

July-August 2011

Boston Moves Forward with \$1.7 Billion 5-Year Capital Plan

In this period of economic uncertainty, Boston's debt fundamentals remain strong

The City's five-year capital plan (FY12-FY16) approved by the City Council on June 29 totals \$1.72B. The City expects to issue bonds in the next few years at amounts higher than the recent average to support moving forward on a number of projects that were deferred due to the recent economic downturn. Notable among these projects is the Dudley Plan that totals \$187.6M in this budget.

The City will need to continue to evaluate this capital plan with respect to the current volatility in the market and the reliability of federal funds expected to support the capital budget. The City normally issues General Obligation (GO) bonds for capital projects in February or March of each year so it has adequate time to assess the market before the sale in 2012. Federal funds represent one-fifth of the funding source and will need to be monitored in light of efforts in Washington to reduce federal spending.

The City of Boston is highly regarded in the market as a solid investment, which should not change over the next few years. Rating agencies have noted Boston's strong and proactive fiscal management through all economic cycles, its healthy reserve balances, its substantial and economically diverse tax base, and manageable debt burden with rapid bond amortization. That is why Moody's did not include Boston (Aaa) in the group of 13 municipalities in Massachusetts to which it recently assigned a negative outlook to their Aaa ratings. The flight to quality by the market in this environment should benefit Boston.

Sale of GO bonds are planned to fund 65% of all project costs with federal funds expected to support 21% and state funds 10% of total costs.

Capital Project Funding

FY12-FY16
\$ in millions

Source	Amount	%
GO Bonds	\$1,114.3	64.9%
State	175.9	10.2%
Federal	352.7	20.5%
Other	75.0	4.4%
Total	\$1,717.9	100.0%

The budget plans a sizable increase in the amount of the bonds issued over the next three years, which with higher interest rates, would cause debt service costs to rise by 38% over five years. Boston issued GO bonds of \$127.8M in FY11 and will increase the issue to \$160M in FY12, \$175M in FY13, \$140M in FY14 and \$120M in the last two years. Even with this growth, debt service will remain within the City's standard of 7% of the operating budget.

The new initiative in this capital budget highlighted by the Administration is the [Dudley Plan](#). This is a multi-faceted plan for public investment and facility consolidation to spur private development and improve City operational efficiency. Five [components](#) of this plan are included in the capital budget for \$187.6M over five years. Just over 60% of that total, or \$115M, is tied to the rehabilitation and expansion of the Ferdinand Building in Dudley Square to be the new School Department HQ.