# Bureau Update



March 2015

## **Boston Shows Market Strength in 2015 Bond Sale**

Moody's (Aaa) and S&P (AAA) reaffirm their highest ratings for Boston

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The City of Boston sold \$140M of General Obligation (GO) bonds and GO refunding bonds totaling \$126.7M on March 10, 2015. The GO bonds sold competitively at a True Interest Cost (TIC) of 2.68%, an improvement over the 2.88% received in 2014. The City received six bids and Morgan Stanley & Co. was the successful bidder. For the \$140M in principal issued, the City will pay \$54.6M in interest costs over 20 years.

The City also refunded \$126.7M of its bonds sold between 2005 and 2009 at a TIC of 2.24% which generated a Net Present Value (NPV) savings of \$9.7M with no extension of maturity. The City received six bids and the successful bidder was J.P. Morgan Securities. The interest cost of the refunding issue is \$45.7M over 14 years. The funding savings of \$11.4M over 14 years (Avg. \$814,000/yr.) will reduce the annual debt service costs the City pays on the refunded bonds each year.

To ensure that investors receive a higher annual interest rate (coupon) than the current low rates, the bidders pay a premium in addition to the amount of the actual bonds sold. For the \$140M GO issue, the premium is \$14.8M which the City will use to fund additional capital expenditures. The premium for the \$126.7M refunding issue is \$21.4M which is allocated to an escrow account to help pay the bond's annual debt service expenses.

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

## **Positive Factors Benefiting Boston:**

- Substantial and economically diverse tax base well-positioned for growth with medical and educational institutions that act as an economic stimulus
- Under a new Mayor and CFO in 2014, the City maintained sound and conservative fiscal management practices
- Development and redevelopment efforts remain strong throughout the City
- Manageable debt burden with a rapid bond amortization and debt all fixed-rate
- Very strong liquidity with adequate reserve levels to meet budget challenges

#### **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

### **Use of Bond Funds**

Major capital projects to be funded by the \$140M GO bonds issued include:

Johnson BPL Renovation.	\$40.0M
Education	\$30.3M
Roads, bridges and etc.	\$15.5M
Long Island Bridge	\$13.9M
Technology Improv.	\$11.1M
Bolling Municipal Bldg.	\$8.6M
Eliot School in North End	\$7.1M