

March 2016

Boston Retains Market Strength in 2016 Bond Sale

Moody's (Aaa) and S&P (AAA) reaffirm their highest ratings for Boston

The City of Boston sold \$140M of General Obligation (GO) bonds and \$8.1M of GO refunding bonds on March 8, 2016. The GO bonds sold competitively at a True Interest Cost (TIC) of 2.26%, an improvement over the TIC of 2.68% in 2015. The City received eight bids and Citigroup Global Markets Inc. was the successful bidder. For the \$140M in principal issued, the City will pay \$51.7M in interest costs over 20 years.

The City also refunded \$9.2M of its bonds issued in 2007 at a TIC of 2.10%. The refunding generated net present value savings of \$904,478. The City received four bids and the successful bidder was Bank of America Merrill Lynch. The interest cost of the refunding issue is \$3.38M over 11 years.

To ensure that investors receive a higher annual interest rate (coupon) than the current low rates, the bidders pay a premium in addition to the amount of the actual bonds sold. For the \$140M GO issue, the premium is \$21.6M, which the City will use to fund additional capital expenditures. The premium for the \$8.1M refunding issue is \$1.4M, which is allocated to an escrow account to help pay the refunded bonds' annual debt service expenses until they are redeemed.

The City's Bond Counsel is Locke Lord LLP and its new Financial Advisor is FirstSouthwest, a Division of Hilltop Securities Inc.

Factors noted about Boston, the 24th largest city in the nation, in the March Moody's and Standard and Poor's credit reports are:

Positive Factors Benefiting Boston:

- Substantial and economically diverse tax base well-positioned for growth with notice made of GE and other companies relocating their headquarters to Boston
- Strong financial policies and practices that maintains tight control over employee headcount
- Development and redevelopment efforts remain strong with taxable assessed value increasing by 44% since 2012
- Manageable debt burden with a rapid bond amortization and all fixed-rate debt
- Strong liquidity with healthy reserves, including the required floor for the Tregor Reserve for any year-end shortfalls, which has not been used to date

Constraining Factors Being Watched:

- Uncertainty about future state aid levels, the City's second largest revenue source
- Sizable long-term unfunded liabilities for pensions and retiree health care (OPEB)
- High personnel-related costs subject to collective bargaining with strong unions
- Constraints on increasing property taxes or establishing new revenue streams
- High cost of living and doing business

Use of Bond Funds

Major capital projects to be funded by the \$140M GO bonds include:

- Schools \$42M of which \$12.3M is for the new Dearborn 6-12 STEM school
- Roads and bridges \$24.8M
- Police radio system upgrade \$10M
- Fire engines and trucks \$5.6M