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December 28, 2011

City Council President Michael J. Hart

& Members of the City Council

RE: Veto message concerning Adjustment to COLA Base

Dear Mr. President and City Council Members:

I hereby veto document number 57-D passed by the City Council at the December 20, 2011 meeting.

The document passed by the Council is not a cost of living adjustment. It was a change in how future cost of living adjustments are calculated. The document passed by the council was to adopt a new state law changing the method by which future cost of living increases are calculated-- called a change in the COLA (cost of living adjustment) base.

I am sympathetic to this concept. However, it is not clear that we can afford to adopt this new law, at least at this time. Further study is needed before adopting this legislation in any form. If further study changes the numbers, we can revisit this issue.

For now, this step is not sustainable in the long term and we cannot take it, as much as we would all like to do so.

I urge you to sustain this veto and allow me to continue to work with the council and the retirement board on this important issue. During this time, retirees will continue to receive cost of living increases voted by the retirement board. Retirees have received an average of 3% per year cost of living increases over the past several years, and just received a new 3% cost of living increase effective July 1 of this past year. They will continue to receive that. Vetoing this legislation does not affect that cost of living increase: it does affect the manner in which future cost of living increases are calculated.

Background Information

The COLA base adjustment was before the City Council their last meeting. This item came from the Retirement Board not the Mayor's office.

Currently, retirees receive a COLA or cost of living adjustment when voted by the Retirement Board and the Council, based upon a certain base salary. Not every dollar of a pension is subject to a cost of living adjustment, only the first \$12,000 of the pension. This number is called the "COLA base."

The COLA Base adjustment, (hereinafter "COLA adjustment") is the result of local option legislation passed by the Massachusetts legislature. It allows cities and towns to adjust the COLA base upwards from \$12,000. The higher the COLA base, the higher the cost of living adjustment, and the greater the cost to the pension system.

The order which was before the City Council called for increasing the COLA base in yearly increments from \$12,000 to \$15,000 over a period of three years. If a City adopts the new legislation, it is not required to increase the COLA base to the \$15,000 maximum. We are still researching what other cities and towns have done, and will have more information on this at the time of the council hearing or before. From what we are able to ascertain today, it does not appear that many cities have increased their COLA base, and those that have, with a few notable exceptions, have not increased it to \$15,000.

This change to the COLA is not sustainable either this coming year or in the long term.

Cost of Increasing the COLA Base

As you can see from the attached spreadsheet, the cost of adopting this legislation is \$171,533 in next year's budget. We have not set next year's budget, and do not know if this is sustainable or not, but at first glance it appears that it is not. We know that we already face an estimated \$3-\$3.6 million deficit in the upcoming budget. This would add to the deficit. This change to the COLA is not sustainable either this coming year or in the long term.

In two years, the annual yearly cost rises if \$356,000. In three years, the cost rises to \$556,000. In eighteen years, the current actuarial study shows that the annual yearly cost of this

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"adjustment" rises to \$1 million per year. This is a much more significant impact to our budget than many of the items that we have spent months, together, debating and deserves a much more detailed analysis than was presented to the council at the meeting.

Here are the numbers, as we know them today, on the impact on the pension. The total yearly increase column highlighted in yellow, not available to the council in their packet, is the total amount that the pension appropriation must increase each year to meet this change in the COLA base. (These numbers are all actuarial estimates, and could change depending upon the new actuarial study and depending upon the portfolio returns. The last column is the total cost adding

up the appropriations on a year by year basis. Over a twenty year period, the cost of this “adjustment” is a cumulative total of over \$14 million.

| Fiscal Year Ended June 30 | Appropriation from 2010 Valuation Report | Increase to COLA base \$13,000 | Increase to COLA base \$14,000 | Increase to COLA base \$15,000 | Total | Total | |
|---------------------------|--|--------------------------------|--------------------------------|--------------------------------|---------------|-----------------|---------------|
| | | | | | | yearly increase | Cumulative |
| 2011 | \$ 11,322,708 | | | | \$ 11,322,708 | | |
| 2012 | 12,341,752 | | | | 12,341,752 | | |
| 2013 | 13,402,512 | \$ 171,533 | | | 13,574,045 | \$ 171,533 | |
| 2014 | 14,065,903 | 178,394 | \$ 177,613 | | 14,421,910 | \$ 356,007 | \$ 527,540 |
| 2015 | 14,737,072 | 185,693 | 184,881 | \$ 184,470 | 15,292,116 | \$ 555,044 | \$ 1,082,584 |
| 2016 | 15,423,405 | 193,291 | 192,446 | 192,019 | 16,001,161 | \$ 577,756 | \$ 1,660,340 |
| 2017 | 16,127,761 | 201,200 | 200,322 | 199,877 | 16,729,160 | \$ 601,399 | \$ 2,261,739 |
| 2018 | 16,851,986 | 209,434 | 208,521 | 208,058 | 17,477,999 | \$ 626,013 | \$ 2,887,752 |
| 2019 | 17,539,619 | 218,006 | 217,056 | 216,575 | 18,191,256 | \$ 651,637 | \$ 3,539,389 |
| 2020 | 18,255,368 | 226,929 | 225,941 | 225,441 | 18,933,679 | \$ 678,311 | \$ 4,217,700 |
| 2021 | 19,000,384 | 236,219 | 235,191 | 234,671 | 19,706,465 | \$ 706,081 | \$ 4,923,781 |
| 2022 | 19,775,866 | 245,889 | 244,820 | 244,280 | 20,510,855 | \$ 734,989 | \$ 5,658,770 |
| 2023 | 20,583,062 | 255,956 | 254,845 | 254,282 | 21,348,145 | \$ 765,083 | \$ 6,423,853 |
| 2024 | 21,423,275 | 266,437 | 265,281 | 264,696 | 22,219,689 | \$ 796,414 | \$ 7,220,267 |
| 2025 | 22,297,855 | 277,347 | 276,145 | 275,537 | 23,126,884 | \$ 829,029 | \$ 8,049,296 |
| 2026 | 23,208,214 | 288,706 | 287,455 | 286,823 | 24,071,198 | \$ 862,984 | \$ 8,912,280 |
| 2027 | 24,155,817 | 300,530 | 299,230 | 298,572 | 25,054,149 | \$ 898,332 | \$ 9,810,612 |
| 2028 | 25,142,193 | 312,840 | 311,488 | 310,804 | 26,077,325 | \$ 935,132 | \$ 10,745,744 |
| 2029 | 26,168,927 | 325,655 | 324,249 | 323,537 | 27,142,368 | \$ 973,441 | \$ 11,719,185 |
| 2030 | 27,237,680 | 338,997 | 337,534 | 336,794 | 28,251,005 | \$ 1,013,325 | \$ 12,732,510 |
| 2031 | 28,350,173 | 352,886 | 351,365 | 350,596 | 29,405,020 | \$ 1,054,847 | \$ 13,787,357 |
| 2032 | 29,508,199 | 367,346 | 365,764 | 364,964 | 30,606,273 | \$ 1,098,074 | \$ 14,885,431 |

Our Responsibility to Maintain a Fiscally Stable Pension Plan

I agree with the sentiment that we need to take care of our retirees. Retirees will continue to receive cost of living increases as voted by the Retirement Board, and this veto does not change that.

The most important thing we can do for retirees is to make certain that the retiree and pension plan is fiscally stable. Adding \$14 million in costs to the pension system, and increasing the yearly assessment by up to \$1 million per year will jeopardize our ability to provide our retirees with what they deserve: a stable pension system for the foreseeable future.

“The most important thing we can do for the retiree is to make certain that the retiree and pension plan is fiscally stable.”

Previous years' Cost of Living Increases Granted to Retirees

| Year | Base | % Cost of Living Increase |
|------|-------|---------------------------|
| 1971 | 6000 | |
| 1981 | 7000 | |
| 1985 | 8000 | |
| 1986 | 9000 | |
| 1987 | 9000 | 3% |
| 1988 | 9000 | 4% |
| 1989 | 9000 | 0% |
| 1990 | 9000 | 0% |
| 1991 | 9000 | 0% |
| 1992 | 9000 | 5% |
| 1993 | 9000 | 0% |
| 1994 | 9000 | 3% |
| 1995 | 9000 | 0% |
| 1996 | 9000 | 3% |
| 1997 | 9000 | 0% |
| 1998 | 12000 | 2.1% |
| 1999 | 12000 | 3% |
| 2000 | 12000 | 3% |
| 2001 | 12000 | 3% |
| 2002 | 12000 | 3% |
| 2003 | 12000 | 3% |
| 2004 | 12000 | 3% |
| 2005 | 12000 | 3% |
| 2006 | 12000 | 3% |
| 2007 | 12000 | 3% |
| 2008 | 12000 | 3% |
| 2009 | 12000 | 3% |
| 2010 | 12000 | 3% |
| 2011 | 12000 | 3% |
| 2012 | 12000 | 3% July |

**Total yearly
increase**

| Fiscal Year Ended June 30 | Appropriation from 2010 Valuation Report | Increase COLA base to \$13,000 | Increase COLA base to \$14,000 | Increase COLA base to \$15,000 | Total | | Cumulative |
|----------------------------------|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------|--------------|-------------------|
| 2011 | \$ 11,322,708 | | | | \$ 11,322,708 | | |
| 2012 | 12,341,752 | | | | 12,341,752 | | |
| 2013 | 13,402,512 | \$ 171,533 | | | 13,574,045 | \$ 171,533 | |
| 2014 | 14,065,903 | 178,394 | \$ 177,613 | | 14,421,910 | \$ 356,007 | \$ 527,540 |
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| 2023 | 20,583,062 | 255,956 | 254,845 | 254,282 | 21,348,145 | \$ 765,083 | \$ 6,423,853 |
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| 2032 | 29,508,199 | 367,346 | 365,764 | 364,964 | 30,606,273 | \$ 1,098,074 | \$ 14,885,431 |

The Retirement Board member who as at the Council meeting indicated that the actuarial study which was attached to the council minutes did not include the results of the recent pension reform law. I agree with him on this issue. That new law may lower the long term costs of this legislation, but more study is needed to determine that.

I suggest to the Council, and will suggest to the Retirement Board, that a new actuarial study be done showing the cost once the pension reform bill is taken into effect. The actuary hired by the retirement board to do the initial study indicated that sometime next year they will be better able to determine the effects of the new pension reform law. This matter can be reconsidered once we know the true cost.

Respectfully submitted,



James J. Fiorentini, Mayor

IN CITY COUNCIL: January 3 2012

On motion of Councillor Hart to postpone to January 10 2012

MOTION PASSED and

POSTPONE TO JANUARY 10 2012

Attest:

City Clerk