

Bankruptcy might be Detroit's only option, experts say

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By [Steve Neavling](#)

Its financial picture is so bleak, the City of Detroit may not have the means to fix itself without landing in bankruptcy court, restructuring experts say.

Mayor Dave Bing and city officials insist they can find solutions to fend off a financial meltdown, even as the state begins its review of Detroit's finances Tuesday.

But experts who reviewed the city's finances for the Free Press said that even an emergency manager -- despite sweeping powers to slash costs, abolish union contracts and sell off assets -- will likely find the challenges too great to solve without the help of a bankruptcy judge.

One reason?

The city's long-term debts and obligations to retirees.

An emergency manager, who would be appointed by Gov. Rick Snyder if the state finds that city's financial crisis warrants it, has limited power in dealing with those kinds of costs.

"This is a very difficult situation," said Charles Moore, a senior managing director for Conway MacKenzie, a Birmingham-based turnaround and restructuring firm that has helped reorganize municipalities and school districts. "If the city is not able to fix the shortfall and an emergency manager is appointed and cannot fix things, the city with its debt load would be a good candidate for bankruptcy."

This week, the state begins to comb through Detroit's troubled finances to determine whether there's a need for an emergency manager.

The state's largest city is within four months of running out of cash to pay for services as vital as police patrols and bus rides. The spiraling costs of pension and health care benefits, combined with the relentless decline of income and property taxes, could further erode services in the city.

And the city's \$200-million accumulated deficit at the end of the 2010-11 budget year on June 30 is growing an average of \$400,000 a day -- and could create a total shortfall of \$340 million by next summer, a Free Press analysis of budget reports shows.

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Paying back the city's various debts -- such as bonds that were issued to pay down the deficit -- also cost taxpayers about \$125 million a year.

Restructuring experts said the crisis is so severe that elected officials won't have the tools to stave off insolvency in time.

Pontiac emergency manager Louis Schimmel said Detroit's financial situation may be dire enough to consider selling the city's assets, such as Belle Isle, the city's water and sewage department and more.

"When you become an emergency manager, you look at the list of assets and decide what has to go," Schimmel said. "You need to outsource everything you can."

Without an emergency manager, for example, the city can't unilaterally impose new collective bargaining contracts -- at a proposed savings of \$100 million a year -- on labor unions. The unions say they've made enough painful concessions.

"Taking money from our budget will endanger the public," said Dan McNamara, president of the Detroit Fire Fighters Association. "We've made enough sacrifices."

So far, the City Council and mayor have agreed on one semi-immediate savings -- the layoff of 1,000 employees, which would save about \$14 million to \$19 million and stall insolvency by a few months.

Bing has resisted calls by some council members to increase the layoffs to 2,300, which the mayor quickly rejected, saying it would devastate services and endanger the public by cutting police and fire protection.

But layoffs are only a temporary fix. Between 2005 and today, the number of city jobs funded by the general fund decreased from 12,000 to 7,300. About half of those remaining jobs are police and firefighters.

Most other plans -- privatizing management of bus and lighting services, increasing the city's income taxes and potentially suing the state for revenue sharing money that the city says it is owed -- are anything but certain and will take time.

"The fact is, the city is running out of money," said Van Conway, CEO of Conway MacKenzie. "Cutting the costs will buy you time, but you are still going to have a problem in the long run because of the declining revenues."

Increasing revenue is the tough part, experts say.

With abysmally low-priced houses, property taxes account for only 14% of Detroit's total tax base. That's compared with 74% in Dearborn and 70% in St. Clair Shores.

"The state has had access to our finances, and the only thing we expect from this process is another voice in the chorus for union concessions," mayoral spokesman Dan Lijana said. "We hope to hear their ideas, but this process belongs to the City of Detroit."

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