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Dallas Stares Down a Texas-Size Threat of Bankruptcy.

DALLAS — Picture the next major American city to go bankrupt. What springs to mind? Probably not the swagger and sprawl of Dallas.

But there was Dallas's mayor, Michael S. Rawlings, testifying this month to a state oversight board that his city appeared to be "walking into the fan blades" of municipal bankruptcy.

"It is horribly ironic," he said.

Indeed. Dallas has the fastest economic growth of the nation's 13 largest cities. Its streets hum with supersize cars and its skyline bristles with cranes. Its mayor is a former chief executive of Pizza Hut. Hundreds of multinational corporations have chosen Dallas for their headquarters, most recently Jacobs Engineering, which is moving to low-tax Texas from pricey Pasadena, Calif.

But under its glittering surface, Dallas has a problem that could bring it to its knees, and that could be an early test of America's postelection commitment to safe streets and tax relief: The city's pension fund for its police officers and firefighters is near collapse and seeking an immense bailout.

Over six recent weeks, panicked Dallas retirees have pulled $220 million out of the fund. What set off the run was a recommendation in July that the retirees no longer be allowed to take out big blocks of money. Even before that, though, there were reports that the fund's investments — some placed in highly risky and speculative ventures — were worth less than previously stated.

What is happening in Dallas is an extreme example of what's happening in many other places around the country. Elected officials promised workers solid pensions years ago, on the basis of wishful thinking rather than realistic expectations. Dallas's troubles have become more urgent because its plan rules let some retirees take big withdrawals.

Now, the Dallas Police and Fire Pension System has asked the city for a one-time infusion of $1.1 billion, an amount roughly equal to Dallas's entire general fund budget but not even close to what the pension fund needs to be fully funded. Nothing would be left for fighting endemic poverty south of the Trinity River, for public libraries, or for giving current police officers and firefighters a raise.

"It's a ridiculous request," Mr. Rawlings, a Democrat, said in testimony this month to the Texas Pension Review Board, whose seven members are appointed by Texas governors, all Republicans for the last 20 years.

The mayor — who defeated a former Dallas police chief to win his office in 2011 — added that he had nothing but respect for the city's uniformed safety workers, five of whom were gunned down by a deranged sniper during a protest against police shootings in July.

But that does not change the awful numbers. This month, Moody's reported that Dallas was struggling with more pension debt, relative to its resources, than any major American city except Chicago.

“The City of Dallas has no way to pay this,” said Lee Kleinman, a City Council member who served as a pension trustee from 2013 until this year. “If the city had to pay the whole thing, we would declare bankruptcy.”

Other ideas being considered include raising property taxes, borrowing money for the pension fund, delaying long-awaited public works or even taking back money from retirees. But property taxes in Dallas are already capped, the city’s borrowing capacity is limited, and retirees would surely litigate any clawback.

This month, the city’s more than 10,000 current and retired safety workers started voting on voluntary pension trims, but then five people sued, halting the balloting for now.

The city is expected to call for an overhaul in December. But it has no power to make the changes, because the fund is controlled by state lawmakers in Austin. The Texas Legislature convenes only every other year, and Dallas is preparing to ask the state for help when the next session starts in January.

One state senator, John Whitmire, stopped by the pension building this month and urged the 12 trustees to join the city in asking Austin to scale back their plan.

“It’s not going to be pleasant,” said Senator Whitmire, a Democrat in the statehouse since 1973. But without some cuts, “this whole thing will come crashing down, and we’ll play right into the hands of those who would like 401(k)s or defined contribution plans.”

To many in Dallas, the hole in the pension fund seems to have blown open overnight. But in fact, the fuse was lit back in 1993, when state lawmakers sweetened police and firefighter pensions beyond the wildest dreams of the typical Dallas resident. They added individual savings accounts, paying 8.5 percent interest per year, when workers reached the normal retirement age, then 50. The goal was to keep seasoned veterans on the force longer.

Guaranteed 8.5 percent interest, on tap indefinitely for thousands of people, would of course cost a fortune. But state lawmakers made it look “cost neutral,” records show, by fixing Dallas’s annual pension contributions at 36 percent of the police and firefighters’ payroll. It would all work as long as the payroll grew by 5 percent every year — which it did not — and if the pension fund earned 9 percent annually on its investments.

Buck Consultants, the plan’s actuarial firm, warned that those assumptions were shaky, and that the changes did not comply with the rules of the state Pension Review Board.

“The Legislature clearly ignored that,” Mr. Kleinman said. The plan’s current actuary, Segal Consulting, reported in July that 23 years of unmet goals had left Dallas with a hidden pension debt of almost $7 billion.

Back in Dallas, the pension trustees set about trying to capture the 9 percent annual investment returns. They opted for splashy and exotic land deals — villas in Hawaii, a luxury resort in Napa County, Calif., timberland in Uruguay and farmland in Australia, among others.

The projects called for frequent on-site inspections by the trustees and their plan administrator, Richard Tettamant. The Dallas Morning News reported that officials were spending millions on global investment tours, with stop-offs in places like Zurich and Pisa, Italy. Pension officials argued that their travel was appropriate and their investments were successes.

It was an investment right in Dallas that led to the pension fund’s undoing: Museum Tower, a luxury condominium high rise. It went up across the street from the Nasher Sculpture Center, a collection housed in a Renzo Piano building surrounded by manicured gardens. The Nasher, opened in 2003, was integral to a city campaign to revitalize its downtown.

Museum Tower started out modestly, with a $20 million investment from the pension fund. But as the downtown Arts District flourished, the pension fund raised its stake, then doubled the height of the building, and finally took over the whole development for $200 million. Mr. Tettamant became the general manager.

As Museum Tower soared to 42 stories, its glass cladding acted as a huge reflector, sending the sun's intensified rays down into the sculpture center. Mr. Piano had installed a filtered glass roof, designed to bathe the masterpieces in soft, natural light. The glare from the tower ruined the effect, killed plants in the garden and threatened to damage the sculptures. The center called on the pension fund to reduce the glare. Mr. Tettamant said nothing could be done and suggested the center change its roof.

Mr. Rawlings, the mayor, brought in a former official of the George W. Bush administration, Tom Luce, for confidential mediation. But Mr. Luce resigned after five months, saying Mr. Tettamant had failed to adhere to "the conditions and spirit under which I agreed to serve."

Before long, The Dallas Morning News published a long exposé of the fund's real-estate holdings, raising serious questions about its claimed investment success. Some retirees began to clamor for a criminal investigation. The mayor demanded a full audit.

When the audit was done, it showed that the investments were indeed overvalued, and that the fund was in deep trouble.

Mr. Tettamant, who was dismissed in 2014, said he believed he was being blamed for problems he did not cause.

"The Dallas mayor has a vendetta against me," he said in an interview. "I never made any real estate investments. The board made all the investment decisions, and I was not a board member."

In April, the Federal Bureau of Investigation raided the offices of CDK Realty Advisors, a firm that helped the pension fund identify and manage many of its investment properties. A spokesman for CDK declined to discuss the raid, but said the firm was working to resolve its differences with the pension fund.

In his meeting with the trustees, Senator Whitmire recalled that in 1993 he had voted enthusiastically for the plan that sent the pension fund on its ill-fated quest for 9 percent investment returns.

"We all know some of the benefits, guaranteed, were just probably never realistic," he said. "It was good while it lasted, but we've got some serious financial problems because of it."

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