

City of Houston Resolution No. 2016-_____

A RESOLUTION IN SUPPORT OF THE CITY’S PLAN TO REFORM THE CITY’S THREE PENSION SYSTEMS, THE HOUSTON POLICE OFFICERS’ PENSION SYSTEM (“HPOPS”), THE HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM (“HMEPS”), AND THE HOUSTON FIREFIGHTERS’ RELIEF AND RETIREMENT FUND (“HFRRF”), TO ENSURE LONG-TERM, SECURE, AND DEPENDABLE RETIREMENT SYSTEMS; CONTAINING FINDINGS AND OTHER PROVISIONS RELATING TO THE FOREGOING SUBJECT.

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WHEREAS, cost increases required to support the City’s three pension systems since the early 2000s are not sustainable and have threatened the benefits provided by these systems; and

WHEREAS, the City’s fiscal circumstances are challenged by population growth increasing service demands, cost increases, property tax revenue limitations, and unfunded pension liabilities; and

WHEREAS, the City participates in three pension systems: the Houston Police Officers’ Pension System (“HPOPS”), the Houston Municipal Employees Pension System (“HMEPS”), and the Houston Firefighters’ Relief and Retirement Fund (“HFRRF”) (collectively the “Pensions”); and

WHEREAS, the City’s total unfunded pension liability has increased substantially and will continue increasing without pension reform; and

WHEREAS, Wall Street has taken notice of the City’s pension liability issues as illustrated by credit agencies expressing concerns about the City’s mounting pension debt and downgrading the City’s credit rating; and

WHEREAS, if the City does not reach a long-term pension solution, the City would face massive layoffs, service reductions, and leave the Pensions with a questionable future; and

WHEREAS, it is critical that the City implement a long-term strategy to address the City’s pension challenges, reduce the City’s long-term pension obligations, achieve immediate and future cost avoidance, and ensure secure, dependable Pensions for the City’s present and future retirees; and

WHEREAS, the City’s long-term pension strategy (the “City’s Pension Reform Plan”) encompasses the following points:

- 1) Creation of a sustainable defined benefit pension plan that employees and taxpayers can rely upon;

- 2) Reduction in the City's net pension liability now and in the future;
- 3) Achievement of cost avoidance and budget neutrality now and in the future;
- 4) Utilization of closed 30-year amortization period that sets a clear schedule and hard date for payoff;
- 5) Reduction of the assumed rate of return to 7% to reduce risk and better reflect likely market performance consistent with nationwide trends;
- 6) Full payment of the City's annual actuarially determined City Contribution Rate;
- 7) Recognition of all gains and losses as of June 30, 2016;
- 8) The issuance of pension obligation bonds in order to provide \$1B of funding to HPOPS (\$750M) and HMEPS (\$250M) to address past city underfunding of these systems;
- 9) A new risk-sharing cost-management component that requires costs to stay within a specified "corridor" and requires changes to benefits and/or contributions if the City's costs go too high or too low; and
- 10) Processes to enable the City and the Pensions to share information, such as information used in connection with assessing financial assumptions, performing actuarial studies, and other actuarial purposes; and

WHEREAS, the City's Pension Reform Plan will immediately decrease the City's current unfunded pension liability by approximately \$2.5 billion while achieving the City's goals of eventually eliminating the City's unfunded pension liability and fully funding the Pensions; and

WHEREAS, the City's Pension Reform Plan includes changes to employee contributions and benefits and significant adjustments to Cost of Living Adjustments (COLAs) and the Deferred Retirement Option Program (DROP), as well as plan-specific changes crafted by each pension system that will reduce each system's individual portion of the unfunded liability; and

WHEREAS, the components of the City's Pension Reform Plan specific to HMEPS are further described in Attachment A; and

WHEREAS, the components of the City's Pension Reform Plan specific to HPOPS are further described in Attachment B; and

WHEREAS, the components of the City's Pension Reform Plan specific to HFRRF are further described in Attachment C; and

WHEREAS, the City and the Pensions have worked towards finalizing the City's Pension Reform Plan for submission to the Texas Legislature for its consideration during the 2017 session; **NOW THEREFORE**,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF HOUSTON, TEXAS:

Section 1. That the findings contained in the preamble of this Resolution are determined to be true and correct and are hereby adopted as part of this Resolution.

Section 2. That the City Council of the City of Houston formally declares its support for, and the City's efforts to implement, the City's Pension Reform Plan.

Section 3. That the City Council of the City of Houston encourages the Texas Legislature to support the City's Pension Reform Plan.

Section 4. That this Resolution shall take effect immediately upon its passage and approval by the Mayor; however, in the event that the Mayor fails to sign this Resolution within five days after its passage and adoption, it shall take effect in accordance with Article VI, Section 6, Houston City Charter.

PASSED AND APPROVED this _____ day of _____, 2016

ADOPTED this _____ day of _____, 2016

Mayor of the City of Houston, Texas

Pursuant to Article VI, Section 6, Houston City Charter, the effective date of the foregoing Resolution is _____, 2016.

Anna Russell, City Secretary

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Requested by: Kelly Dowe, Finance Director
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