



BOSTON CITY COUNCIL

Committee on Ways and Means
Brian J. Worrell, Chair

One City Hall Square 5th Floor, Boston, MA 02201 ♦ Phone: (617) 635-3040 ♦ city.council@boston.gov

REPORT OF COMMITTEE CHAIR

April 7, 2025

Dear Councilors,

The Committee on Ways and Means was referred the following docket for consideration:

Docket #0590, Message and order authorizing the issuance of refunding bonds in a principal amount not to exceed Three Hundred Fifty Million Dollars (\$350,000,000). The current conditions in the municipal bond market appear to be favorable for the City to potentially realize significant savings in debt service costs by refunding certain of its outstanding general obligation bonds.

This matter was sponsored by Mayor Michelle Wu and referred to the Committee on March 5, 2025.

Summary of Legislation

In 1983, the City Council passed and the Mayor signed a home rule petition to the state legislature that enacted Chapter 643 of the Acts of 1983 of the Commonwealth, known as the Bond Procedure Act of 1983. In 1984, the legislature modified various procedural restrictions related to the City's issuance of indebtedness. Such modifications provide more flexible schedules for repaying debt principal, the issuance of variable rate bonds, term bond, and bonds redeemable at the option of the bondholder and the authorization for the sale of bonds at a discount. The legislation also authorizes the issuance of refinancing bonds. Section 13 of Chapter 643 of the Act authorizes the Collector-Treasurer, with approval of the Mayor, to refinance such portions of outstanding bonds or other obligations of the City.

In order to take advantage of favorable market conditions and reduce interest costs for the City, this order will allow the Collector-Treasurer, with the approval of the Mayor, to issue refinancing bonds in an amount not to exceed \$350,000,000 in order to pay the principal, redemption premium, if any, and interest on the bonds. It also allows the Collector-Treasurer, with approval of the Mayor, to have the refinanced bonds issued as special obligations and authorizes the Collector-Treasurer to execute such documents as may be necessary or desirable to issue and sell the refinanced bonds, including, without limitation, one or more trust or security agreements.

Information Received at Hearing

The Committee held a hearing on Monday, April 7, 2025 to discuss Dockets #0590 and #0724-0725. Ashley Groffenger, Chief Financial Officer, City of Boston, and Jerica Bradley, First Assistant Collector Treasurer, City of Boston testified on behalf of the Administration.

Chief Groffenberger stated Docket #0590 is a request for authorization to refinance up to \$350M of the City's existing debt. She stated the City refinances bonds when there is a proven financial benefit; the most recent refinancing was in December of 2020, when the City refinanced \$91.5M in debt and recouped \$10.5M in debt service savings through Fiscal Year 2034 (approximately \$850K savings in debt service annually). The City is planning to do a General Obligation Bond issuance in mid-May and would like to time the refinancing opportunity with said issuance, in an effort to save funds on the cost of issuance. As



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the date draws closer, the City will finalize how much it intends to reissue depending on market conditions and what is advantageous to the City. Currently, the City has \$200M in existing authorization the Council has already approved; this would add \$350M to that amount, creating a total authorization amount of \$550M. She reiterated this would not be a new bond issuance, rather this would allow the City to restructure existing debt to capitalize on a lower interest rate.

Chief Groffenberger explained the conditions the City looks for when deciding to refinance bonds. When the savings incurred from a bond reissuance is projected to be at least 3% of the net present value of the bonds, the City considers refinancing. Net present value is the total sum of all future payments toward the bond discounted to today's present value (a best approximation of the total cost of the bond). Essentially, the City analyzes the savings possible from a bond reissuance against the value of the bond, capitalizing on the most opportune moments of arbitrage. First Assistant Collector Treasurer stated currently there is more than \$350M in debt (approximately \$368M) that is both callable (able to be paid before the stated maturity date) and over that 3% value, all drawn from different tranches of General Obligation Debt. She stated the City currently has approximately \$1.3B in outstanding debt. This \$350M reissuance would be approximately 30% of the outstanding debt.

Chief Groffenberger stated debt service can not exceed 7% of general fund expenditures; FY25 debt service was \$276M. The smaller the debt service amount, the greater the amount of funds opened up for other operating expenses, including departmental budgets. The City is currently on a 20-year amortization schedule with its debt, making it an outlier amongst other municipalities that tend toward a 30-year amortization schedule. She stated the bonds are used for the purposes outlined in the loan order voted on by the Council.

Chief Groffenberger provided an overview of the bond refinancing process. She stated as the date of refunding gets closer, the City continues to evaluate whether refunding will net savings equal to the aforementioned 3% of net present value of the bonds. The interest rate for these bonds (alongside the normal General Obligation Bonds the City goes to market for) are determined by the market, with banks competing for the best rates. To reissue these bonds, the City essentially borrows the total cost of the bonds, inclusive of principal, interest, and redemption premiums and pays it toward the bonds; importantly, these new borrowed funds have a lower rate of interest, meaning the City will pay less overall across the lifetime of the debt. The market is given notice about 2 weeks before the City goes to market, and the refinancing typically happens within 24 hours of going to market.

Chief Groffenberger stated the savings recouped through this process are not directly redirected toward capital needs, but do slightly decrease the proportion of the operating budget dedicated to debt service.

Councilors and representatives discussed green and social bonds, the City's credit rating, the City's debt repayment policy of rapid repayment, the City's financial statement, the relationship between the federal environment and the City's ability to repay its debt, and the relationship between stock market fluctuations and bond markets, which representatives stated are typically inversely related, indicating when equity markets (stock market) are more volatile there is a flight to bond markets, strengthening the bond market.



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Committee Chair Recommended Action

As Chair of the Committee on Ways and Means, I recommend moving the listed docket from the Committee to the full Council for discussion and formal action. At this time, my recommendation to the full Council will be that this matter **OUGHT TO PASS**.

Brian J. Worrell, Chair
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