

April 2008

## Rating Boston in 2008

### *What the bond rating agencies say about Boston*

As part of the City of Boston's sale of general obligation bonds (GO) and refinancing bonds, on March 6<sup>th</sup>, the three rating agencies of Moody's Investors Service (Aa1), Standard & Poor's (AA+) and Fitch Ratings (AA) reaffirmed their ratings. [<MORE>](#) The consensus of the three agencies in their rating reports is that Boston's financial position remains strong, with good financial management, and growing reserves. The key highlights of the reports are:

#### **Positive factors benefiting Boston:**

- Excellent financial management with a demonstrated track record of managing through all economic cycles
- Sound financial position with steady growth of reserves
- Manageable debt burden, with rapid bond amortization
- Substantial and diverse economy

#### **Constraining factors being watched:**

- Declining share of state aid as percent of the city's operating budget
- Rising employee-related costs in a limited revenue-raising environment
- Unfunded pension liability that totals \$2.1 billion as of January 1, 2007
- Future budget challenge of retiree health insurance liability

**Financial Management** - Boston's financial management is considered strong, managed by a seasoned financial team that adheres to prudent financial policies. Conservative revenue forecasting and tight spending

controls have contributed to annual operating surpluses even during periods of limited revenue growth. The City is credited with planning to fully fund its pension liability by 2023. Also noted was the City's effort to put funds aside for its retiree health insurance liability (OPEB).

**Financial Position** – Boston remains in a solid financial position with growing reserves. On an undesignated GAAP basis, the FY07 fund balance was \$495.3M, which is well above the \$331.5M recorded in FY03. These funds cannot be appropriated for operations. The City's diverse tax base doubled in value over the past seven years, although overall the market has cooled recently and a slowdown in development is recognized.

**Debt Position** – Boston's debt ratios are favorable with 78% of debt scheduled to be retired within 10 years. Debt service remains within 7% of the operating expenditures. The City has no variable-rate debt or swaps outstanding.

**Constraining Factors** – The three agencies note that the budget drivers of rising salaries, health insurance costs and pension obligations will challenge Boston in future years. The City's pension funded ratio is 66.5%, leaving an unfunded liability of \$2.1B. The retiree health insurance liability (OPEB) is estimated at \$2.8B (pre-funded). For FY09, the City will pay \$95M for current retiree costs and allocate \$25M to an OPEB reserve, far less than the suggested total annualized payment of \$208M.