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Cambridge, Massachusetts; General Obligation

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Table Of Contents

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Credit Profile		
US$47.385 mil GO bnds (mun purp loan of 2009) ser 2009 dtd 03/15/2009 due 03/15/2029		
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.' series 2009 general obligation (GO) municipal purpose loan of 2009 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, centered on 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;
- Strong financial position, 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 102,000, 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 equals 113% of the national level and per capita effective buying income equals an even higher 141% of the national level. In our opinion, the city's economy has remained sound, as indicated by December 2008 unemployment of 3.9%, which remained below the commonwealth's 6.5% rate and the nation's 7.1% rate. Employment at Harvard and MIT, which employ 18% of the city's workforce, and in the biotechnology sector, which employs 17%, drives the city's strong economic position. City assessed valuation has grown by 1.4% to $23.9 billion in fiscal 2009, or, in our opinion, an extremely strong $233,555 per capita.

In our view, Cambridge's financial performance and position remain strong and stable, aided by its fiscal management and policies. The city closed fiscal 2008 with its ninth consecutive general fund surplus that increased the unreserved fund balance to $150.3 million, or, in our view, a very strong 39% of expenditures. Additional reserves in the stabilization, health claims trust, and parking funds equal $61 million, the highest levels for these funds. In addition, the city maintains a large unused tax levy capacity of $92.7 million for fiscal 2009, an increase of 5% over 2008, which equals 21% of total general fund revenues. The excess levy capacity allows city officials to increase the levy by that amount without the need for electorate-approved exemptions or overrides.

The $434 million, 2009 budget is balanced and is 5% higher than the 2008 budget. Property taxes, accounting for about 60% of general fund revenues, are the leading revenue source; in our view, tax collections, averaging 98%-99% on a current-year basis, remain strong. The city's commonwealth revenues were reduced midyear fiscal 2009; and while some budget adjustments were made, officials expect to draw down fund balance by about $10 million, which would still leave the balance, in our opinion, in a very strong position. Officials are currently constructing the fiscal 2010 budget, and they are projecting a balanced budget without additional fund balance.

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.

We view Cambridge's debt profile as favorable. Net of self-supporting water and sewer debt and state school construction reimbursements, in our view, net debt is a moderate $2,440 per capita, or a low 0.8% of market value. The city's carrying charge is, in our opinion, low with debt service expenditures historically less than 10% of total expenditures. We view debt amortization as very rapid with officials retiring 78% of principal over 10 years.

Outlook

The stable outlook reflects Standard & Poor's expectation that the city will continue to manage its financial position prudently, which it has significantly demonstrated by increasing reserves over the past eight years. The city's economic and property tax base development should continue, allowing it to maintain structural balance between revenues and expenditures while maintaining ample tax levy flexibility.

Economy: Diverse With Multiple Large Employers

Cambridge's 10 leading taxpayers account for about 19% of assessed value, including taxable property owned by both MIT and Harvard but not including payments in lieu of taxes from these institutions. The city's commercial vacancy rate in the fourth quarter of 2008 was 10.2% compared with a 7.3% rate for Boston, but the city's rate tends to be higher due to a greater failure rate for start-up biotechnology firms. The city remains an employment center: In 2007, there were 106 jobs for every 100 city residents.

The city has 11 employers with more than 1,000 employees, the largest of which are:

- Harvard (11,315 employees),
- MIT (7,820),
- Cambridge (2,820),
- Mount Auburn Hospital (1,969), and
- Novartis AG (1,629).

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

Debt And Other Fixed Liabilities

Cambridge's five-year public improvement program totals $211.8 million of capital needs through 2013, including $156.0 million of sewer system improvements; officials intend to fund $120.0 million of the capital plan with bond proceeds. The city intends to use Massachusetts Water Resources Authority grants to fund a large portion of the sewer projects. After this issuance, the city will have roughly $98.6 million of authorized, but unissued, debt remaining. The city's additional debt burden should remain moderate.

As of Jan. 1, 2008, the city's unfunded actuarial accrued liability was $67 million; and the city was on pace to eliminate its pension liability fully by June 30, 2013. Due to investment losses at the end of 2008, however, officials might move the full pension funding date back. Once the city fully funds the pension, officials 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. Under various scenarios, the OPEB unfunded actuarial accrued liability ranges between $351.9 million and $602.7 million with annual required contributions that would require additional OPEB expenses of between $10.9 million and $28.5 million. The OPEB pay-as-you-go amount was $17.1 million in fiscal 2008.

Tax Supported
New Issue

Cambridge, Massachusetts

Ratings

New Issue

General Obligation Bonds, Municipal Purpose Loan of 2009	AAA
Outstanding Debt	
General Obligation Bonds	AAA

Rating Outlook

Stable

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New Issue Details

Sale Information: $47,385,000 General Obligation Bonds, Municipal Purpose Loan of 2009, competitively on March 19, 2009.
Security: GOs of the city of Cambridge, payable from taxes levied on all taxable property, subject to statutory limitations.
Purpose: Fund various capital improvement projects in the city.
Final Maturity: Serially March 15, 2010–2029.

Related Research

- *Cambridge, Massachusetts, Jan. 29, 2008*
- *Local Government General Obligation Rating Guidelines, March 22, 2007*

Rating Rationale

- The long-standing presence of higher education, health care, biotechnology, and life sciences industries creates a stable, well-diversified economy.
- The city boasts exceptional financial management reflected in consistently strong financial results and reserve levels.
- Debt levels are expected to remain manageable, aided by the city's rapid amortization rate.

Key Rating Drivers

- Continued, strong financial management should enable Cambridge to maintain its superior credit rating.

Credit Summary

Cambridge is a leading center for higher education institutions as well as research and development, life sciences, and technology companies. The city's well-diversified economy is characterized by a low December 2008 unemployment rate of 3.9% and a high per capita money income figure that equals over 150% of the 2007 national average. The city's tax base grew by a sound average 4.4% annually over the past five fiscal years. However, officials are planning for nominal declines in assessed valuation over the next two fiscal years due to broader economic weakness. Fitch Ratings notes that Cambridge's substantial $92.7 million of excess levy capacity under Proposition 2½, along with its considerable reserve levels, provide the city with ample flexibility to weather the effects of a slowdown in tax base growth. 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, including ample reserve and liquidity levels. Fiscal 2008 ended with an operating surplus of approximately $15 million, which brought the unreserved general fund balance to slightly over $150 million, or a high 39% of spending. The city's $91.6 million of certified free cash for fiscal 2008 was the largest amount in the city's history. The fiscal 2009 operating budget grew by a manageable amount over the fiscal 2008 level and included the use of approximately $20.7 million in free cash for such purposes as supporting the tax rate, as is the city's practice. However, officials expect actual uses to be much less, even after including a $2.6 million midyear reduction in state aid. Overall, reserves are expected to remain well above the city's policy levels.

Net direct debt equals a moderate $2,500 per capita, but as a percentage of equalized valuation is much lower at 1%, underscoring the city's substantial tax base. Debt levels should remain manageable given the city's modest overall capital needs and rapid amortization rate; over 75% of debt retires within 10 years. The city plans to issue approximately $170 million of additional debt over the next four years, about half of which will be supported by user fees. The Cambridge Retirement System was a strong 92% funded as of the Jan. 1, 2008 valuation date. However, like most pension systems, asset values have declined more recently. Officials have formed a steering committee to review options for managing the city's sizable other post-employment benefits liability, which ranges from $370 million–$600 million, depending upon the funding method.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	3/9/09
AAA	Affirmed	Stable	3/6/07
AAA	Assigned	—	10/7/99

General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

	2004	2005	2006	2007	2008
Real and Personal Property Taxes	206,354	220,910	222,987	231,876	238,747
Intergovernmental	42,601	43,802	44,143	44,658	47,575
Other	66,813	73,470	87,692	98,588	97,721
Total Revenues	315,768	338,182	354,822	375,122	384,044
Expenditures	314,554	323,779	350,499	364,714	377,698
Net Transfers and Other Sources	7,374	9,879	8,097	5,579	8,512
Net Surplus	8,589	24,282	12,420	15,987	14,858
Total Fund Balance	99,973	124,254	136,674	152,661	167,519
As % of Expenditures and Transfers Out:					
Total Fund Balance	30.5	37.6	38.2	40.7	43.3
Unreserved Fund Balance	27.6	30.3	33.6	35.9	38.9
Unreserved, Undesignated Fund Balance	27.6	30.3	33.6	35.9	38.9

Note: Numbers may not add due to rounding.

Debt Statistics

($000)

This Issue	47,385
Outstanding Debt	210,423
Direct Debt	257,808
Overlapping Debt	0
Total Overall Debt	257,808
Debt Ratios	
Direct Debt Per Capita ($)[a]	2,543
As % of Equalized Value[b]	1.0
Overall Debt Per Capita ($)[a]	2,543
As % of Equalized Value[b]	1.0

[a]Population:101,388 (2007 estimate).
[b]Equalized value: $26,124,313,000 (fiscal 2009).
Note: Numbers may not add due to rounding.

Moody's Investors Service

New Issue: Cambridge (City of) MA

MOODY'S ASSIGNS Aaa TO CAMBRIDGE'S (MA) $47 MILLION GO BONDS

TOTAL OF $346 MILLION IN RATED DEBT OUTSTANDING, INCLUDING CURRENT ISSUE

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Municipal Purpose Loan of 2009	Aaa

Sale Amount	$47,385,000
Expected Sale Date	03/11/09
Rating Description	General Obligation

Opinion

NEW YORK, Mar 9, 2009 -- Moody's Investors Service has assigned a Aaa rating to the City of Cambridge's $47 million General Obligation Bonds, Municipal Purpose Loan of 2009. At this time, Moody's has also affirmed the Aaa rating assigned to the city's $299 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 2009 public investment program, which includes library construction, municipal and school building renovations and sewer and roadway reconstruction projects. The assignment of Moody's highest quality long-term rating incorporates: an exceptionally strong financial position, positioning the city to weather uncertain economic conditions more favorably than most similarly-sized cities. Cambridge's solid financial performance is supported by the city's seasoned and highly effective management team, 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.

STRONG FINANCIAL POSITION ANTICIPATED TO BE MAINTAINED DESPITE STATE AID CUTS

While reductions in aid from the commonwealth are expected to pressure operating budgets in the medium term, Cambridge is expected to maintain a healthy financial position. The city continues to benefit from high financial flexibility and robust reserve levels, which position Cambridge to absorb several years of flat or declining state aid without a significant impact on services provided to its residents. 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 and a notable degree of flexibility to address future budgetary challenges. The city remains dependent primarily on local property taxes, which represented nearly 60% of fiscal 2008 general fund revenues, and to a lesser extent on commonwealth aid, representing roughly 12% of fiscal 2008 revenues. Operations in fiscal 2008 yielded a surplus of over $14.4 million, significantly lower than the $24 million surplus from fiscal 2005 but on par with the five-year average of $14 million. The fiscal 2008 general fund balance increased to a robust $167 million (41.8% of general fund revenues) while the most conservative measure of legally available reserves, Cambridge's free cash certified by the commonwealth, totaled a sound $91.75 million (22.8% of revenues), a significant improvement from the slim $25 million free cash (8.3% of revenues) certified in fiscal 2001.

Notably, the adopted fiscal 2009 budget includes for the second year formal investment, debt and reserve policies that have 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 remain in compliance with its policies and to continue to issue long-range projections, incorporating reasonable revenue and expenditure growth assumptions. The fiscal 2009 budget contains a moderate overall 5% increase over the adjusted fiscal 2008 budget, due to 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 5.4% property tax levy increase as well as a total appropriation of $18 million in free cash, stabilization and overlay reserves. Despite budgeted draws on reserves, management projects that the city will produce another operating surplus, with positive variances in revenues and expenditures expected, allowing it to maintain reserve and levy capacity levels approximating those in fiscal 2008.

The city has conducted an actuarial study to value its Other Post Employment Benefit (OPEB) liability in order to comply with GASB 45 reporting deadlines. Cambridge's unfunded actuarial accrued liability (UAAL) ranges between $352 and $603 million, varying with investment and actuarial assumptions. The city budgeted roughly $17 million for pay-as-you-go retiree health care expense; funding the full annually required contribution (ARC) would require an additional appropriation of up to $28.5 million. Management has identified several potential funding sources including reductions in free cash and the health claim trust fund, and diversions of the current revenue streams allocated to pensions, when this liability is retired, and health insurance as employee contributions are adjusted upward. A revised OPEB study is expected later in 2009.

Key to Cambridge's robust financial position are strong reserve levels maintained in its Stabilization, Parking and Health Claims Trust Funds, totaling $61 million in fiscal 2008. 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 $83 million have 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 2,850 units of housing in the city. The city received roughly 1.8% ($7.3 million) of revenues from Payments-In-Lieu of Taxes (PILOTs) in fiscal 2008, 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 8.1% of Cambridge's 2009 assessed value and roughly 12% 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. The city's excess levy capacity reached $92.7 million in fiscal 2009 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 could nearly deplete the funds, but 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.

STEADILY GROWING TAX BASE INCLUDES HIGHER EDUCATION AND BIOTECHNOLOGY INSTITUTIONS

Cambridge's sizeable equalized value of $26 billion is expected to experience sustained growth, reflecting ongoing development throughout the city and moderate market value appreciation, primarily in the residential sector. Growth in assessed valuation has slowed considerably to 1.4% in fiscal 2009, reflecting 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 residential and commercial assessed valuation declines of up to 2% 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 3.8 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 10.3% in the fourth quarter of 2008 (up from 8.3% in the third quarter of 2006) but is 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 fourth quarter 2008 rate of 7.3% but compares favorably to the regional suburban vacancy rate of 15.7%. Residential growth is also projected to experience moderate 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 a solid $804 million in 2008, above the five-year average of $736 million but down from 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 nearly 18,000 full-time equivalent positions--and the related vibrant biotechnology employment base. Together these institutions comprise 36% of the jobs provided by the city's top 25 employers and 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 $241,991 and Per Capita Income of $31,156, or 120% of the commonwealth median.

FAVORABLE DEBT POSITION WITH MANAGEABLE FUTURE NEEDS

Moody's expects the city's below average debt burden 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. Net direct debt is retired at an above-average pace of 78.5% in 10 years. Despite the rapid amortization schedule, general fund-supported debt service claimed a moderate 8.8% of fiscal 2008 expenditures. City officials plan to issue approximately $168 million in debt over the next four years to fund citywide capital projects. However, with approximately half 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

2007 Estimated Population (US Census): 101,388

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: $257,667

Equalized Value Average Annual Growth 2003-2009: 6.2%

Adjusted Debt Burden: 1.7%

Amortization of principal (10 years): 78.5%

FY08 General Fund Balance: $168 million (41.8% of General Fund revenues)

FY08 Undesignated General Fund Balance: $150 million (37.5% of General Fund revenues)

FY08 City Stabilization Fund balance: $19.7 million (4.9% of General Fund revenues)

FY08 School Stabilization Fund balance: $12.6 million (3.1% of General Fund revenues)

Post-sale long-term debt outstanding: $346 million

METHODOLOGY AND LAST RATING ACTION TAKEN

The principal methodology used in rating the City of Cambridge's General Obligation Bonds was "Local Government General Obligation and Related Ratings," which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action was on January 22, 2008 when the Aaa rating for Cambridge, MA was affirmed.

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