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Deficit in Dallas: How One of the Fastest-Growing U.S. Cities Ended Up With Billions in Debt

The city has created a huge problem for itself — one so big that bankruptcy isn't off the table.

Dallas has enjoyed enormous success in recent years. Texas' third-largest city has seen the fastest job growth of any major metropolitan area in the country, as well as the second-fastest population growth. But despite its good fortune, Dallas has created a huge problem for itself — one so big that even bankruptcy isn't off the table.

The problem is the city's pension funding, particularly the cost of its commitments to public safety workers. The public safety pension fund has a shortfall somewhere in the neighborhood of \$8 billion. The pension board would like the city to pitch in more than \$1 billion — an amount almost equal to the city's entire general fund. Meanwhile, Dallas is facing a lawsuit over back pay for police and firefighters that could cost the city up to \$4 billion.

The pension mess came about through a familiar set of circumstances. Back in the early 1990s, workers were offered generous benefits that included a guaranteed return rate of 8.5 percent on individual savings accounts. In order to pay for such benefits, the board engaged in some risky investments. "They had some investments in real estate that unfortunately turned out to be disastrous," says James Spiotto, managing director of Chapman Strategic Advisors. "They promised a high return. They earned far less than that."

Not surprisingly, problems this big have triggered a good deal of acrimony. Mayor Mike Rawlings has been unable to convince public safety workers that they'll ultimately have to give up a lot of what they've been promised. The mayor accuses the Dallas Police and Fire Pension Board of committing a "grave breach of trust," and has called in the crime-fighting Texas Rangers to investigate the board's administration. The board is separate from the city, although it includes several members of the city council. It's also made up of police and fire workers and retirees.

In the meantime, Rawlings has gone to court to try to block any of the city's retirees from taking money out of their deferred retirement funds. A group of workers also has sued, blocking a vote on potential voluntary benefit reductions.

Given pension rules in the state, the legislature is going to have to sign off on any plan to address the problem. Lawmakers are confronting a similar-sized hole in Houston, but a crisis seems to have been averted there because the city and its employees have agreed to a deal. Dallas, by contrast, has been unable to bring state legislators an overhaul that has the blessing of both the city and its pension board. One proposal legislators are talking about would convert individual accounts of Dallas workers into annuities. That might save some money, but Texas lawmakers need to consider how they can reshape pension oversight to avoid similar problems in the future.

The quasi-independent nature of pension boards in Texas may be one reason why its plans keep running into trouble. Seven Texas municipalities have filed for bankruptcy protection over the last

35 years, notes Frank Shafroth, a government finance expert at George Mason University and a Governing columnist. “The state of Texas needs to really think through what kind of structure they have that enables municipalities to avoid accountability,” Shafroth says.

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BY ALAN GREENBLATT | APRIL 2017

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