Bureau Update

BOSTON MUNICIPAL RESEARCH BUREAU

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How Boston Fares In National Economic Turmoil

City's conservative financial approach pays dividends in uncertain times

The national economic crisis has led to a dramatic change in the makeup of financial institutions, a volatile stock market, the $700B bailout bill, continued economic uncertainty and a tightening of the credit market. In this environment, some cities and even states have had difficulty gaining access to the bond market which has raised questions about Boston's financial position. It is in times like these that the conservative nature of the City's fiscal policies will prove beneficial and protect Boston from problems other cities may face.

Boston normally enters the market once each year in February or March to sell General Obligation bonds to support its five-year capital budget. Thus, Boston will not need to enter the market for 4-5 months. The City has earned the highest AA credit rating from Moody's Investor Services (Aa1) and Standard & Poor's (AA+) for its strong financial management. A Boston bond issue in 2009 would be considered a quality investment, attractive to financial institutions.

The City has developed a written investment policy for daily operational receipts and bond proceeds. Investments in banks are collateralized by U.S. Government obligations and held by a third party in order to protect the principal. Limits are placed on the extent that each investment vehicle can be utilized depending on risk. Funds for daily operations are normally invested in high quality repurchase agreements and certificates of deposits. The City has stayed away from the more risky swaps and derivatives.

The rating agencies also tout Boston's "healthy" reserves in their credit reports. The most recent audit reported that Boston's General Fund undesignated fund balance on a GAAP basis was $494.4M as of June 30, 2007. However, the amount of reserves that can be appropriated by the City is certified by the state Department of Revenue as Budgetary Fund Balance (Free Cash). The most recent certification was for $110.2M of which the City appropriated $35M in FY09, leaving a balance of $75.2M. As one-time funds build up over time, this balance should be applied prudently for non-recurring expenses.

Boston is effective in its property tax collection practices and in FY08 collected 98.7% of its gross tax levy net of refunds. Debt service is limited to a conservative 7% of the City's operating budget.

The picture for Boston is not all positive as this year's revenue collections for motor vehicle excise, interest on investments, parking meters and building permits are below expected levels. Spending for police overtime is projected to be substantially over the $30.2M budget.

While these prudent fiscal policies will help Boston manage its capital and investment programs through the current economic uncertainties, they will not prevent disruption due to cuts in state aid next year. Boston relies on local aid for approximately 25% of its operating budget so any reduction will have a direct impact on basic services.