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Cash-strapped Detroit stops paying some vendors in risky move

By Steve Neavling



Cash-strapped Detroit stops paying some vendors in risky move

Running short on cash to fund basic services and payroll, Detroit stopped paying some of its vendors in a move that experts say could increase the likelihood of the state appointing an emergency manager or contractors pushing the city into bankruptcy court.

City Council President Pro Tem Gary Brown, the lone Detroit elected official calling for some state intervention, said the city must act more quickly to reduce a runaway deficit that could reach \$340 million by June and force draconian reductions.

"In order to make payroll, the City of Detroit has been delaying payments to vendors and contractors," Brown told the Free Press on Monday. "We must repair our finances and transform this culture of overspending to one that supports responsible fiscal management and a thriving environment."

Mayor Dave Bing's office acknowledged Monday that it's delaying some payments to vendors but said the intention is to fully compensate everyone eventually.

Officials would not say how many vendors aren't being paid, who those vendors are or how much the city is saving by not issuing those payments.

The news comes as the state Department of Treasury continues its preliminary financial review of the city's ailing budget, which is expected to run out of cash by April barring big concessions from the city's 48 employee unions in health care and pension benefits. The city is seeking more than \$100 million in concessions.

Treasury Department spokesman Terry Stanton said it's too early to comment on whether the delayed payments would hasten the appointment of an emergency manager. The state's financial review team returned to Lansing on Monday after spending last week studying Detroit's books. They will produce a report for state Treasurer Andy Dillon, who then will decide how to proceed.

"The preliminary review continues," Stanton said. "It would not be prudent to speculate about what the preliminary review may find until it is complete."

Municipal restructuring experts said cities that get behind in payments to vendors are running the risk of quicker state intervention.

"It's not uncommon for distressed municipalities to preserve cash," said Charles Moore, senior managing director for Conway MacKenzie, a Birmingham-based turnaround and restructuring firm that has helped reorganize municipalities and school districts. "But it can become a problem if vendors start to demand more payments. That can further exacerbate their liquidity shortfall."

Bing and the council are scurrying to fix the budget to avoid an emergency manager.

With the state's review hanging in the air, council members said unions are beginning to warm up to concessions, including 10% pay cuts to police and firefighters.

"We are working weekends and long hours because we feel like we can resolve this situation without the state," Council President Charles Pugh said Monday. "I have full faith in the unions. I'm very hopeful."

Pugh said the prospect of an emergency manager has given unions, the council and the mayor a new sense of urgency.

"It forced us to the table with a good attitude of cooperation," Pugh said.

Today, council members are to consider Brown's proposal to cut their office budgets by a third.

"Despite our troubles, I remain confident that together, Detroit City Council and Mayor Bing possess the expertise to make the needed fiscal changes," Brown said.