Bureau Update

BOSTON MUNICIPAL RESEARCH BUREAU

March 2011

Boston's Bond Sale in 2011

Boston demonstrates its strength in a challenging market for municipalities

The City of Boston sold $180.5M of bonds on March 16. The sale involved two issues of General Obligation (GO) Bonds to fund new capital expenditures at a combined True Interest Cost (TIC) of 1.94% These two issues include $86.2M of GO Capital Improvement Bonds and $41.6M of ARRA taxable direct payment Qualified School Construction Bonds (QSCBs). The City also sold two GO refunding issues, including $14.4M of Current Refunding Bonds and $38.3M of Convention Center Advance Refunding Bonds. The refunding bonds produced a total net present value (NPV) savings of $7.8M, which will reduce annual debt service costs over the life of the issues.

Components of March 2011 Bond Sale

Dollars in Millions

Type	Amount	TIC
Capital Improvement Bonds	$86.19	3.17%
Qualified School Const.Bonds	41.62	0.02%
Subtotal	$127.81	1.94%
Current Refunding	14.42	1.25%
Convention Center Refunding	38.30	3.22%
Total	$180.53	

The 2011 bonds were sold competitively without insurance and each component received multiple bids.

The Convention Center Refunding Bonds refunded all of the City's $93.5M outstanding 2002 Convention Center Bonds with a combination of $38.3M of bond proceeds and the application of $45M held in the City's Room Occupancy Excise Fund and other available monies. Applying the Excise Fund resources to reduce the amount of refunding bonds issued will further decrease the City's debt service costs going forward. The scheduled debt service for FY12 prior to the refunding was $8.3M but now will be $3.3M, an annual savings of $5.0M.

With this bond sale, the two rating agencies of Moody's Investors Service (Aaa) and Standard & Poor's (AA+) reaffirmed their ratings for Boston. Factors noted about Boston in the Moody's and Standard and Poor's reports are:

Positive factors benefiting Boston:

- Consistently strong and proactive management through all economic cycles
- Substantial and economically diverse tax base
- Manageable debt burden with a rapid bond amortization and debt all fixed-rate with no derivatives
- Positive financial performance with solid reserves

Constraining factors being watched:

- Uncertainty regarding future state aid levels
- High long-term liabilities for pension and health care (OPEB)
- High personnel-related costs subject to collective bargaining
- Constraints on City to increase property tax or establish new revenues

Long-term concern – The continual escalation of employee benefit spending for pensions, health insurance and retiree health care will divert resources away from other basic services without significant reform.