

BILL ANALYSIS

C.S.H.B. 1473
By: Wong
Urban Affairs
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The Houston Pension Board is charged with overseeing the Houston Municipal Employees Pension System which provides the benefits afforded to the employees and officers of the City of Houston (Houston police officers and Houston firefighters maintain a separate pension fund). In the Spring of 2004, the city discovered that changes made to the authorizing legislation during the 77th Legislative Session caused an estimated \$2.7 billion "unfunded liability." The Pension Board is often hampered by a lack of expertise in the issues before the board as well as heavy political pressure from the governing body despite a need for the board to make impartial decisions.

C.S.H.B. 1473 changes the composition of pension boards in the City of Houston to remove undue impartiality and influence that board members may face and to bring greater financial experience and expertise to the pension board.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

Amends Section 2, Chapter 88, Acts of the 77th Texas Legislature, Regular Session, 2001 (Article 6243h, Vernon's Texas Civil Statutes) by amending Subsections (c), (d), (e), (h), (j), (n), and (p) and by adding Subsections (c-1), (c-2), (j-1), and (n-1) to change the composition of pension boards in municipalities with greater than 1.5 million citizens.

Subsection (c) is amended to include on a pension board:

- 1 Employee of a city's financial division
- 1 Actuary
- 2 Municipal employees who are members of the pension system
- 2 Retirees with at least 5 years in the pension system who are not officers or employees of the city
- 1 Citizen who is a resident of Texas for at least 3 years, does not work for the city and who is not related to any city officer or employee, who is a registered voter of the city, and is not a member of the pension system or related to any member of the pension system
- 2 Registered investment advisors

The bill specifies that the employee of a city's financial division shall be a mayoral appointee and that the actuary must be appointed by a majority vote of the city council and must be selected from at least 2 actuaries nominated by the city's actuarial association.

The bill specifies that the municipal employee appointees may not be employees of the same department and requires that retiree trustees serve staggered four-year terms and by adding the proviso that the registered investment advisors are appointed by the city council. In addition, the city's association of registered investment advisors shall nominate at least four registered investment advisors, from which the city will choose two.

The bill requires that the pension board shall adopt a rule requiring that a citizen trustee shall have a background in finance, that one of the registered investment advisors shall be appointed

by the trustees to be the treasurer of the fund and that this person is required to file an official bond and is liable on the bond for the faithful performance of duties.

The bill specifies that trustees shall serve staggered three-year terms, and that trustees may not serve more than four consecutive terms and that the chair of the board may not serve in that capacity for more than two consecutive terms.

The term of office for any person serving on a pension board covered by this Act on December 31, 2005 expires on January 1, 2006. The pension board and the city council will then appoint trustees and the pension board will then hold an election as soon as practicable. The newly elected or appointed trustees will then draw lots to determine length of their terms.

EFFECTIVE DATE

This Act takes effect September 1, 2005.

COMPARISON OF ORIGINAL TO SUBSTITUTE

Subsection (c-2) in the substitute does not require that a city's actuarial association nominate actuaries. Instead, it provides that a committee of three city council members, to be appointed by the majority of city council, will select the actuary. Subsections (1) and (2) are added in the substitute and provide that the trustee shall submit quarterly reports to city council or meet quarterly with the city council.

Subsection (c-3) is added by the substitute and provides that a majority of city council may remove a trustee and that a vacancy for the actuarial position shall be filled by city council.

Subsection (h) in the substitute does not require that a city's association of registered investment advisors nominate the registered investment advisors. Instead, it provides that a committee of three city council members, to be appointed by a majority of city council, will select the registered investment advisors. Subsections (1) and (2) are added in the substitute and provide that the trustee shall submit quarterly reports to city council or meet quarterly with the council.

Subsection (h-1) is added by the substitute and provides that a majority of city council may remove a trustee and that a vacancy for a registered investment advisor position shall be filled by city council.