

## Rating Boston in 2010

*Boston takes full advantage of federal stimulus bond opportunities*

The City of Boston's bond sale of two separate issues in March totaled \$173.2M and utilized all federal American Recovery and Reinvestment Act (ARRA) options available to maintain planned capital spending at reduced costs to the City. The estimated net present value (NPV) debt service savings due to the three ARRA bond programs are \$9.4M. The advanced refunding issue totaling \$68.3M also produced a NPV savings of \$3.4M. These savings will be used to reduce annual debt service costs over the life of the issues.

### Components of March 2010 Bond Sale Dollars in Millions

Type	Amount	TIC
General Obligation (GO)	\$39.9	2.07%
Advance Refunding	68.3	2.64%
Build America Bonds (BABs)	30.9	3.26% *
Recovery Zone Bonds	16.7	2.45% *
Qualified School Construction Bonds	17.4	0.06% *
Total	\$173.2	

\* TIC is net of federal subsidy

The 2010 bonds were sold competitively without insurance and each component received multiple bids. Nine firms submitted bids for the GO issue of \$39.9M which was won by Banc of America Merrill Lynch with a True Interest Cost (TIC) of 2.07%.

With these two bond sales, the two rating agencies of Moody's Investors Service (Aa1) and Standard & Poor's (AA+) reaffirmed their ratings for Boston. Both are the highest AA rating given by each firm. 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 with adequate reserves and flexibility to address future budget challenges
- 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

### Constraining factors being watched:

- Uncertainty regarding future state aid levels which make up 17% of City's general fund revenues
- Rising long-term liabilities for pension and health care will pressure future operating budgets
- Pension funding expected to fall below 60% due to 2008 asset loss. City has not yet adopted a long-range plan to address \$5.8B retiree health insurance liability (OPEB).
- Constraints on City to increase property tax levies under Proposition 2½ or to establish new revenues

**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.