Bureau Update
BOSTON MUNICIPAL RESEARCH BUREAU
March 2009

Rating Boston in 2009

Boston succeeds in bond market in turbulent financial times

In a volatile financial market, the City successfully sold $100M of General Obligation (GO) bonds to finance new capital expenditures and $8.9M of GO refunding bonds on March 5. The bonds were sold without a buyer seeking insurance due to the underlying strength of the City's credit. The market is attracted to Boston because of its track record of strong financial management, diverse economic base, healthy reserves and conservative debt policies.

The low bidder for the $100M issue was Barclays Capital, Inc. at a True Interest Cost (TIC) of 3.87% among the 14 firms submitting bids, up from 9 bidders last year. The total interest cost over the 20 years of the issue is $44.4M. UBS Financial Services, Inc. was the winning bidder from among 6 firms for the $8.9M refinancing issue at a TIC of 3.36%. The net present value savings of the refunding is $584,058, which will be used to reduce the City's debt service costs over ten years. The City had originally planned to sell $120M of GO bonds but reduced the amount to manage its debt service costs.

With this sale, the two rating agencies of Moody's Investors Service (Aa1) and Standard & Poor's (AA+) reaffirmed their ratings for Boston. The key highlights of their reports are:

Positive factors benefiting Boston:

- Strong proactive management with a demonstrated record of managing through all economic cycles
- Sound financial position managed by a seasoned and effective financial team
- Moderate but well-structured debt profile with rapid bond amortization due to prudently designed debt policies with no variable-rate or swaps outstanding
- Substantial and economically diverse tax base with strong health care and higher education components
- Expectation that Boston will continue to maintain balanced operations and healthy reserves

Constraining factors being watched:

- Declining share of state aid as percent of the city's operating budget
- Pressure from personnel-related costs, including funding the liability for post-retirement health care and collective bargaining agreements in a limited revenue-raising environment
- Unfunded pension liability that has grown to $2.14B as of January 1, 2008 with a funded ratio of 67.6% and the retiree health insurance liability (OPEB) of $3.02B (pre-funded) as of June 30, 2007
- Constraints of increasing property tax levies under Proposition 2½ and lack of a diversified revenue base

Long-term concern – The continual escalation of employee benefit spending for pensions, health insurance and retiree health care will limit resources for other basic services without significant reform.