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Houston pension reform bill passes Senate by wide margin

Landmark reforms earn Senate's OK, edge closer to fixing city's fiscal woes

By Mike Morris

Houston's pension reform package breezed through the state Senate Monday afternoon, setting up a Saturday vote in the Texas House that could put the city inches away from solving a fiscal crisis that officials long have warned could threaten the city's solvency and force the layoffs of hundreds of employees.

Mayor Sylvester Turner cheered the 25-5 vote, made possible because a threatened political blockade dissolved, giving the landmark proposal a speedy passage.

"Today, the Senate approved a locally developed and agreed-to solution that will place the city of Houston on a sustainable financial path," said Turner, who was a state representative for 26 years. "The Senate has listened to the will of stakeholders in Houston. We now move forward to the House of Representatives, where I have full confidence my former colleagues will follow suit."

Sen. Paul Bettencourt, R-Houston, had planned to offer a controversial amendment to allow voters to impose 401(k)-style "defined contribution" plans on future city employees, which worker groups view as insufficient.

He stood down, however, and praised the final version of Sen. Joan Huffman's bill, thanks to a compromise negotiated among business groups, city leaders and pension officials over the weekend that added a pathway to "cash balance" plans, a less generous type of pension plan.

"The bill is better for taxpayers and for citizens and it recognizes the obvious: That if you don't see the (investment) performance, that everyone recognizes we have to get to a different plan," Bettencourt said, noting that Harris County uses cash balance plans.

Representatives of the police pension fund and the department's union were on hand to cheer the bill's passage, and Greater Houston Partnership leaders sent a letter to senators Monday morning urging a positive vote on the measure. Municipal pension officials also remained on board with the bill.

Fire pension Chairman David Keller, whose members have been the primary source of opposition to the reforms, said he was disappointed by the Senate vote, calling the bill "punitive" toward firefighters. His group's social media pages lit up with outraged firefighters and their supporters.

Keller chiefly criticized a mechanism the city negotiated to cap its future costs called the "corridor," which would force further benefit cuts for workers in the event of a market downturn.

"The Legislature should not give its stamp of approval to a complex and untried measure," Keller said.

'A lot of angst about this bill'

Huffman acknowledged on the Senate floor that there had been "a lot of angst about this bill," but said the reforms simply needed to advance.

"Passage of this pension reform plan is critical to the city, to Houston taxpayers and to the long-term sustainability of the three pension systems," Huffman said. "I hope the voters will vote in November to allow the city to issue the bonds so that the reforms can all take place."

The legislation would require a referendum on the \$1 billion in bonds Turner plans to inject into the under-funded police and municipal pensions, cash that also was used to bring those groups to the negotiating table for additional rounds of benefit cuts since Houston's pension crisis began in the early 2000s. If the referendum fails, the bill would reverse the groups' benefit cuts.

Lt. Gov. Dan Patrick congratulated Huffman after the vote, saying he could not recall "a more challenging bill" in his 11 years in the Senate. Nearly half of Huffman's colleagues also approached her desk after the vote, as she waved to supporters in the galleries above the Senate floor.

Senators Donna Campbell, Bob Hall, Van Taylor, Brandon Creighton and Lois Kolkhorst, all Republicans, voted no. Sen. Sylvia Garcia, D-Houston, abstained, saying she - as a Houston municipal retiree - was concerned about the appearance of a conflict of interest.

The House version of the legislation is being carried by Pensions Committee chair Rep. Dan Flynn, R-Van, and is scheduled for a vote Saturday.

Sen. John Whitmire, D-Houston, said he wished the measure had achieved unanimity among workers, but backed the measure.

"Though occasionally it got off the path, having been in the Legislature a number of years, it worked about as good as it can," Whitmire said. "This was a strong vote, bipartisan."

'Substantial improvement'

Arnold Foundation pension expert Josh McGee, who also chairs the state Pension Review Board, has praised the reform package for thoroughly reforming the city's existing pension system, and cheered the cash balance "trigger" for addressing future benefits.

In a cash balance plan, the city and the worker both contribute to an individual account which is credited with a guaranteed minimum interest rate annually. Huffman's bill caps that rate at each pension fund's average returns for the prior five years. In a bull market, the plan can be designed to let employees recognize all or a portion of the gains above that minimum guarantee, while the pension fund saves a portion to prepare for a future downturn.

"There's a pathway to get to a simpler, easier to manage system," McGee said. "That's a substantial improvement on what was already a pretty good bill."

The trigger works like this: If the police and fire pension funds have less than 65 percent of the assets needed to pay benefits in September 2021, new hires will be placed into a cash balance plan. Similar wording is in place for the municipal plan, which has until September 2027 to improve its funding level to 60 percent or activate the trigger.

Both public safety plans, if the reforms pass, will be well above that 65 percent mark and would need to miss their investment targets repeatedly to trip the trigger. Projections show the poorly funded municipal pension, however, will improve its position to the required point within a decade only if all its assumptions, including its target investment return of 7 percent, hold true.

"The cash balance is a tried and true method of administering pension benefits. It works," Huffman said. "And we set enough parameters in the language that the basic structure is there."