

February/March 2008

Boston Succeeds in March Bond Sale

City receives excellent rate in uncertain market

In its first bond sale since the emergence of the subprime mortgage crisis, the City of Boston successfully sold \$126.2M of General Obligation (GO) bonds to finance new capital expenditures and \$28.2M of GO refunding bonds at excellent interest rates on March 6th. The City benefited by its prudent debt management policies and high credit rating.

The bonds were sold without a buyer seeking insurance due to the underlying strength of the City's credit and the increasing cost of insurance premiums as a consequence of several guarantors' exposure in the subprime market. Boston's bond ratings were affirmed by Moody's Investors Service (Aa1), Standard & Poor's (AA+) and Fitch Ratings (AA). The Moody's and S&P ratings are the highest AA ratings assigned by each firm. Boston's sale was very competitive as evident by the number of firms bidding on the two issues.

Low bidder for the \$126.2M issue was Lehman Brothers at a True Interest Cost (TIC) of 4.21% among the nine firms submitting bids. The total interest costs over the 20 years of the issue is \$64.6M. The \$28.2M refunding bonds were awarded to Robert W. Baird & Co. with a TIC of 3.06% from among eight firms bidding. The net present value savings of the refunding is over

\$2.2M, which will reduce debt service costs on a cash basis by approximately \$370,000 annually over the seven years from FY09 to FY15.

Municipal bond rates have been moving up and the TIC of 4.21% for the \$126.2M bond issue compares with 3.96% received on a similar issue last year. However, the TIC of 4.21% is considered very attractive in today's turbulent market. The TIC on the refunding issue of 3.06% this year compares with last year's refunding bond TIC of 4.04% but the difference is more a reflection of the shorter term for this year's issue than lower interest rates.

Assisting the City in this year's two bond issues are its Financial Advisor, Public Financial Management, Inc. and its Bond Counsel, Edwards Angell Palmer & Dodge.

The rating agencies maintained their AA ratings for Boston based on the City's continued solid management practices, growing reserves and strong economy.

What the three rating services say about Boston will be discussed in the next *Bureau Update*.