Cambridge, Massachusetts

General Obligation Bonds
New Issue Report

Ratings

New Issue

General Obligation Municipal Purpose Loan Bonds, Series 2012	AAA
Outstanding Debt	
General Obligation Bonds	AAA

Rating Outlook
Stable

Related Research
Cambridge, Massachusetts, Feb. 1, 2012

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New Issue Details

Sale Information: $40,485,000 General Obligation Municipal Purpose Loan Bonds, Series 2012, expected to sell competitively on Feb. 15.

Security: General obligations of the city, payable from ad valorem taxes on all taxable property in the city, subject to statutory limitations.

Purpose: To finance various city, sewer, water and school capital improvements.

Final Maturity: Feb. 15, 2032.

Key Rating Drivers

Exceptional Financial Management: Management's conservative budgeting practices and prudent use of reserves has helped keep tax levy increases at moderate levels while the city faces growing operating costs.

Above-Average Liquidity Levels: The city's positive financial profile is characterized by large reserves and ample liquidity. Additionally, the city's levy margin continues to grow favorably to the highest level in the city's history.

Economic Diversity Promotes Stability: The stable presence of higher education, healthcare, biotechnology, and life sciences industries supports the well-diversified economy with low unemployment and above-average wealth levels.

New Development Continues: Ongoing development within the city is projected to promote growth in assessed value, providing the city with tax levy flexibility for operations and debt service.

Moderate Debt Levels: Debt levels are moderate and expected to remain manageable, aided by the city's rapid amortization rate.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	2/2/12
AAA	Affirmed	Stable	2/1/11
AAA	Affirmed	Stable	1/28/10
AAA	Affirmed	Stable	3/6/07
AAA	Assigned	—	10/7/99

Related Criteria

U.S. Local Government Tax-Supported Rating Criteria, Aug. 15, 2011

Tax-Supported Rating Criteria, Aug. 15, 2011

Credit Profile

Cambridge is located in Middlesex County across the Charles River from the city of Boston and is an important economic component for the Boston metropolitan area and Massachusetts as a whole. The city is home to both Harvard University and Massachusetts Institute of Technology, which continue to account for the employment of more than 18,500 people (18% of the city's workforce). The city continues to experience employment expansion amongst companies in the biotechnology and life and sciences sector. Leading biotech companies, including Novartis, Biogen, Vertex, Pfizer and Genzyme, employ more than 8,500 Cambridge workers. Several major software and internet companies have recently established research and development operations in Cambridge including Microsoft, Google, and VMware. Cambridge has also been recognized recently for its high level of venture capital investment totaling $312 million during the fourth quarter of 2011, raising the rank of Massachusetts to second highest behind California.

The city's well-diversified economy is characterized by a low November 2011 unemployment rate of 4.1% and a high per capita money income figure that equals more than 150% of the national average. After declining slightly in fiscal 2011, assessed value (AV) increased modestly in fiscal 2012 by 1.1% to $24.5 billion. The city is projecting moderate increases in AV in fiscal years 2013–2015 based on new construction, appreciation in values of existing property and major rehabilitations, which is considered to be realistic by Fitch. Numerous economic development projects are under way or in the planning stages and include expansions to existing corporate facilities and new offices or labs.

Exceptional financial management and planning are demonstrated by the city's strong financial position. As has been the city's practice, it has continued to strategically use general fund reserves, including debt stabilization funds, to keep tax levies at moderate levels. The use of these funds has caused total fund balance to decline slightly over the last three years, but unrestricted fund balances remain strong. The city experienced a $2.8 million deficit after transfers in fiscal 2011 due primarily to a one-time accrual for an $8.1 million payment of a legal judgment.

Conservative revenue projections and lower than estimated expenses helped overcome the use of reserves, which has typically been the city's experience. The city ended fiscal 2011 with an unrestricted general fund balance (committed, assigned, and unassigned) of $142 million, equivalent to a strong 32% of spending. The city has historically maintained an unreserved fund balance well in excess of the city's fund balance policy requiring an unreserved general fund balance equal to at least 15% of the ensuing year's budgeted revenues.

Cambridge's $102 million of certified free cash for fiscal 2011 (up from $89.3 million in fiscal 2010) is the largest amount in the city's history. Fitch Ratings also notes that Cambridge's substantial $103 million of excess levy capacity under Proposition 2½ (up from $99.4 million), along with its considerable reserve levels, provide the city with ample flexibility to weather the effects of increasing employee salary and healthcare costs and any unforeseen cuts in state aid. Officials expect the city's excess levy capacity to decline modestly in the next two years as a result of tax levy increases, which may be necessary to offset increases in employee and debt service costs.

The fiscal 2012 operating budget grew by a manageable 1.75% (compared to 3.1% in fiscal 2011), attributable to an increase in employee health insurance and pension costs, a $2 million one-time additional contribution to fund the city's pension liability, and $0.9 million added to cover a fifty third pay period. The tax levy is up 5.3% over the prior year and is being supplemented by the use of the city's debt stabilization fund ($5.15 million), the school debt stabilization fund ($0.6 million), $8.3 million from the Health Claims Trust Fund, and $11.3 million in free cash. The city is projecting a $4.6 million (1% of budget) reduction in total fund balance for fiscal 2012 due primarily to the depletion of its debt stabilization funds but offset by the better than anticipated generation of revenues from building permits, meals taxes, parking fees and lower than budgeted expenses year to date. Even with such a reduction, the city would still have an above-average level of unrestricted reserves.

Debt Statistics

($000)

This Issue	40,485
Outstanding Direct Debt	328,777
Self-Supporting	(105,316)
Total Net Direct Debt	**263,946**
Overlapping Debt	200,560
Total Overall Debt	**464,506**
Debt Ratios	
Direct Debt Per Capita[a]	2,510
As % of Assessed Value[b]	1.1
Overall Debt Per Capita[a]	4,417
As % of Assessed Value[b]	1.9

[a]Population: 105,162 (2010). [b]Assessed Value (AV): $24,446,954,999 (fiscal 2012). Note: Numbers may not add due to rounding.

Net direct debt equals a moderate $2,510 per capita and $4,417 with the inclusion of overlapping debt, but as a percentage of fiscal 2012 AV, ratios are much lower at 1.1% and 1.9%, respectively. Debt levels should remain manageable, given the city's modest overall capital needs and rapid amortization rate; approximately 82% of debt is retired within 10 years. The city plans to issue approximately $174 million of additional debt over the next four years, with approximately 56% to be supported by user fees.

The Cambridge Retirement System was 84% funded as of the Jan. 1, 2010 valuation date, a decline from higher levels years prior. The city contributed $28.6 million for fiscal 2011 equal to 100% of its annual required contribution (ARC). For fiscal 2012 the city's ARC was $30.7 million, and the city has budgeted an additional contribution of $2 million toward its pension liability. The city paid $22.3 million in pay-as-you-go other post-employment benefits (OPEB) contributions in fiscal 2011, which accounted for 48% of total OPEB costs.

The city's unfunded OPEB liability totaled a high $586 million in fiscal 2011 (2.4% of AV) and city management created an OPEB trust fund in December 2009 with an initial contribution of $2 million and has planned to make annual contributions of $1 million–$2 million beginning in fiscal 2013. Management recently negotiated new employee contracts with a majority of its bargaining units and has increased the employee contribution amounts for health insurance premiums for both union and non-union employees, which should help result in a lower future OPEB liability for the city.

General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

	2007	2008	2009	2010	2011
Property Tax	231,876	238,747	251,256	266,862	281,812
Other Tax	19,633	20,831	19,954	22,650	20,026
Total Tax	251,509	259,578	271,210	289,512	301,838
Intergovernmental	44,658	47,576	37,234	32,139	31,796
Other Revenue	78,955	76,890	67,204	68,169	83,318
Total Revenues	**375,122**	**384,044**	**375,648**	**389,820**	**416,952**

Note: Numbers may not add due to rounding.

General Fund Financial Summary (continued)

($000, Audited Fiscal Years Ended June 30)

	2007	2008	2009	2010	2011
General Government	34,284	32,572	31,765	40,101	35,892
Public Safety	85,160	89,514	95,817	95,717	100,414
Educational	121,869	124,531	129,031	132,652	134,078
Debt Service	32,941	34,124	40,169	43,215	45,248
Other	90,460	96,957	101,695	105,632	119,966
Total Expenditures	**364,714**	**377,698**	**398,477**	**417,317**	**435,598**
Operating Surplus/(Deficit)	**10,408**	**6,346**	**(22,829)**	**(27,497)**	**(18,646)**
Transfers In	16,369	16,882	17,533	18,726	18,972
Other Sources	14,204	412	793	915	1,031
Transfers Out	11,175	8,782	6,520	2,341	4,225
Other Uses	13,819	0	0	0	0
Net Transfers and Other	5,579	8,512	11,806	17,300	15,778
Net Surplus/(Deficit)	**15,987**	**14,858**	**(11,023)**	**(10,197)**	**(2,868)**
Total Fund Balance	152,661	167,519	156,495	146,298	143,430
As % of Total Expenditures, Transfers Out, and Other Uses	39.2	43.3	38.6	34.9	32.6
Unreserved Fund Balance	134,869	150,312	141,595	129,496	—
As % of Total Expenditures, Transfers Out, and Other Uses	34.6	38.9	35.0	30.9	—
Unrestricted Fund Balance	0	0	0	0	141,761
As % of Total Expenditures, Transfers Out, and Other Uses	—	—	—	—	32.2

Note: Numbers may not add due to rounding.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa TO CAMBRIDGE'S (MA) $40.5 MILLION GO BONDS

Global Credit Research - 02 Feb 2012

Aaa RATING AFFECTS $360 MILLION IN RATED DEBT OUTSTANDING, INCLUDING CURRENT ISSUE

CAMBRIDGE (CITY OF) MA
Cities (including Towns, Villages and Townships)
MA

Moody's Rating

ISSUE		RATING
General Obligation Bonds, Municipal Purpose Loan of 2012		Aaa
Sale Amount	$40,485,000	
Expected Sale Date	02/07/12	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, February 02, 2012 --Moody's Investors Service has assigned a Aaa rating to the City of Cambridge's (MA) $40.5 million General Obligation Bonds, Municipal Purpose Loan of 2012. Concurrently, Moody's has affirmed the Aaa rating assigned to the city's $320 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 excluded from the levy limitations of Proposition 2 ½. The bonds are issued to fund the city's fiscal 2012 public investment program, which consists primarily of city and school building projects, roadway improvements and sewer system upgrades.

SUMMARY RATING RATIONALE

The Aaa rating reflects the city's large, diverse and stable tax base, which is anchored by prominent higher education institutions and a growing research and development sector. Also incorporated into the Aaa rating are a strong financial position which has performed well through the national economic downturn, management's consistently conservative approach to budgeting and expenditure management and a favorable debt profile supported by healthy enterprise systems and historically strong commonwealth school construction aid.

STRENGTHS:

-Large and diverse tax base anchored by stable institutions

-Robust financial position guided by sound management policies

CHALLENGES:

-Growing long-term liabilities including pensions and OPEB

-High regional costs of living and doing business

-Unknown impact of federal budget cuts on institutional and private research and development

COMMERCIAL DEVELOPMENT SPURS MODEST TAX BASE GROWTH

Cambridge's economy benefits from the presence of Harvard University (rated Aaa/stable outlook) and the Massachusetts Institute of Technology (MIT, rated Aaa/stable outlook) -- which together enroll 28,400 students and provide employment for over 19,000 full-time equivalent positions -- and the related vibrant biotechnology, pharmaceutical and life sciences employment base. Together these institutions comprise 43% 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. Cambridge's sizeable equalized value of $28.1 billion continues to grow, despite the prolonged economic downturn, due to ongoing expansion of the city's commercial and limited growth in the residential sector. Following a modest decline of 0.5% in fiscal 2011, assessed values are projected to rise by 0.6% in fiscal 2012, based on slightly improved values as of January 1, 2011. Revenue from new growth in the tax base dropped sharply from the fiscal 2008 peak of $17.1 million to a low of $6.7 million in fiscal 2011. Moderate growth has resumed, yielding $7.5 million in new growth revenue in fiscal 2012. Reflecting expectations of very modest overall growth in real estate values, city officials project a commercial assessed valuation declines of up to 1%, and residential growth of 0.5% in the near term; growth is expected to accelerate over the medium term. Year-to-date building permit valuations and revenues have increased in fiscal 2012, however, already exceeding revenues from 2011, indicating stronger future growth trends. Building permit activity remains concentrated in the commercial sector and includes significant institutional development, the majority of which is tax-exempt.

Since 2006, the city has added over 1.2 million square feet of commercial space, with an additional 900,000 square feet under construction. City officials report that over 5.4 million additional square feet research and development space, primarily slated for biotechnology research and development, is in various stages of permitting and construction in the city's economic development districts. Absorption of new space has been rapid and office vacancy rates dropped significantly to 9% in the third quarter of 2011 (down from 11.6% in the third quarter of 2010) and are still significantly lower than the 14.3% rate for the same period in 2005 and the peak of 22% in 2003. Cambridge's commercial vacancy rate compares favorably to the regional suburban vacancy rate (16.7% third quarter of 2010). Residential growth is also projected to experience moderate medium term growth due to ongoing rehabilitation of the existing housing stock and new developments, which are projected to add over 1,000 rental and condominium housing units in the near term. Although demographic indices are somewhat tempered by the high student population, income levels are above average relative to state and national medians. Incorporating a 3.8% population increase since 2000, the city's equalized value per capita grew to a robust $267,797 in fiscal 2012, despite the tax exempt status of nearly one-third of the tax base.

SOLID FINANCIAL POSITION DESPITE PLANNED RESERVE DRAWS

Cambridge is expected to maintain a healthy financial position in the near term, although stabilization funds earmarked for debt service will be depleted in the medium term. The city continues to benefit from ample financial flexibility and robust reserve levels, which position it to absorb an extended period of flat or declining state aid and sluggish local revenue growth. Cambridge's management team maintains formally adopted fiscal policies for its annual budgeting. Steady revenue streams, generated by its substantial and stable tax base, provide flexibility to address budgetary challenges. Local property taxes comprise the majority of revenues, representing 64.6% of fiscal 2011 general fund revenues, followed by commonwealth aid, which represented 7.3% of fiscal 2011 revenues. Property tax collections remain strong, averaging over 99% in the current year, and the city's unused levy capacity under Proposition 2 ½ has grown to $102 million, providing ample flexibility. Levy capacity is projected to stabilize or decline slightly in the medium term, allowing the city additional flexibility to accommodate unanticipated demands *in future* budget cycles. After a sustained period of annual operating surpluses, averaging roughly $15 million from 2004 to 2008, operations in fiscal 2009 and 2010 yielded deficits totaling approximately $22 million, with an additional $2.86 million decline in fiscal 2011.

Although revenues and expenditures are carefully managed, the city has made moderate appropriations of free cash to support operations, smaller capital needs and to moderate tax rate increases, and has made additional appropriations from its city and school stabilization funds to offset debt service costs related to the city's recently-completed library and high school construction projects. General fund balance declined to $143 million in fiscal 2011, a still ample 32.9% of general fund revenues from the peak of $167 million in fiscal 2008, a strong 41.8% of revenues. Unassigned general fund balance, as defined by GASB 54 standards, is $99.7 million in fiscal 2011, a strong 22.9% of revenues. The city has included its $11.3 million in combined stabilization funds and its $17.4 million health claims trust fund as committed fund balance. The stabilization funds were built to $32 million in fiscal 2008 in anticipation of future debt service costs and are expected to be fully depleted by fiscal 2015. Despite the depletion of stabilization funds, the city maintains ample reserves in its unassigned general fund and parking fund which are available for unanticipated financial needs. The city's free cash, the most conservative measure of legally available reserves as certified by the commonwealth, improved significantly to a record high of $102 million, or a sound 23% of revenues. The increase in free cash, which is contrary to the decline in the General Fund, primarily reflects the timing of the appropriation of $11.3 million in free cash for the subsequent fiscal year's budget, which occurred after the end of fiscal 2011.

The city's fiscal 2012 adopted budget includes formal investment, debt and reserve policies that have informally guided and maintained the city's financial health. The city is well above its policies requiring total and unassigned general fund balance equal or greater to 25% and 15%, 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 and expenditures, to remain in compliance with its policies and to continue to develop long-range projections. The fiscal 2012 expenditure budget contains a modest overall 1.75% increase over the adjusted fiscal 2011 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 5.33% property tax levy increase as well as a total appropriation of $27.3 million in reserves, which included $11.3 million in free cash, $5.7 million stabilization funds, $8.3 million from the health claims trust and $2 million overlay reserves. Despite budgeted draws on reserves and ongoing declines in state revenues, Moody's expects operations to be balanced, with positive variances in revenues and expenditures projected, allowing it to maintain reserve and levy capacity levels approximating those in fiscal 2011. Conservative medium-term projections indicate manageable budget growth averaging 3.6% annually through fiscal 2016 and driving annual property tax levy increases averaging a moderate 5.7%.

In 2001 Cambridge voters passed the Community Preservation Act (CPA), imposing a 3% surtax and qualifying the city to receive state matching funds; in all, $111 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 3,200 units of housing in the city. The city has budgeted roughly $5.1 million from Payments In Lieu of Taxes (PILOTs) in fiscal 2012 roughly 1% of general fund revenues. The majority comes 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 8.9% of Cambridge's 2011 assessed value and roughly 13% 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. Overall, Moody's expects that Cambridge will remain well-positioned to maintain its sound financial position during an extended period of economic uncertainty and constrained revenue growth.

SIGNIFICANT LIABILITIES FOR PENSION AND OPEB

The city's has updated its actuarial study for Other Post Employment Benefits (OPEB), reflecting values on July 1, 2010 and incorporating the establishment of an OPEB trust as well as adjustments to the city's health care plan. Cambridge's unfunded actuarial accrued liability (UAAL) has declined to $586 million, down from roughly $599 million in 2009. The city budgeted roughly $22.3 million for pay-as-you-go retiree health care expense in fiscal 2012; funding the full annually required contribution (ARC) would require an additional appropriation of up to $24.4 million. An irrevocable 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). The city plans to add $1 million in funding above its pay-as-you-go cost in fiscal 2013 and plans to budget $2 million annually from fiscal 2014 through fiscal 2016.

The city's retirement system was nearly fully funded in 2008 (92%) but subsequently experienced significant losses, consistent with similar systems nationwide, reducing funding status to 83.8% as of the most recent actuarial valuation, dated January 1, 2010. The city has lowered its investment return assumption to a still-aggressive 8.25% and has adopted a new funding schedule, extending its full funding date to 2029, 11 years short of the state deadline of 2040 but significantly past the prior schedule's final year of 2013. The city has budgeted additional payments totaling $2.6 million to the retirement system to offset investment losses and improve funding status. The city budgets 100% of its ARC payment, which is consistent with its actuarial funding schedule. Pension and OPEB contributions totaled a moderate 12.5% of FY11 expenditures.

AFFORDABLE DEBT BURDEN WITH MANAGEABLE CAPITAL NEEDS

Cambridge's debt obligations will remain affordable given a sizeable level of self-supporting debt and a rapid principal retirement schedule. The city's direct debt burden of 1.1% of equalized value rises to a moderate 1.8% after including overlapping wastewater debt from the Massachusetts Water Resources Authority (MWRA senior lien debt rated Aa1/stable outlook). Self-supporting water and sewer system debt as well as the city's pay-as-you-go funding plan, budgeted at approximately $5 million annually, also contribute to Cambridge's favorable debt ratios. Direct debt is retired at an average pace of 77.9% within 10 years. Despite the significant amount of self-supporting debt, general fund-supported debt service claimed a somewhat elevated 10.3% of fiscal 2011 expenditures; due to the completion of a number of significant capital projects including a new library and renovation of Cambridge Rindge and Latin High 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 $174 million in debt over the next four years to fund citywide capital projects under previous authorizations as well as those projects included in its $279 million public investment plan. However, with roughly 56% 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.

WHAT COULD MOVE THE RATING DOWN:

-Significant reduction in reserve levels or property tax levy capacity

-Adoption of less conservative approach to budgeting and financial management

-Deterioration of tax base or local economy

-Failure to improve funding status for pension and OPEB

KEY STATISTICS

2010 Population (US Census): 105,162(+3.8% 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)

Unemployment, November 2011: 4.1% (MA 6.4%, US 8.2%)

2011 Equalized Value: $28.16 billion

2011 Equalized Value per Capita: $267,797

Equalized Value Average Annual Growth 2005-2011: 4.9%

FY11 General Fund Balance (GASB 54 format, includes Stabilization Funds): $143 million (32.9% of General Fund Revenues)

FY10 Restated Unassigned General Fund Balance: $95 million (23.2% of General Fund Revenues

FY11 Unassigned General Fund Balance: $99.7 million (22.9% of General Fund Revenues)

Overall Debt Burden: 1.8%

Amortization of principal (10 years): 77.9%

Post-sale long-term debt outstanding: $360 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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February 6, 2012

Cambridge, Massachusetts; General Obligation

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Credit Profile		
US$40.485 mil GO bnds ser 2012 dtd 02/15/2012 due 02/15/2032		
Long Term Rating	AAA/Stable	New
Cambridge GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Cambridge, Mass.' general obligation (GO) municipal purpose loan of 2012 bonds and affirmed its 'AAA' long-term rating on the city's GO parity debt. The outlook is stable.

The ratings reflect our opinion of 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 an extremely strong market value per capita;
- Very strong financial position, despite general fund decreases in fiscals 2010 and 2011, 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 estimated at 108,000, is across the Charles River from Boston (AA+/Stable). Anchored by the intellectual capital of Harvard University and MIT, the 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 114% of the national level while per capita effective buying income is higher, at 142% of the national level. In our opinion, the city's economy has remained sound--in 2011, through November, monthly unemployment (not seasonally adjusted) averaged just 4.9%, compared with 7.6% in the state and 9% in the nation over the same period. Employment at Harvard and MIT drives the city's strong economy.

After a very slight 0.5% decrease for fiscal 2011, the city's assessed valuation (AV) increased 1.2% to $24.45 billion for fiscal 2012, equal to $226,500 per capita, which we consider extremely strong. Although the tax base is moderately concentrated, with the 10 largest taxpayers accounting for 20% of AV and 31% of the levy, the concentration is due in large part to taxable property owned by 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 the 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 fund balance remains very strong despite general fund decreases in each of the past three fiscal years. Fiscal 2011 closed with a $2.9 million drawdown, equal to less than 1% of budget, due to the budgeted appropriation of fund balance. The unassigned fund balance closed the fiscal year with a $99.7 million balance (23% of general fund expenditures), representing a $4.6 million increase over the unassigned fiscal 2010 balance, as restated by management. The city's committed fund balance totaled $42.1 million, or 10% of expenditures, including funds committed for future appropriations ($13.3 million, a decrease of $100,000 over fiscal 2010), health claims ($17.4 million, an increase of $1.2 million), and budget stabilization ($11.3 million, a decrease of $9.3 million).

The budget stabilization account includes funds for city and school operations; officials have been purposely drawing the account down since fiscal 2008 to subsidize debt service for various capital projects. General fund cash was $183 million at the end of fiscal 2011, which covered current liabilities by 4.3x. In addition to the general fund balance, the city had an additional $14.5 million committed reserve in its parking fund (an increase of $1.5 million over fiscal 2010), which provides some additional financial flexibility.

The city also maintains the largest amount of unused Proposition 2 1/2 tax levy capacity in the commonwealth, $102.6 million for fiscal 2012, which is also the largest amount the city has had since the levy 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 in fiscals 2013 and 2014, but projects it will remain above $95 million. Property taxes are the leading revenue source, accounting for about 65% of general fund revenues and transfers in, and collections have been strong, in our view, with current collections averaging 97.7% over the past five fiscal years. Intergovernmental revenue accounts for just 7% of general fund revenue and transfers in, making the city less vulnerable to state aid reductions than most other municipalities in the commonwealth.

Standard & Poor's considers Cambridge's financial management practices "strong" under its Financial Management Assessment 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 1.1%, and moderate on a per capita basis, at $2,500. The city's carrying charges have grown gradually in recent years, but stabilized in fiscal 2011 at 9.6% of governmental expenditures, less capital outlay. We view debt amortization as very rapid, with officials retiring about 78% of principal through 2021 and substantially all debt through 2031.

Outlook

The outlook is stable. We do not expect to change the rating within the two-year outlook period given the city's very strong financial position, experienced management team, and strong financial management policies and practices. Providing additional rating stability are the city's strong and resilient local economy and property tax base.

Economy: Diverse With Multiple Large Employers

In the third quarter of 2011, Cambridge's commercial vacancy rate decreased to 9%, compared with 11.6% in the third quarter of 2010. The city remains an employment center: In 2010, there were 99 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 (10,906 employees),
- MIT (7,640),
- The City of Cambridge (2,947),
- Novartis Institute for Biomedical Research (2,271),
- Vertex Pharmaceuticals (1,600), and
- Mt. Auburn Hospital (1,558).

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

Finances

The $472.2-million fiscal 2012 budget is 1.75% larger than fiscal 2011's and includes a 5.33% gross tax levy increase. The budget is balanced with $11.3 million of free cash (general fund balance), which was reserved in the fiscal year-end 2011 balance sheet; $8.3 million from the health claims fund; $5.2 million from budget stabilization funds; and $2 million from the abatement overlay surplus. All of the city's collective bargaining contracts are settled through fiscal 2012; seven of the city's 10 collective bargaining units are settled for fiscal 2013. The city's five-year financial forecast projects continued free cash appropriations of $8 million to $9 million, similar to the amounts appropriated in fiscal 2008 and earlier; budget stabilization reserve appropriations of roughly $500,000 to $600,000; and overlay surplus appropriations of $1 million to $2 million. The city's reserve policy requires at least a 15% fund balance.

In fiscal 2012, the city plans to appropriate an additional $8.1 million in free cash to cover the costs of a legal settlement. In addition, the city expects to realize an additional $3.8 million for a separate legal settlement. These expenses are expected to be offset by a projected revenue surplus of about $12 million to $15 million and expected cost savings (compared to budget) of between $5 million and $8 million.

The PILOTs from Harvard and MIT are about $5.1 million for fiscal 2012. The Harvard PILOT extends through fiscal 2055 and increases by 3% per year while the MIT PILOT extends through 2045 and increases 2.5% annually. 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 2017, and the city subsidy was $6 million in fiscal 2011.

Debt, Pensions, And Other Postemployment Benefits

Cambridge's public improvement program projects $278.9 million in capital spending from fiscals 2012 through 2016, of which $218.3 million will be funded with bonded debt. Water and sewer projects comprise 61% of the public improvement program and are expected to enjoy the full self-support of the enterprise systems. Following this issuance, the city will have $62.7million of authorized unissued debt remaining. We expect that the city's additional debt burden should remain moderate.

As of Jan. 1, 2010, the city's unfunded pension actuarial accrued liability increased to $154 million. The city recently pushed the full pension funding date back to 2029 from 2013, due to investment losses. Officials indicate that once the city fully funds the pension liability, it may 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.

As of July 1, 2010, the unfunded OPEB actuarial accrued liability was $586.2 million, with a fiscal 2011 annual OPEB cost of $46.6 million. The city currently funds its OPEB on a pay-as-you-go basis, with a fiscal 2011 contribution of $22.3 million, or 5% of general fund expenditures. The city established an OPEB trust fund in December 2009 and transferred $2 million from its health claims trust fund.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011