

March 2013

Boston's Bond Sale in 2013

Bonds sold at 2.33% on day before Sequestration began, reflecting strong credit rating

The City of Boston sold \$169.2M of bonds on February 28 at excellent interest rates reflecting Boston's strong credit rating. These bonds were sold on the day before Sequestration went into effect and commanded interest rates less than 2.4% aided by Boston's strong standing in the market. The sale involved \$144.9M of General Obligation (GO) Bonds to fund new capital expenditures at a True Interest Cost (TIC) of 2.37%. The City also sold a GO refunding issue of \$24.4M at a TIC of 2.11%. With this bond sale, the two rating agencies of Moody's Investors Service (Aaa) and Standard & Poor's (AA+) reaffirmed their ratings for Boston.

Components of February 28 Bond Sale

\$ in Thousands

Type	Amount	TIC
General Obligation Bonds	\$144,855	2.37%
GO Refunding	24,380	2.11%
Total	\$169,235	2.33%

The 2013 bonds were sold competitively without insurance and each issue received six bids from a mix of nine different firms. Bank of America was the successful bidder for both the GO capital bonds and the GO refunding bonds. For the \$169.2M in principal issued, the City will pay \$64.8M in interest costs.

The \$24.4M issue which refunded bonds issued between 2003 and 2006 with interest rates ranging from 4% to 5% had a TIC of 2.11% and produced a Net Present Value savings of \$1.9M.

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:

- Consistently strong and proactive management through all economic cycles
- Substantial and economically diverse tax base well-positioned for growth
- Manageable debt burden with a rapid bond amortization and debt all fixed-rate with no variable rate debt exposure
- Positive financial performance with adequate reserve levels and flexibility to address future 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
- Exposure to cuts in federal research grants and defense spending

Major Projects

With this bond issue, the City will be able to further advance capital projects such as:

- Dudley Munic. Bldg. \$40.0M
- School Buildings \$24.5M
- Central Maint. Facility \$7.8M
- SBRB Tech. System \$4.6M

With the City's ability to sell GO bonds at low interest rates, the Administration should consider selling a larger bond issue next year to address infrastructure objectives while staying within its debt service standard.