu of Taxes (PILOTs) in fiscal 2009, with the majority coming from Harvard University (rated Aaa/stable outlook) and the Massachusetts Institute of Technology (MIT, also rated Aaa/stable outlook). Both institutions own significant taxable real estate and are major taxpayers, which together represent 8.3% of Cambridge's 2010 assessed value and roughly 14% of the levy. The city has signed a 40-year, $101 million agreement with MIT and the PILOT with Harvard was renewed for 50 years. Each PILOT includes annual escalators on the initial base payment over the term of the agreement to provide stability and to allow long-range planning for the city.

Additional flexibility is derived from Cambridge's ample excess property tax levy capacity under Proposition 2 ½, historically maintained at robust levels and currently the highest of any Massachusetts city or town. Despite recessionary pressures and sluggish local revenue growth, the city's excess levy capacity reached $98.6 million in fiscal 2010 and has more than tripled since fiscal 2003 due to strong tax base expansion and controlled expenditure growth. Levy capacity is projected to stabilize or decline slightly in the medium term allowing the city significant flexibility to accommodate unanticipated demands in future budget cycles. The city's conservative medium-range projections also show a planned use of up to $10.7 million annually from the City and School Debt Stabilization Funds from fiscal 2009 through fiscal 2013, which is expected to deplete the City Stabilization Fund, however Moody's believes careful expenditure management and limited use of the city's substantial additional reserves will continue to provide sufficient flexibility for contingencies. Overall, Moody's expects that Cambridge is exceptionally well-positioned to

maintain its sound financial position during an anticipated period of economic uncertainty and constrained revenue growth.

The city's has updated its actuarial study, reflecting values on January 1, 2009, to quantify its Other Post Employment Benefit (OPEB) liability in order to comply with GASB 45 reporting deadlines. Cambridge's unfunded actuarial accrued liability (UAAL) is roughly $599 million. The city budgeted roughly $19.4 million for pay-as-you-go retiree health care expense in fiscal 2010; funding the full annually required contribution (ARC) would require an additional appropriation of up to $25.5 million. An OPEB trust was established and initially funded in fiscal 2010 with a $2 million transfer from the city's health claims trust account (leaving roughly $15 million in the trust fund). Management is evaluating options to establish recurring streams of revenue to fund the liability, including diversions of the current revenue streams allocated to pensions when that liability is retired, as well as savings in the city's health insurance costs as employee contributions are adjusted upward. The city's retirement system was nearly fully funded in 2008 (96%) but has subsequently experienced significant losses, consistent with similar systems nationwide, and it is likely the city's funding schedule be adjusted by extending its full funding date past the current schedule's final year of 2013.

SIZEABLE TAX BASE ANCHORED BY PROMINENT HIGHER EDUCATION INSTITUTIONS

Cambridge's sizeable equalized value of $26 billion is expected to experience long-term growth, reflecting ongoing re-development activity throughout the city but moderate near-term declines in market values in many residential and commercial sectors. Growth in assessed valuation was a modest 1.7% in fiscal 2010, reflecting ongoing regional declines in residential values, and while contrary to state-wide trends of contracting tax base valuations, well below the 5.7% five-year average annual growth since 2003. Reflecting expectations of a prolonged real estate slump, city officials project annual residential and commercial assessed valuation declines of up to 1.5% in the near term, with modest 2% gains in the medium term. Since 2003, the city has added over 2.8 million square feet of commercial space and city officials report that over 4 million additional square feet of research and development space, slated for housing and biotechnology research and development, is in various stages of permitting and construction in the city's targeted economic development districts. Office vacancy rates have risen to 12.8% in the third quarter of 2009 (up from 8.3% in the third quarter of 2006) but are still significantly lower than the 14.3% rate for the same period in 2005 and the peak 22%

in 2003. Cambridge's commercial vacancy rate lags Boston's third quarter 2009 rate of 9.5% but compares favorably to the regional suburban vacancy rate of 17.4%. Residential growth is also projected to experience moderate medium term growth due to ongoing rehabilitation of the existing housing stock and new developments, notably the residential components of the North Point and Cambridge Research Park developments, which together with several other projects under construction are projected to add over 1,000 rental and condominium housing units in the near term. Moody's believes that growth in Cambridge may be limited in the medium term as building permit activity continues to decline, posting only $409 million in 2009, well below the five-year average of $727 million and less than half of the city's $964 million peak in 2006.

Cambridge's economy benefits from the presence of Harvard and MIT--which together enroll 28,400 students and provide employment for over 19,000 full-time equivalent positions--and the related vibrant biotechnology and life sciences employment base. Together these institutions comprise 46% of the jobs provided by the city's top 25 employers while building permits issued to the universities historically represent a significant portion of the city's annual activity. Income and wealth levels are strong; despite the high student population and tax exemption of nearly one-third of the tax base, the city still maintains a solid equalized value per capita of $247,399 and Per Capita Income of $31,156, or 120% of the commonwealth median.

FAVORABLE DEBT PROFILE ENHANCED BY SELF-SUPPORTING ENTERPRISES

Moody's expects the city's debt obligations to remain affordable given a sizeable level of self-supporting debt, and a rapid principal retirement schedule. The city's direct debt burden of 1.0% of equalized value rises to a moderate 1.7% after including overlapping debt from the Massachusetts Water Resources Authority (MWRA senior lien debt rated Aa2/stable outlook). Self-supporting water and sewer system debt as well as the city's pay-as-you-go funding plan, budgeted at approximately $2 million annually, also contribute to Cambridge's favorable debt ratios. Direct debt is retired at an above-average pace of 76.9% within 10 years. Despite the significant amount of self-supporting debt, general fund-supported debt service claimed a somewhat elevated 9.9% of fiscal 2009 expenditures; due to the completion of a number of significant capital projects, and the ongoing renovation of Cambridge Rindge and Latin School, debt service expenditures have more than doubled from a more moderate 3.8% of

expenditures in fiscal 2001. However, the city remains comfortably below its policy to limit general fund debt service to 12.5% of operating expenditures. City officials plan to issue approximately $164 million in debt over the next four years to fund citywide capital projects under previous authorizations as well as those projects included in its $223 million public investment plan. However, with roughly 81% of the debt expected to be supported by user fees Moody's expects Cambridge's debt burden to increase modestly but to remain manageable. Cambridge has no exposure to variable or auction rate debt or swap agreements.

KEY STATISTICS

2009 Estimated Population (US Census): 105,596 (+4.2% since 2000)

2000 Per Capita Income: $31,156 (120% of MA, 144% of US)

2000 Median Family Income: $59,423 (96% of MA, 119% of US)

2009 Equalized Value: $26 billion

2009 Equalized Value per Capita: $247,399

Equalized Value Average Annual Growth 2003-2009: 6.2%

Overall Debt Burden: 1.7%

Amortization of principal (10 years): 76.9%

FY09 General Fund Balance: $156 million (39.8% of General Fund revenues)

FY09 Undesignated General Fund Balance: $141 million (36 % of General Fund revenues)

FY09 City Stabilization Fund balance: $21.1 million (5.3% of General Fund revenues)

FY09 School Debt Stabilization Fund balance: $9.9 million (2.5% of General Fund revenues)

Post-sale long-term debt outstanding: $347 million

METHODOLOGY AND LAST RATING ACTION TAKEN

The principal methodology used in rating the City of Cambridge, Massachusetts was Moody's "General Obligation Bonds Issued by U.S.

Local Governments," published in October, 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on March 9, 2009 when the Aaa rating for the City of Cambridge, Massachusetts was affirmed.

Analysts

Susan Kendall
Analyst
Public Finance Group
Moody's Investors Service

Conor McEachern
Backup Analyst
Public Finance Group
Moody's Investors Service

Patrick Mispagel
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service

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STANDARD & POOR'S

PUBLIC FINANCE

Cambridge, Massachusetts

Primary Credit Analysts:
Henry W Henderson
Boston
(1) 617-530-8314
henry_henderson@
standardandpoors.com

Secondary Credit Analysts:
Richard J Marino
New York
(1) 212-438-2058
richard_marino@
standardandpoors.com

Credit Profile		
US$32.225 mil GO bnds mun purp loan of 2010 dtd 02/15/2010 due 02/15/2011-2030		
Long Term Rating	AAA/Stable	New
Cambridge GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Cambridge, Mass.' general obligation (GO) municipal purpose loan of 2010 bonds and affirmed its 'AAA' rating, with a stable outlook, on the city's GO parity debt.

In our opinion, the rating reflects the city's:

- Strong and dynamic local economy, anchored by Harvard University and Massachusetts Institute of Technology (MIT), as well as biotechnology and high-tech firms;
- Above-average wealth and income factors, including a high market value per capita;
- Very strong financial position, despite a decline in fiscal 2009, coupled with an experienced management team and strong management policies; and
- Low debt burden and manageable capital plan.

The city's full faith and credit pledge secures the bonds. Officials will use bond proceeds to fund various capital projects.

Cambridge, with a stable population estimate of 102,200, is across the Charles River from Boston (AA+/Stable). Anchored by the intellectual capital of Harvard University and MIT, the

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local economy is strong and concentrated in high-tech, biotechnology, engineering, medicine, education, and consulting. In our view, income levels are strong: Median household effective buying income is 113% of the national level and per capita effective buying income is even higher, at 141% of the national level. In our opinion, the city's economy has remained sound, as indicated by the October 2009 unemployment rate of 5.6%, which remained below the commonwealth and national rates. Employment at Harvard and MIT, which employ 18% of the city's workforce, and in the biotechnology sector, which employs 19%, drives the city's strong economic position. City assessed valuation (AV) grew by 1.7% to $24.3 billion in fiscal 2010, or, in our opinion, an extremely strong $240,000 per capita. Although the tax base is moderately concentrated, with the 10 largest taxpayers accounting for 19% of AV and 32% of the levy, the concentration is due in large part to MIT, which accounts for 12% of the levy, and we consider MIT to be a very stable taxpayer. The difference between the proportional share of AV and tax levy is due to the city's dual tax rate. In addition to property taxes, the two universities also make payments in lieu of taxes (PILOTs) for their tax-exempt properties.

In our view, Cambridge's unreserved general fund balance remains very strong at 35.5% of expenditures at the end of fiscal 2009, despite a decline during the year. The unreserved balance closed at $141.6 million at the end of fiscal 2009, after a decline of $8.7 million, ending a trend of nine consecutive general fund annual surpluses; these results are an improvement from officials' previous projection of a $10.0 million fiscal 2009 deficit. State aid to the city was reduced in midyear fiscal 2009 by $2.6 million. In addition to the general fund balance, the city has $60.4 million of additional reserves in stabilization, health claims trust, and parking funds, slightly below the fiscal 2008 level; officials expect to exhaust about $30 million of these additional funds by 2013 to subsidize annual debt service.

The city also maintains the largest amount of unused tax levy capacity in the commonwealth, $98.6 million for fiscal 2010, which is also the largest amount the city has had since the Proposition 2 1/2 level limits were enacted. The excess levy capacity allows city officials to increase the levy by that amount without the need for electorate-approved exemptions or overrides. The city's long-term forecast projects slightly reducing this excess levy capacity, but projects it will remain above $93 million.

Property taxes are the leading revenue source, accounting for about 60% of general fund revenues, and collections have been strong, in our view, with current collections above 99.5% since fiscal 2006.

Standard & Poor's considers Cambridge's financial management practices "strong" under its financial management assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable.

Net of self-supporting water and sewer debt, the city's debt burden is low, in our view, as a share of market value, at 1.0%, and moderate per capita, at $2,450. The city's carrying charge in fiscal 2010 is moderate, in our opinion, at 12% of operating expenditures. We view debt amortization as very rapid, with officials retiring 80% of principal over 10 years.

Outlook

The stable outlook reflects Standard & Poor's expectation that Cambridge will continue to maintain a strong financial position, given the current levels and the city's historical positive budget variances. We also expect the city's economy and property tax base to remain strong.

Economy: Diverse With Multiple Large Employers

Cambridge's commercial vacancy rate in the third quarter of 2009 was 12.8% compared with 9.5% for Boston, but the city's rate has historically been higher than Boston's due to a greater failure rate for start-up biotechnology firms. The third-quarter 2008 rate for Cambridge was about 10%. The city remains an employment center: In 2008, there were 107 jobs for every 100 city residents.

The city is home to 12 employers with more than 1,000 employees, the largest of which are:

- Harvard (11,400 employees),
- MIT (8,170),
- City of Cambridge government (2,660),
- Mount Auburn Hospital (2,060), and
- Novartis AG (1,950).

Cambridge is home to a concentrated cluster of world-recognized biotechnology and pharmaceutical firms that are attracted by the concentration of intellectual capital at Harvard, MIT, and research and development think tank Whitehead Institute. Private biotechnology firms account for six of the city's 25 leading employers.

Finances

The $444.2 million fiscal 2010 budget is 2% larger than fiscal 2009, which required a 5% tax levy increase. The budget is balanced with $9.0 million of general fund balance, which is reserved on the 2009 balance sheet, $8.0 million from the debt stabilization fund, and $2.0 million from an abatement overlay surplus. The city recently adopted local option meals and rooms taxes, and the budget includes about $3.0 million from two-thirds of a year of this projected revenue. All of the city's collective bargaining contracts have been settled through fiscal 2011. The city's five-year financial forecasts project continued fund balance appropriations of $8.0 million to $9.0 million, similar to the amounts appropriated in fiscal 2008 and earlier, but positive budget variances, based on historical levels, would reduce the projected drawdowns. The city's policy requires at least a 15% fund balance.

The PILOTs from Harvard and MIT are $5.0 million for fiscal 2010. The Harvard PILOT extends through 2055 and escalates by 3.0% per year, and the MIT PILOT extends through 2045 and has a 2.5% annual escalator. The MIT agreement also contains provisions that are designed to lessen the revenue impact to the city if MIT converts any of its currently taxable property to a nontaxable use.

Cambridge Health Alliance

In 1996, all employees, assets and liabilities of the former Cambridge Department of Health and Hospitals—with the exception of existing pensions and GO debt liabilities through 2018—were

transferred to the Cambridge Public Health Commission, which is also known as the Cambridge Health Alliance. The commission is separate from the city. The alliance runs the Cambridge public health department and the city has agreed to continue to subsidize the alliance; the current agreement extends through fiscal 2010, and the city subsidy is $6.0 million in fiscal 2010.

Debt, pensions, and OPEB

Cambridge's public improvement program projects $164 million of additional debt issuance in fiscals 2011 through 2014, of which $107 million is anticipated to be for self-supporting sewer system improvements. After this issuance, the city will have $79 million of authorized, but unissued, debt remaining. We expect that the city's additional debt burden should remain moderate.

As of Jan. 1, 2008, the city's unfunded pension actuarial accrued liability was $67 million; and the plan projects to fully eliminate the pension liability by June 30, 2013. However, due to investment losses at the end of 2008, officials project that the full pension funding date will be moved back. Officials have indicated that once the city fully funds the pension liability, it might dedicate the former pension funding to making payments for the other postemployment benefits (OPEB) liability; but they have not yet made a decision on this funding issue.

The city established an OPEB trust fund in December 2009 and transferred $2.0 million from its health claims trust fund. As of July 1, 2009, the unfunded OPEB actuarial accrued liability was $599.0 million—assuming no prefunding—with an annual required contribution of $44.7 million, which is a significant increase from the fiscal 2009 OPEB pay-as-you-go amount of $18.6 million.

Related Research

USPF Criteria: GO Debt, Oct. 12, 2006

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