

August 2012

Short Notes on Two Boston Issues

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Fitch bond rating increase and City Council COLA vote

Fitch Increases Boston's Bond Rating

Fitch Ratings increased its bond rating for Boston's General Obligation (GO) bonds from AA+ to AAA on July 24, 2012. For the City's [bond sale on March 14, 2012](#) Moody's Investors Service reaffirmed its bond rating of Aaa and Standard & Poor's reaffirmed its rating of AA+. Fitch Ratings has not rated Boston's annual bond issues since 2008 so this rating upgrade applied to the \$502M in outstanding GO bonds previously rated.

Rating drivers that influenced Fitch's upgrade decision included:

- The Administration's continued strong financial performance and prudent budget practices
- Low debt levels with above average debt amortization
- Recurring revenue growth and rebound of excise tax revenues
- "Notable efforts" to address its large employee benefit liabilities for pensions and retiree health insurance (OPEB)

Fitch did identify fiscal pressures facing the City of rising health insurance costs, still unsettled union contracts and a new BPS bus contract in FY14. The report noted that the City's planned increase in the pension COLA base "runs counter to many pension plans' efforts to reduce the cost to employers" and that it will add \$21M to the City's unfunded pension liability.

City Council Approves COLA Increase

The City Council, at its meeting on August 1, approved the increase in the pension base to determine cost of living adjustments (COLA) for retirees from \$12,000 to \$13,000. The COLA had been established at 3% of the first \$12,000 of a retiree's pension. The base increase was requested by the Retirement Board and approved by the Mayor.

The City's FY13 budget was increased by \$2.1M to pay for the added FY13 COLA cost when the City Council approved the budget in June. The Council waited until August 1 to authorize the increase. The COLA vote was not on the Council's meeting agenda nor did the Council temporarily adjourn its meeting to convene a hearing of the Committee of the Whole for public comment, which is the normal practice when a proposal is placed in this committee as the COLA request was.

The City's unfunded pension liability is \$1.3B as of January 1, 2011. Increasing the COLA base to \$13,000 will increase Boston's pension liability by \$21.4M by 2025. Increasing the COLA base to \$15,000 was described as "affordable" by one Councilor, but that would have increased the pension liability by \$63M. The Research Bureau [recommended](#) previously that the COLA base stay at \$12,000 to help ensure that the City would remain on schedule to reach full funding of its pension liability by 2025.