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Dallas Bankrupted by Pensions? Bond Market Doesn't Think So.

- City's G.O. bonds due 2025 closely tracking 10-year benchmark
- Police and fire pension fund projected to go broke by 2030

Dallas's police and fire pension system may be going broke, but you'd never know it by looking at the municipal-bond market. The city's general obligations due in 2025 yield 2.46 percent, less than even top-rated 10-year debt, according to data compiled by Bloomberg.

That's despite Mayor Mike Rawlings telling a state board last month that the city's \$7 billion debt to the retirement fund has left it walking into "fan blades" that look like bankruptcy.

"There's a lot of positive aspects absent of the pension issues that, given the right spreads and the right market context, would certainly make me look toward Dallas as a name to invest in," said Eric Kazatsky, municipal credit analyst at Janney Montgomery Scott. "The pension issue wouldn't prohibit me from adding it to a portfolio."

Bond market investors, known for enforcing financial discipline on governments by stanching the flow of capital and demanding higher interest rates, sometimes respond slowly to the fiscal distress of local governments, which rarely default or go bankrupt.

But in Dallas, the pension fund's shortfall contrasts with an otherwise prosperous city, with rapid employment growth, a strong tax base and a population that swelled by nearly 100,000 since 2010 to 1.3 million last year. The city's fiscal 2016 tax rate is 7 cents per \$100 of assessed value, with ample room to grow before hitting the \$2.50 statutory cap.

Dallas's city council is scheduled Wednesday to discuss plans to save the fund. A briefing posted on Friday has few specifics, though it makes it clear that the city won't chip in the \$1.1 billion requested by pension officials.

The scale of the city's pension debt — which is twice the size of its annual budget — prompted Fitch Ratings in October to downgrade Dallas one step to AA, the third-highest investment grade. The fund is projected to become insolvent by 2030.

The fund's leadership has tried to stem the bleeding by proposing a package of benefit rollbacks that will cut costs. A vote on the measures is scheduled to close on Dec. 17, according to the fund's website, after a judge refused a bid by workers to halt the proceedings.

Despite the drama, the strength of the city's financials has bondholders seemingly at ease.

"It's a holding that lets me sleep well at night," said Doug Benton, senior municipal credit manager for Canaval Hill Investment Management, which manages about \$7.5 billion, including the city's debt. "I've got things that keep me up, but this is not one of those."

Bloomberg

by Katherine Greifeld

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