Cambridge, Massachusetts

General Obligation Bonds

New Issue Report

Ratings

New Issue

General Obligation Bonds Municipal Purpose Loan 2014	AAA
Outstanding Debt	
General Obligation Bonds	AAA

Rating Outlook

Stable

Related Research

Fitch Rates Cambridge, MA GO Bonds 'AAA'; Outlook Stable (February 2014)

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New Issue Details

Sale Information: $34,900,000 General Obligation Bonds, Municipal Purpose Loan 2014, selling competitively on Feb. 18.

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

Purpose: To finance sewer and school reconstruction projects.

Final Maturity: Feb. 15, 2034.

Key Rating Drivers

Exceptional Financial Management: Management's conservative budgeting practices and prudent use of reserves have helped keep tax levy increases at moderate levels sufficient to cover general operating expenses.

Above-Average Reserves and Liquidity: 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 Promotes Tax Base Growth: Ongoing development within the city has resulted in growth in assessed value, providing the city with continued 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 rate of amortization. Pension and other post-employment benefit (OPEB) costs are manageable.

Rating Sensitivities

Strong Financial Management: The rating is sensitive to shifts in fundamental credit characteristics, including the city's strong financial management practices. The Stable Rating Outlook reflects Fitch Ratings' expectation that such shifts are unlikely.

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	2/5/14
AAA	Affirmed	Stable	2/13/13
AAA	Affirmed	Stable	3/1/12
AAA	Affirmed	Stable	2/1/12
AAA	Affirmed	Stable	2/1/11
AAA	Affirmed	Stable	1/28/10
AAA	Affirmed	Stable	3/9/09
AAA	Affirmed	Stable	1/24/08
AAA	Affirmed	Stable	3/6/07
AAA	Affirmed	Stable	1/8/04
AAA	Affirmed	Stable	1/9/03
AAA	Affirmed	—	12/3/01
AAA	Affirmed	—	5/23/00
AAA	Assigned	—	10/7/99

Related Criteria

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Tax-Supported Rating Criteria (August 2012)

Credit Profile

Cambridge is located in Middlesex County across the Charles River from the city of Boston and had a 2011 population of 105,792.

Diversified Economy with Strong Socioeconomic Indicators

The city is an important economic component for the Boston metropolitan area and Massachusetts as a whole and benefits from the presence of both Harvard University and Massachusetts Institute of Technology. These institutions are the city's two top employers and employ approximately 19% of the city's workforce.

Cambridge continues to experience employment expansion among companies in the biotechnology and life and sciences sector. Leading biotech companies, including Novartis, Biogen Idec, Vertex and Genzyme, employ more than 9,700 Cambridge workers. Several major software and Internet companies have recently established research and development operations in Cambridge, including Microsoft, Google, Twitter and Intuit.

The city's well-diversified economy and well-educated population is characterized by a low November 2013 unemployment rate of 4.2% and a high per capita income figure that equals 166% of the national average. Assessed value (AV) performance remains positive and at $27.2 billion for fiscal 2014 is up 7.7% compared to fiscal 2013. The city is projecting moderate increases in AV in fiscal years 2015 through 2018, which is considered to be realistic by Fitch based on new construction permits, appreciation in values of existing property and major rehabilitations under way.

The city's 10 largest taxpayers account for an above-average 22% of the total tax base, but Harvard and MIT together total 9%. Most commercial property owners own multiple parcels with many different uses and tenants, providing considerable diversification of the city's property tax revenue base.

Financially Sound City with Strong Reserves

Exceptional financial management and planning are demonstrated by the city's strong financial position. The city continues to strategically use general fund reserves to keep tax levy increases at moderate levels. Reserve levels remain strong. For fiscal 2013, the city experienced a $32.8 million operating surplus (7.2% of spending), after transfers, due to conservative estimates of nonproperty tax items. Expenses also came in lower than estimated, helping avoid the use of reserves, which has typically been the city's experience.

The city ended fiscal 2013 with an unrestricted general fund balance of $193.7 million, equivalent to a strong 42.5% of spending. The city has historically maintained an unassigned fund balance well in excess of the city's fund balance policy requiring an unassigned general fund balance equal to at least 15% of the ensuing year's budgeted revenues.

Cambridge's $142 million of certified free cash for fiscal 2013 (up from $116 million in fiscal 2012) is the largest amount in the city's history. The city's excess tax levy limit increased to $117.5 million in fiscal 2014 from $104.1 million in fiscal 2013, a 12.9% increase. This excess levy capacity totals 23% of the fiscal 2014 operating budget. Fitch finds that Cambridge's substantial excess levy capacity under Proposition 2 1/2, along with its considerable reserve levels, provides the city with significant financial flexibility.

General Fund

($000, Audited Fiscal Years Ended June 30)

	2009	2010	2011	2012	2013
Property Tax Revenue	251,256	266,862	281,812	297,724	315,777
Other Tax Revenue	19,954	22,650	27,371	21,193	22,743
Total Tax Revenue	**271,210**	**289,512**	**309,183**	**318,917**	**338,520**
Intergovermental Revenue	37,234	32,139	31,796	31,954	31,036
Other Revenue	67,204	68,169	75,972	92,585	94,665
General Fund Revenues	**375,648**	**389,820**	**416,951**	**443,456**	**464,221**
General Government	31,765	40,101	35,892	35,852	34,894
Public Safety	95,817	95,717	100,414	103,389	106,985
Educational	129,031	132,652	134,078	139,276	143,789
Debt Service	40,169	43,215	45,247	44,562	46,305
Other	101,695	105,632	119,967	117,862	118,053
General Fund Expenditures	**398,477**	**417,317**	**435,598**	**440,941**	**450,026**
Operating Surplus/(Deficit)	**(22,829)**	**(27,497)**	**(18,647)**	**2,515**	**14,195**
Transfers In	17,533	18,726	18,973	19,478	19,949
Other Sources	793	915	1,031	30,702	4,891
Transfers Out	6,520	2,341	4,225	3,927	6,223
Other Uses	—	—	—	29,029	
Net Transfers and Other	11,806	17,300	15,779	17,224	18,617
Net Operating Surplus/(Deficit) After Transfers	**(11,023)**	**(10,197)**	**(2,868)**	**19,739**	**32,812**
Total Fund Balance	156,495	146,298	143,430	163,170	195,981
% Total Expenditures, Transfers Out and Other Uses	38.6	34.9	32.6	34.4	43.0
Unreserved Fund Balance[a]	141,595	129,496	—	—	—
% Total Expenditures, Transfers Out and Other Uses	35.0	30.9	—	—	—
Unrestricted Fund Balance[b]	—	—	141,761	160,984	193,702
% Total Expenditures, Transfers Out and Other Uses	—	—	32.2	34.0	42.5

[a]Pre-GASB 54. [b]Reflects GASB 54 classifications: sum of committed, assigned and unassigned. Note: Numbers may not add due to rounding.

The fiscal 2014 operating budget grew by a manageable 3.8% (compared to 2.9% in fiscal 2013), attributable to an increase in employee salary and benefit costs as well as the $2 million allocation to the city's OPEB trust fund. The tax levy increased by $11.6 million, or 3.66%, to $328.5 million and is being supplemented in part by the use of $9 million in free cash. Property taxes are the city's largest and most stable source of revenue at 70% of all revenues. Management has indicated that fiscal year-to-date performance has revenues trending positively compared to budget and is projecting surplus results for the fiscal year.

Debt Statistics

($000)

This Issue	34,900
Outstanding Direct Debt	367,085
Self-Supporting	(118,934)
Total Net Direct Debt	**283,051**
Overlapping Debt	193,433
Total Overall Debt	**476,484**
Debt Ratios	
Net Direct Debt Per Capita ($)[a]	2,676
As % of Full Market Value[b]	1.0
Overall Debt Per Capita ($)[a]	4,504
As % of Full Market Value[b]	1.8

[a]Population: 105,792 (2011). [b]Market value: $27,161,010,000 (2013). Note: Numbers may not add due to rounding.

Debt Levels Are Manageable

Overall debt equals a moderate $4,504 per capita, including the 2014 bonds, but is lower as a percentage of AV at 1.8%. Debt levels are expected to rise modestly given the city's manageable overall capital needs and rapid amortization rate; approximately 80% of debt is retired within 10 years. The city plans to issue approximately $284 million of additional debt over the next four years. Approximately 42% of the total additional debt is planned to be supported by user fees.

Pensions Are Adequately Funded; OPEB Liability Reduced

The Cambridge Retirement System was 78% funded as of the Jan. 1, 2012 valuation date, a decline from higher levels in prior years. Using Fitch's more conservative 7% return rate, the plan was estimated at a more modest 70% funded. The city contributed $25 million for fiscal 2013, equal to 100% of its annual required contribution and approximately 6.7% of spending. The city paid $22.7 million toward OPEB contributions in fiscal 2013, which accounted for 50% of total OPEB costs.

The city's unfunded OPEB liability totaled $553 million as of June 30, 2013, down from $611 million the prior fiscal year. The decline can be attributed to changes in employee health insurance contribution rates implemented by management. City management created an OPEB trust fund in December 2009 with an initial contribution of $2 million and made annual contributions of $1 million in fiscal 2013, with expected $2 million annual contributions for fiscal years 2014 through 2018.

Total carrying costs for debt service, pension and OPEB pay-as-you-go equal a manageable 16.5% of total governmental spending.

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MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Cambridge, MA's $34.9 million GO bonds; outlook stable

Global Credit Research - 06 Feb 2014

Aaa rating affects $390 million in debt, 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 2014		Aaa
Sale Amount	$34,900,000	
Expected Sale Date	02/18/14	
Rating Description	General Obligation	

Moody's Outlook STA

Opinion

NEW YORK, February 06, 2014 --Moody's Investors Service has assigned a Aaa rating to the City of Cambridge's (MA) $34.9 million General Obligation Bonds, Municipal Purpose Loan of 2014. Concurrently, Moody's has affirmed the Aaa rating assigned to $355 million in outstanding long-term general obligation debt. The outlook is stable. The bonds are secured by a general obligation, limited tax pledge as debt service has not been excluded from the levy limitations of Proposition 2 ½. The bonds are being issued to fund the fiscal 2014 public investment program, which consists primarily of school and sewer system upgrades, as well as road construction and public space improvements.

SUMMARY RATING RATIONALE

Moody's highest long-term rating reflects the sizeable, diverse and stable tax base, which is anchored by world renowned higher education institutions and a growing research and development sector. Also incorporated into the Aaa rating are a historically stable financial position with significant reserve levels, a strong professional management team and a favorable debt profile supported by healthy enterprise systems.

Assignment of the stable outlook incorporates Moody's expectation that the city will maintain strong credit quality given its healthy financial position, supported by management's demonstrated ability to adhere to formal fiscal policies. The outlook also reflects the stable tax base which is supported by extremely stable higher education institutions and ongoing commercial development.

STRENGTHS:

-- Large and diverse tax base anchored by stable institutions and a growing commercial sector

-- Healthy financial position guided by sound management policies

-- Very ample excess levy capacity under Proposition 2 ½

-- Well-managed debt profile

CHALLENGES:

-- High regional living and business costs

DETAILED CREDIT DISCUSSION

SIGNIFICANT INSTITUTIONAL PRESENCE SPURS CONTINUED ECONOMIC GROWTH

Cambridge's economy benefits from the presence of Harvard University (rated Aaa stable) and the Massachusetts Institute of Technology (MIT, rated Aaa stable) - which together enroll 28,316 students and provide employment for over 20,000 full-time equivalent positions - and the related vibrant biotechnology, pharmaceutical and life sciences employment base. Together these institutions comprise 42% 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. The universities remain a significant driver behind the concentration of established technology companies in Cambridge, in addition to the influx of startups and related venture capital firms who value the highly educated workforce.

Cambridge's assessed value remained strong during the economic downturn and weak recovery, largely due to the continued expansion of the city's commercial sector. Following a modest decline of 0.5% in fiscal 2011, assessed values have increased by an average of 4% annually through fiscal 2014. Management's projections for future growth indicate 2% to 3% increases over each of the next four fiscal years. New development continues in the city, as evidenced by improving building permit activity. Fiscal 2013 building permit valuations grew to a five-year high of approximately $1.3 billion, resulting in $19.9 million in revenue. This represents a significant increase over 2010 permit valuations of $321 million, and is largely a result of several large scale commercial developments primarily located in the Kendall Square district.

From 2009 through the fall of 2013, Cambridge added approximately 1.1 million square feet of commercial space, with an additional 1.6 million under construction, and another 3.8 million that has received permitting. The majority of the space is slated for biotechnology research and development, and several developers have provided the city with significant community benefit packages for open space and mitigation efforts. Absorption of new space remains rapid and office vacancy rates dropped significantly to 6.8% in the third quarter of 2013, down from 7.1% and 9% in the third quarter of 2012 and 2011, respectively. Cambridge's commercial vacancy rates compare favorably to metro Boston and the regional suburban vacancy rates of 8.4% and 16.3%, respectively. Although demographic indices are somewhat skewed downward by the high student population, income levels remain above average relative to state and national medians. Incorporating a 3.8% population increase since 2000, the city's equalized value per capita is a robust $253,325 in fiscal 2014, despite the tax exempt status of nearly one-third of the tax base.

HEALTHY FINANCIAL POSITION BOLSTERED BY AMPLE RESERVE LEVELS AND STRONG MANAGEMENT

Cambridge is expected to maintain a healthy financial position as a result of historically balanced operations, substantial reserve levels, and a strong professional management team. The city maintains formally adopted fiscal policies for its annual budgeting, including long-term projections for revenues, expenditures, and capital needs. Steady revenue streams, generated by the stable tax base, provide flexibility to address budgetary challenges. Local property taxes continue to comprise the majority of revenues, representing 65.2% of fiscal 2013 General Fund revenues. Property tax collections remain strong, averaging 98.6% over the last five fiscal years, and the city's unused levy capacity under Proposition 2 ½ has grown to an all-time high of $117.5 million through fiscal 2014 (the highest in the commonwealth), providing ample flexibility.

Although revenues and expenditures are carefully managed, the city has made moderate appropriations of free cash to support operations, capital needs, and to moderate tax rate increases. In addition, Cambridge has made additional appropriations from its city and school stabilization funds to offset selected debt service costs. The stabilization funds were built to a high of $32 million in fiscal 2008 and have a current balance of $14.7 million. The city is expecting to begin building the funds again in order to offset anticipated debt service costs for elementary school reconstruction and the war memorial renovation project.

The city maintains ample reserves in its unassigned General Fund and Parking Fund which are available for unanticipated financial needs. Fiscal 2013 ended with a sizeable $27.9 million operating surplus after transfers, representing the second consecutive year of General Fund balance growth. The 2013 surplus was a result of prudent budget management, with favorable revenue and expenditure variances in most categories. Total General Fund balance increased to $196 million, representing an ample 40.5% of revenues. The city's free cash, the most conservative measure of legally available reserves as certified by the commonwealth, improved to a record high of $142.2 million, or a healthy 29.4% of revenues.

The fiscal 2014 adopted budget includes formal investment, debt and reserve policies that have guided and maintained financial health. The city remains well above its policies requiring total and unassigned General Fund balance to be equal or greater to 25% and 15%, respectively, of the ensuing fiscal year's operating revenue. The fiscal 2014 expenditure budget contains a modest overall 3.8% increase over the adjusted fiscal 2013 budget, driven by ongoing expenditure pressures in several areas including salaries, employee pension and health insurance, as well as an optional $2 million appropriation to the city's Other Post Employment Benefit (OPEB) trust fund. The budget was balanced by a 3.7% property tax levy increase as well as a total appropriation of $28.5 million in free cash. The free cash appropriation will be used for debt stabilization, future health claims, and supplemental appropriations for one-time capital needs. The 2015 budget is still in development, but the city expects it to include a modest increase in spending.

In November 2001, Cambridge voters passed the Community Preservation Act (CPA), imposing a 3% surtax and qualifying the city to receive state matching funds. Through fiscal 2014, $131 million has been appropriated or reserved, including $44 million that is attributable to state matching funds. CPA funds are available to fund affordable housing, historic preservation and open space conservation, and notably have enabled the development or preservation of over 3,400 units of housing in the city. The city has budgeted roughly $5.7 million from Payments In Lieu of Taxes (PILOTs) in fiscal 2014, roughly 1.2% of General Fund revenues. The majority comes from Harvard and MIT. Both institutions own significant taxable real estate and are major taxpayers, together representing 8.7% of the 2013 assessed value and roughly 13.2% of the levy. In fiscal 2005 the city signed 40- and 50-year PILOT agreements with MIT and Harvard, respectively. 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.

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 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). Self-supporting water and sewer system debt as well as a pay-as-you-go funding plan, budgeted at approximately $5 million annually, also contribute to Cambridge's favorable debt ratios. Principal on outstanding debt is retired at an average pace of 82.3% within 10 years. Despite the significant amount of self-supporting debt, General Fund-supported debt service claimed a somewhat elevated 10.5% of fiscal 2013 expenditures; this remains comfortably below the policy to limit General Fund debt service to 12.5% of operating expenditures, however. City officials plan to issue approximately $284 million in debt over the next four years to fund citywide capital projects, with roughly 42.3% of the debt expected to be supported by user fees. Cambridge has no exposure to variable or auction rate debt or swap agreements.

SIGNIFICANT PENSION AND OPEB LIABILITIES EXPECTED TO REMAIN MANAGEABLE

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 77.8% as of the most recent actuarial valuation, dated January 1, 2012. The investment return assumption was lowered to 8% in fiscal 2012, and full funding of the plan is anticipated by 2029, 11 years short of the state deadline of 2040. The city budgets 100% of its ARC payment ($33.8 million in fiscal 2014), which is consistent with its actuarial funding schedule. The adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $456 million, or an average 1.06 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

The city has updated its actuarial study for Other Post Employment Benefits (OPEB), reflecting values on June 30, 2013. Cambridge's unfunded actuarial accrued liability (UAAL) has decreased to $553 million, down slightly from $611 million in 2012. The city budgeted roughly $22.7 million for pay-as-you-go retiree health care expense in fiscal 2013; funding the full annually required contribution (ARC) would require an additional appropriation of up to $22.2 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 added $1 million to the trust in fiscal 2013 and $2 million in fiscal 2014. Additional $2 million contributions are expected moving forward.

Outlook

The stable outlook reflects Moody's expectation that Cambridge will maintain a healthy financial position, given its strong reserve levels and history of balanced operations. Moody's also expects that the city will continue to improve funding ratios for pension and OPEB while maintaining a conservative approach to budgeting and expenditure management. Additionally, the stable outlook incorporates the vibrant economy with several world renowned institutions and ongoing development in the commercial sector.

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

-- Significant increases in pension and OPEB liabilities

KEY STATISTICS

Equalized Value (EV), Fiscal 2014: $26.6 billion

EV Per Capita, Fiscal 2014: $253,325

Median Family Income as % of US Median (2012 American Community Survey): 167%

Fund Balance as % of Revenues, Fiscal 2013: 40.5%

5-Year Dollar Change in Fund Balance as % of Revenues: 8.2%

Cash Balance as % of Revenues, Fiscal 2013: 46.7%

5-Year Dollar Change in Cash Balance as % of Revenues: 8.5%

Institutional Framework: "Aa"

5-Year Average Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt as % of EV: 1.1%

Net Direct Debt / Operating Revenues: 0.60x

3-Year Average ANPL as % of Assessed Value: 1.64%

3-Year Average ANPL / Operating Revenues: 1.08 x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Cambridge, Massachusetts; General Obligation

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Summary:

Cambridge, Massachusetts; General Obligation

Credit Profile		
US$34.9 mil GO bnds ser 2014 due 02/15/2034		
Long Term Rating	AAA/Stable	New
Cambridge GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Cambridge, Mass.' 2014 general obligation (GO) bonds. We also affirmed the 'AAA' rating on the city's existing GO bonds based on the implementation of our local GO criteria. The outlook is stable.

A pledge of the city's full faith credit and resources and an agreement to levy ad valorem property taxes subject to limitations imposed by Proposition 2 ½ secure the 2014 GO bonds.

The rating reflects our assessment of the following factors for the city.

- Very strong economy, which benefits from participation in the broad and diverse Boston-Cambridge-Newton metropolitan statistical area (MSA);
- Very strong budgetary flexibility with 2013 audited reserves at 38.3% of general fund expenditures;
- Strong budgetary performance, which takes into account a revenue stream we consider stable;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong management with strong financial policies; and
- Strong debt and contingent liabilities position.

Very strong economy

We consider Cambridge's economy to be very strong due, in part, to its participation in the broad and diverse Boston-Cambridge-Newton MSA. The city has projected per capita effective buying income of 140.9% of the U.S. and per capita market value of $255,100 in fiscal 2014. Economic expansion within the city continues - particularly in the areas of biotechnology and software development - due, in part, to its commitment to planned development. This has led to continued growth in the tax base, with fiscal 2014 assessed value ($27.2 billion) up 7.7% year-over-year.

Very strong budget flexibility

In our opinion, the city's budgetary flexibility remains very strong, with no plans to significantly spend down reserves and roughly $117 million of unused levy capacity. The unassigned general fund balance totaled $149.9 million at the close of fiscal 2013 (June 30 year-end), which when combined with the $14.7 million stabilization reserve, represents 38.3% of expenditures. Expenditures were adjusted downward by administrative expenses borne by the general fund on behalf of other funds.

Strong budgetary performance

The city's budgetary performance has been strong overall in our view with a surplus of 6.5% for the general fund in fiscal 2013 and 12.6% for total governmental funds when adjusting out the use of bond proceeds. General fund revenue primarily consists of property taxes (68% of the total in fiscal 2013), and collections are strong at nearly 99% in recent years. Management expects a small general fund drawdown in fiscal 2014.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash at 52.5% of total governmental fund expenditures and 550.9% of debt service. We believe the city has strong access to external liquidity given that it has issued GO bonds frequently during the past 15 years.

Very strong management conditions

We view the city's management conditions as very strong, with strong financial practices.

Strong debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is strong, with total governmental fund debt service at 9.5% of total governmental fund expenditures, and net direct debt at 52.9% of total governmental fund revenue. The city is scheduled to retire more than 75% of principal over the next 10 years, and its overall net debt burden is low at 1.1% of market value.

The city administers the Cambridge Retirement System and contributed 100% of the annual required contribution (ARC) in each of the past three years. The combined ARC and other postemployment benefit (OPEB) costs for fiscal 2013 were 9.7% of expenditures. The city's OPEB liability of $557 million is 0.6% funded and its pension liability of $1.1 billion is 78% funded.

Strong Institutional Framework

We consider the Institutional Framework score for Massachusetts cities as strong.

Outlook

The stable outlook reflects our view of the city's consistent financial performance and economy, which is supported by good management. We do not expect to revise the rating in the next two years because we believe the city will maintain very strong reserves and continue to participate in the broad and diverse Boston-Cambridge-Newton MSA.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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