



MICHAEL S. RAWLINGS  
MAYOR

November 29, 2016

Board of the Dallas Police and Fire Pension System ("Board")  
4100 Harry Hines Boulevard  
Suite 100  
Dallas, Texas 75219

Re: Request for an Immediate Suspension of Lump Sum DROP Payments

Dear Board members:

As the Board is well aware, at the beginning of this year, the actuarial value of assets under your supervision and control were reset to market value, resulting in a \$1 billion valuation loss. This significant markdown was the result of years of mismanagement and abuse. The Dallas Police and Fire Pension System's ("Pension System") own actuary stated at that time:

"The current contribution rates are not sufficient to fund the System over a finite period. In fact, the System is projected to become insolvent within 15 years if no changes to plan provisions or contribution rates are made and all assumptions are met in the aggregate."

Critically the Pension System's actuary warned that the Pension System would become insolvent even sooner if Deferred Retirement Option Plan ("DROP") funds are drawn down in less than a ten-year period:

"The market value of assets as of the valuation date is \$2.680 billion, based on unaudited financial statements. It should be noted that DROP account balances as reported for valuation purposes account for \$1.505 billion (56.1%). It is assumed that participants will draw down these balances over a ten-year period. **The System's solvency will be significantly impacted if these funds are withdrawn more quickly.**"

Despite this clear warning, you have inexplicably paid out nearly \$500 million in lump-sum DROP withdrawals over a matter of mere months—notwithstanding your power to unilaterally restrict or limit DROP withdrawals. In doing so, you have knowingly allowed DROP funds to be withdrawn at record levels, cognizant that doing so is irreparably harming the Pension System's solvency and liquidity.

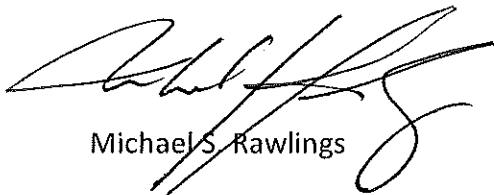
Already, as a result of your actions, the Pension System's ability to pay its members' future benefits has been irreparably reduced from a period of 15 years to 10 years. Further, both the City of Dallas and the Pension System have projected that DROP withdrawals, if unabated, will lead to a liquidity crisis in the Pension System within the next 90 days, causing a forced sale of illiquid assets. Your Board Chairman summed it up best when referring to the payment of DROP withdrawals: —**the continuation of this practice would be financial suicide.**” And yet the practice continues.

Your Board Chairman has further acknowledged that under the Texas Constitution you must avoid impairing or reducing constitutionally protected benefits. The Board has a clear ministerial and fiduciary duty to safeguard the constitutionally protected service retirement benefits for all members, pensioners and their beneficiaries, above all else. As the Board has repeatedly recognized, DROP and DROP-related benefits are not constitutionally protected. Because DROP and DROP-related benefits are not constitutionally protected, they are secondary to constitutionally protected benefits and cannot impair any member's, pensioner's or beneficiary's constitutionally protected benefits. As evidenced by the positions you have taken in recent litigation, you are plainly aware of the distinction between benefits/programs that are—and are not—constitutionally protected.

Under the present actuarial and solvency position of the Pension System, every time a DROP withdrawal is made, every member, pensioner and beneficiary of the Pension System is being deprived of a constitutionally protected benefit, in favor of a program that does not even rise to the level of a protected benefit, or a benefit at all. This practice must immediately be stopped until such time as the Pension System can be stabilized and made viable. Absent doing so, continued DROP withdrawals will cripple the Pension System's ability to make state constitutionally protected benefit payments—including pension payments—to the detriment of all current and future retirees and their beneficiaries.

Given the urgency of this matter, I request a response within 48 hours as to whether the Board will immediately cease DROP payments until such time as the solvency and actuarial soundness of the Pension System is restored.

Best regards,

A handwritten signature in black ink, appearing to read "Michael S. Rawlings". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Michael S. Rawlings

Mayor of Dallas