



May 1, 2017

The Honorable Dan Patrick
Texas Senate
2E.13
Austin, TX 78711

Dear Governor Patrick,

We are writing today on behalf of the Greater Houston Partnership and the business community to urge immediate consideration of CSSB 2190, the pension reform proposal being developed by Senate State Affairs Committee Chairman Joan Huffman. Municipal pension funding challenges exist throughout America, and the biggest municipalities tend to have the biggest challenges. According to Moody's Investors Service, pension debt for the 50 largest local governments totals \$367 billion. The City of Houston is currently no exception; its general obligation debt rating was downgraded by both Moody's and Standard and Poor's in 2016. Both agencies maintained a "negative" outlook, and both cited the city's pension expenses as a major contributing factor.

What distinguishes Houston, however, is that we have a plan to address our challenges. This plan, while not perfect, represents a level of agreement on positive reforms that sets us apart from any other city in the country and contains essential elements which are in keeping with some of the most successful reform plans across the country.

The developing bill provides benefits for retirees, the city and taxpayers. The bill would improve actuarial and financial assumptions, including lowering the long-term assumed rate of return on investments from 8.5% or 8% to a more realistic 7.0%. The bill would immediately address the elevated level of pension debt with at least \$2.5 billion in future benefit adjustments and \$1 billion in pension obligation bonds. Going forward, there would be a requirement for full annual funding, and the existing pension debt would be paid off over 30 years via a closed amortization schedule. The bill would also limit the city's liability and place it on a sustainable path through the new risk management corridor. We commend Senator Huffman for taking steps to ensure the corridor is as airtight and enforceable as possible.

We also commend you, Chairman Huffman, Mayor Turner and the representatives from all three retirement plans for agreeing to include an additional failsafe provision to the bill, which would offer a cash balance plan to new employees if the retirement plans do not maintain certain funding levels in future years.

The measured, comprehensive approach represented by CSSB 2190, including all stakeholders in the solution, will further establish the City and our State as role models among our peers, proving that governance can still work even when addressing tough issues like pensions.

Thank you for your leadership. We believe making Houston’s pension reform bill a top priority this legislative session is critical to ensure the continued prosperity of the region and the State.

Sincerely,

Jeff Shellebarger
Chairman of the Board
Greater Houston Partnership

Bob Harvey
President & CEO
Greater Houston Partnership

Marc Watts
Chairman, Municipal Finance
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cc: Senate State Affairs Committee Chairman Joan Huffman
Members of the Texas Senate