THE BOND BUYER

The Latest (1/5)

Texas Senate bill spells relief for Houston pension funds

By Richard Williamson
Published May 02 2017, 3:36pm EDT

More in Public pensions,Pension obligation bond,Texas

DALLAS – Houston Mayor Sylvester Turner applauded the Texas Senate for passing legislation that relieves pressure on the city's troubled pension plans.

"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 member of the Texas House before his election as mayor.

"We now move forward to the House of Representatives, where I have full confidence my former colleagues will follow suit," Houston Mayor Sylvester Turner said after the state Senate passed the Houston pension relief bill.

Senate Bill 2190, known as the Houston Pension Solution, will immediately reduce the City's $8.2 billion unfunded liability through future benefit reductions, Turner said.

If the bill passes the House and is signed into law by Gov. Greg Abbott, Houston plans to issue $1 billion of pension obligation bonds to sharply reduce the $8.2 billion unfunded liability.

Under the plan, which utilizes an adjusted 7% rate of return on investments instead of the previous 8%, the city will be required to meet its annual contribution until the unfunded liability is fully paid off in 30 years. The plan uses a so-called "corridor concept" controls costs for the city.

"Without this reform, the city might head toward bankruptcy," said the bill's sponsor, Sen. Joan Huffman, R-Houston.

"There is no doubt that Senate Bill 2190 represents meaningful progress towards establishing a fair and sustainable solution to the City of Houston's pension problem," said Huffman in a prepared statement. "It ensures that taxpayers will not have to absorb future pension costs while protecting the city from a spiral of debt and a full-scale financial crisis."

Houston's growing pension obligations resulted in downgrades from S&P Global Ratings and Moody's Investors Service in 2016. S&P retained a negative outlook on its AA rating, as did Moody's on its Aa3.

The new pension plan has the support of two of the three pension system boards, city council and the Greater Houston Partnership. More than 50 chief executives and Houston business leaders sent a letter of support to Lt. Gov. Dan Patrick, who agreed to back the legislation.

“This has been one of the most challenging pieces of legislation to pass in my 10 years in public office because there are so many stakeholders,” Patrick said. “However, in the end, the vast majority of those stakeholders agreed this is the best way forward.”

The House is scheduled to vote on House Bill 43, SB 2190’s companion, on Saturday, May 6. The bill is authored by Rep. Dan Flynn, chair of the House Pensions Committee. The bill passed that committee last month on a 6-1 vote.

“We now move forward to the House of Representatives, where I have full confidence my former colleagues will follow suit,” Turner said.

Critics of the bill say that the city’s defined benefits plan should have been converted to a defined contribution plan such as a 401(k).

However, an actuarial analysis commissioned by John Lawson, the executive director of the police pension, reported that closing the city’s traditional pension system and placing new hires into a 401(k)-style plan would be costlier by $875 million over the next 50 years than the existing plan.

As a defined contribution plan, the fund would need a more conservative investment approach because fewer workers would contribute over time and more money would go to pay benefits. Lower investment returns would mean the city would have to contribute more revenue.

A less conservative approach could lead the fund to run out of money in 2058 with 2,900 beneficiaries to support, Lawson said.

“The concerns with Sen. Huffman’s bill regarding police pensions have all been addressed to our satisfaction,” said Ray Hunt, President of the Houston Police Officers Union. “We applaud Sen. Huffman and her colleagues who voted yes along with the lieutenant governor for staying the course to get this important legislation passed in the Senate.”

Richard Williamson

More from this Author

Lawrence, Kan., debuts investor site ahead of $14.5M sale

Houston district’s $838 million school bond sale comes amid finance challenges

Holloran moves from S&P to Fitch