



CITY OF HOUSTON

Sylvester Turner

Mayor

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March 17, 2023

The Honorable Giovanni Capriglione
Chairman, House Committee on Pensions, Investments & Financial Services
P.O. Box 2919
Austin, TX 78768

Re: Opposing House Bill 3340

Dear Chairman Capriglione and Members of the Committee,

The City of Houston would like to over the following information as the committee contemplates legislation that would substantially change the parameters laid out in Senate Bill 2190 passed in the 85th Legislature.

On January 31st, the *Houston Chronicle* reported on the progress made since the reforms passed, interviewing multiple experts and business community leaders. Their conclusion offered unmistakable clarity:

Now, nearly six years after Mayor Sylvester Turner shepherded a package of reforms through the Texas Legislature and the ballot box, the city's pension systems face a far brighter future, according to business leaders, financial analysts and City Hall officials.

This is a shared success: every member of this committee that was in the 85th Legislature voted in favor of that landmark legislation. However, House Bill 3340 seeks to undo major components of those pension reforms put into place by SB2190.

First, the numbers show this reform package has placed Houston's three pension plans on firm financial footing. That legislation ended decades of "kicking the can down the road".

The 85th Legislature put guardrails in place to ensure the plans would be fully funded while holding the City accountable to contribute the full actuarially determined contribution every year, all while controlling costs for Houston taxpayers and providing a sustainable benefit package to hard working fire, police, and municipal employees.

Net Pension Liability (NPL) – The historic Pension Reform reduced the City's NPL in half (from \$8.21B to \$4.03B) in FY18. Even with volatile markets the past few years, the NPL in FY22 stood at just \$2.19B.

Net Pension Liability/(Asset)				
(\$ billions)	Municipal	Police	Fire	Total
Fiscal Year 2018 Liability Without Reform	3.18	3.44	1.59	8.21
Fiscal Year 2018 Liability Post-Reform	2.12	1.26	0.64	4.03
Fiscal Year 2019	2.14	1.25	0.69	4.07
Fiscal Year 2020	2.45	1.51	0.98	4.94
Fiscal Year 2021	1.57	0.21	(0.29)	1.49
Fiscal Year 2022	1.60	0.72	(0.13)	2.19

Funded Ratio – The Funded Ratios have consistently improved since the reform. The funded ratio has kept steady and even increased in FY22. This is partially due to the carryover from exceptionally great returns from previous fiscal year (FY21) and consistent contributions from the City—largely due to the corridor mechanism built into pension reforms—bolstering the funded status of the plans.

Funded Ratio			
Fiscal Year	Municipal	Police	Fire
2017	56%	78%	80%
2018	58%	79%	81%
2019	59%	82%	83%
2020	59%	82%	86%
2021	63%	85%	93%
2022	66%	88%	95%

Note: Funded Ratio above is calculated based on Actuarial value of Assets and not the Fair Value of Assets. Funded Ratio based on Fair value of Assets may be lower or higher than that stated in table above.

Secondly, increasing benefits now would jeopardize the gains that SB2190 solidified. In fact, the pension reform legislation contemplated just that. State statute already has provisions in place that would allow the City and the plans to work together on a sustainable and affordable enhancement of benefits, but only once the plans were fully funded—reaching a level of 100% funded.ⁱ As you can see in the table above, we are making progress, but are not there yet.

As the numbers reflect, the pensions are more well-funded than they were pre-reform, ensuring that a pension check will be there to support our retirees that have dedicated their careers to serving Houstonians. Passage of HB3340 seeks to undo much of those reforms and jeopardizes the financial health of the plans.

As always, happy to provide any additional information to Members upon request.

Bill Kelly
 Director of Government Relations
 Mayor's Office, City of Houston

ⁱ Art. 6243e.2(1), Sec. 13 E. (d)(2) and Art. 6243g-4, Sec. 9D. (d)(2)