

Notice to Participants About Meet and Confer Negotiations

The Houston Chronicle ran a front page article (May 14, 2007) saying the City of Houston will not meet its full funding obligation to HMEPS. We want to give you background about this issue, assure you we have been trying to meet with City officials to properly resolve the funding issue, and let you know we are hoping Mayor White will open negotiations.

HMEPS currently has a Meet and Confer Agreement with the City, which was signed in September 2004 and amended three times. The Agreement addresses several pension matters, including plan benefits and funding. The funding provisions regarding the City's required contributions expire June 30, 2007. At that time, the City must make its required contributions as determined by actuarial valuation in accordance with the pension statute, Art. 6243h, Tex. Rev. Civ. Stats. Ann. HMEPS provided the City the actuarial valuation as of June 30, 2006, which requires contributions of 24.63% of payroll. This actuarially determined City contribution rate for FY2008 is less than the rate that was projected by the HMEPS actuary and provided to the City during the 2004 meet and confer process. In fact, the dollar amount of the City's required contribution is over \$5 million less than what was expected for the City to contribute beginning July 1, 2007. The contribution amount is also right in line with the estimates in the HMEPS actuarial valuation as of July 1, 2005. Both valuations are available on the HMEPS web site at www.hmeeps.org/Publications.

In addition, over the past two and a half years, HMEPS has consistently advised Mayor White, the City Council Pension Review Committee and other City representatives about the need to focus on the City's funding plan for HMEPS beginning July 1, 2007. HMEPS sent letters to Mayor White on December 5, 2006 and March 1, 2007, notifying the Mayor that HMEPS was willing and prepared to meet and confer regarding the City's plans to fund the required contributions beginning July 1, 2007. HMEPS has not received a response from Mayor White, nor has a designated City representative met to negotiate these matters with HMEPS. We would like to know what steps the City has taken to prepare for the upcoming funding period, which the City knew about far in advance, and which was structured this way at the recommendation of Mayor White during the 2004 meet and confer negotiations.

We believe it is important to emphasize that HMEPS negotiated the Meet and Confer Agreement in good faith and has met its obligations under the Agreement. In addition, HMEPS has significantly helped to improve the funded level of the pension plan through the excellent returns that HMEPS has realized on investments:

- HMEPS achieved an 18.11% gross return on investments during Fiscal Year 2006, easily surpassing its actuarial target rate of 8.5%.
- HMEPS achieved a 16.9% gross return on investments for the past three years.
- HMEPS' performance is in the top 10% of a widely used public fund database (the Wilshire Public Fund Universe) over the last five-year period.

HMEPS remains open to good faith negotiations with the City to address the important pension matters at hand. We are hoping the Mayor will respond to our requests.

Although HMEPS cannot stop all of the rumors that have been flying around, we hope you have a better idea of the process and of our commitment to diligently represent only the interests of the HMEPS plan and our participants. We will continue to keep you informed, and recommend that you periodically visit the HMEPS website for updated news and information.