

March 2017

Boston Sells \$150M of GO Bonds

City's AAA rating was reaffirmed

The City of Boston sold \$150M of General Obligation (GO) bonds on March 7, 2017. The GO bonds sold competitively at a True Interest Cost (TIC) of 2.66%, up from the TIC of 2.26% in 2016. The City received six bids and Citigroup Global Markets Inc. was the successful bidder for the second consecutive year. For the \$150M in principal issued, the City will pay \$52.5M in interest costs over 20 years.

The City's Bond Counsel is Locke Lord LLP and its Financial Advisor is FirstSouthwest, a Division of Hilltop Securities Inc.

Boston showed its strength in the market by the number of bids received and its favorable rating. That week Maryland sold its AAA GO bonds at a TIC of 2.83%.

With the release of the City's master school facilities plan, Boston is expected to increase its GO borrowing over the next several years, but not increase debt service costs beyond its standard of 7% of operating budget. Currently debt service is 5.9% of the FY17 budget.

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 \$150M GO issue, the premium is \$15.7M, of which the City will apply \$15.1M to capital projects.

Factors noted, in the March Moody's and Standard and Poor's credit reports about Boston, the 24th largest city in the nation, are:

Positive Factors Benefiting Boston:

- Large and growing tax base of \$143.9B in FY17 with economic diversity bolstered by significant higher education and healthcare sectors
- Development and redevelopment efforts remain strong with taxable assessed value increasing by 56% over past four years
- Adherence to comprehensive financial policies and practices including tight control over employee headcount
- Strong budgetary performance with operating surpluses over the past 15 years
- Manageable debt burden with a rapid bond amortization and all fixed-rate debt
- Strong liquidity with healthy reserves available for operating flexibility

Constraining Factors Being Watched:

- High personnel-related costs subject to collective bargaining with strong unions
- Sizable long-term unfunded liabilities for pensions and retiree health care (OPEB)
- Uncertainty about future state aid levels, the City's second largest revenue source
- Constraints on increasing property taxes or establishing new revenue streams

Use of Bond Funds

Major capital projects in 2017 and 2018 to be funded by the \$150M GO bonds include:

- Schools - \$44.7M with funds for Dearborn (\$10M) and Eliot (\$12.2M) schools
- Roads and bridges - \$25.5M
- Public Safety - \$28.5M of which \$17M is for police radio system upgrade
- Parks - \$13.7M (Ramsay Park \$1.4M)