

March 2014

Boston Receives AAA Bond Rating from Standard & Poor's

Now both Moody's (Aaa) and S&P (AAA) give Boston their highest bond rating

The City of Boston sold \$153M of General Obligation (GO) bonds on March 12, 2014 and received an upgrade in its bond rating from Standard & Poor's from AA+ to AAA, its highest rating. In March 2007, Standard & Poor's increased Boston's bond rating from AA to AA+ and maintained that rating until the upgrade this month. Moody's Investors Service had increased its rating for Boston to Aaa, its highest rating, in March 2011, which it reaffirmed for this year's issue. Boston now holds the distinction of having the highest bond rating from both agencies for the first time ever.

The GO bonds sold competitively at a True Interest Cost (TIC) of 2.88%. The City received seven bids and Bank of America Merrill Lynch was the successful bidder. For the \$153M in principal issued, the City will pay \$63.6M in interest costs over 20 years. Last March the City sold its GO issue at a TIC of 2.37%, but relative to the change in the overall market, Boston's results for this year's sale are actually better.

Comparative transactions to the City of Boston's bond issue are also favorable to Boston. For example, the City of New York, which has an AA bond rating, sold its GO bond issue on March 6 at 40 basis points higher than Boston's, which indicates how the financial market views Boston's credit.

Factors noted about Boston, the 21st largest city in the nation, in the March Moody's and Standard and Poor's credit reports are:

Positive factors benefiting Boston:

- Strong budgetary performance, tight control over employee headcount and plan to fund long-term liabilities
- Manageable debt burden with a rapid bond amortization and debt all fixed-rate with no variable rate debt exposure
- Very strong liquidity with adequate reserve levels and flexibility to address future budget challenges
- Substantial and economically diverse tax base well-positioned for growth

Constraining factors being watched:

- Uncertainty regarding future state aid levels
- Sizable long-term unfunded liabilities for pensions and retiree health care (OPEB)
- High personnel-related costs subject to collective bargaining with strong unions
- Constraints on City to increase property tax or establish new revenue streams
- High cost of living and doing business
- Exposure to cuts in federal research grants and defense spending

Major Projects

Major capital projects funded by GO bonds being undertaken in fiscal 2014 include:

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|---------------------------|---------|
| ■ Dudley Munic. Bldg. | \$56.0M |
| ■ School Buildings | \$40.1M |
| ■ Bridge Work | \$11.7M |
| ■ Street Work | \$10.0M |
| ■ Central Maint. Facility | \$9.7M |