Houston Is Not Detroit - A Tale of Two Cities - July 29, 2013

In light of the City of Detroit's unfortunate filing for bankruptcy recently, some have asked if such a troubling event could occur with the City of Houston. The answer is almost certainly no. Indeed, a comparison of Detroit and Houston reveals two cities headed in opposite directions.

Detroit is, sadly, in decline, while Houston is ascending.

In 1950, Detroit was the fifth-largest city in America, with a population of nearly 2 million. Back then, Houston was the 14th largest city, home to about 600,000. Fast forward to 2012, and the cities' positions have essentially switched places. Houston is now our nation's fourth-largest city, with about 2.2 million residents, while Detroit's population has declined dramatically to less than 700,000, and now ranks only 18th in size.

Detroit's collapse is well documented, caused by a complex series of events stretching over decades. The Motor City's economy, based largely on the long troubled automotive industry, has been in rough shape for many years. Economic difficulties and significant movement by residents to Detroit's suburbs exacerbated the population decline, which decimated the city's tax base and left far less revenue than needed to meet its obligations. While public employee pensions are among Detroit's debts (about $3.5 billion), they account for less than 20 percent of the city's estimated $18-20 billion total shortfall.

Houston, on the other hand, is hot. The Bayou City leads the nation in job growth and has become the national media's feel-good economic story. The booming energy sector is a large part of this story. But Houston's growth is more broadly diversified than in decades past, providing greater economic stability. Our population and tax base are growing and our relatively low cost of living makes Houston a popular destination city for job-seekers and businesses alike.

Houston is primed for continued success in no small part due to its relative fiscal health. Contrary to what many were forecasting just a couple of years ago, the City's fiscal situation has dramatically improved. The City Council recently passed a budget that restores city services to pre-recession levels without raising taxes. Over the last several years, the Houston Municipal Employees Pension System (HMEPS) has worked proactively with the City to reform and strengthen the municipal pension plan.

Nearly a decade ago, long before the current outcry over public pensions, HMEPS worked with the City through the Meet & Confer process created by the Texas Legislature to make tough choices to sustain the pension system for the long term. A series of substantial reforms, including raising the retirement age, reducing benefits, and increasing employee contributions, significantly reduced the City's funding obligations to HMEPS.

Further amendments to the Meet & Confer agreement gave the City the flexibility to weather the recent economic downturn, and established a contribution schedule to further lower liabilities. The revisions in the City's pension contribution schedule were made with City leaders' full understanding that delaying certain payments to HMEPS would lead to predictably higher payments in the future and that it would take more time for the City to eliminate the remaining underfunding. A prudent investment strategy has yielded HMEPS 10- and 30-year returns in excess of its 8.5 percent target and the return for fiscal year 2013 is over 12 percent. Over time, the City's required contribution schedule, coupled with the system's highly professional management, will lead to full funding of HMEPS.

Unfortunately, Detroit is in the worst of times. In Houston, we continue to move toward a brighter future. On behalf of our 25,000+ active, retiree and survivor participants, HMEPS is working to help make sure the best of times in Houston is yet to come.

Sincerely,

Sherry Mose
Chairman