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Few financial managers may actually get assigned

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Michigan Treasurer Andy Dillon used to be a turnaround expert for troubled companies. These days, he's using those skills to try to help turn around financially shaky school districts and local communities, but he's running into protests from groups warning a new financial oversight law could lead to union rights and local control being lost.

The former Democratic House speaker, along with new Republican Gov. Rick Snyder, was eager to give broad new powers to financial managers so they could have more tools to restructure school districts and communities headed toward insolvency. Under the law, which Snyder signed Wednesday, financial managers will be able to toss out union contracts to help balance the books, strip power from local elected officials or — in extreme cases — dissolve a town or school district.

Many states allow financially insolvent school districts and local governments to go into bankruptcy, but Michigan is one of the few that requires a financial manager be appointed to first try to fix the budget mess, according to Charles Moore, senior managing director at Conway MacKenzie Inc., a turnaround and restructuring firm based in Birmingham.

In Michigan, the cities of Pontiac, Benton Harbor and Ecorse, along with Detroit Public Schools, are the only government entities that currently have state-appointed financial managers appointed under an earlier law with fewer teeth.

No Michigan city has ever gone into Chapter 9 bankruptcy, Moore said, nor has any school district, although Kalkaska ended one school year early in the 1990s after it ran out of money.

But all government entities are feeling more pain as Michigan's economy continues its sluggish recovery from a decade-long downturn that substantially worsened in the 2008-09 recession. And now Snyder's proposal to cut revenue sharing for local governments by \$100 million and

school districts by nearly \$800 million in the budget year starting Oct. 1 could push more governments toward financial distress.

Snyder held a news conference to sign the financial manager measures, ignoring the angry chants of union members at a Capitol rally across the street. More than 3,000 people protested the measure and other bills they say are intended to hurt middle-class workers and damage collective bargaining rights.

"Do you want dictators or democracy?" United Auto Workers President Bob King asked the crowd as it yelled anti-Snyder slogans and waved signs reading, "Privatize Snyder" and "Recall the Ricktator."

The governor denies his aim is to take away union rights or the powers of local officials. He said during the bill signing that the state needs more tools to find out which local entities are in trouble before it's too late to help them, and said he hoped critics would look at everything the new law does.

"A lot of it has been overlooked in terms of the preventive measures," Snyder said. "The situation we had until I signed this bill was really one where it could come down to financial disaster actually occurring before you knew what was going on."

Many have tried to limp along without making the hard decisions Snyder and Dillon think will be necessary. On Monday, Snyder will deliver a special message laying out the steps he thinks local governments should take to offer better accountability and transparency, spend less on employee compensation and share or consolidate more services.

Moore said the broad powers allowed under the new law are intended to force leaders and workers to solve their fiscal problems themselves.

"If the municipality or school district knows that the appointment of a financial manager is a possibility . . . the thinking goes that the parties will be more likely to resolve the issues," he said.

Raul Garcia, president of Flint Firefighters Union Local 352, said his union is doing what it can to avoid a financial manager being assigned to Flint, a city that has long struggled with economic decline tied to the auto industry. Firefighters have offered to pay more toward health insurance and to give up extra pay for working holidays and nights. So far the city's contract negotiators haven't taken him up on the deal.

"I'm willing to make some sacrifices because I know the cities are bleeding," he said. "I don't like it, but I feel if we make the concessions, we'll be able to stay at that 100-plus level" on staffing.

The city was down to 65 firefighters fighting eight to 10 daily fires a year ago before winning a \$6.7 million federal grant that will pay for at least 35 more firefighters through May 2012. Garcia has been at four Capital rallies over the past month to protest the financial manager legislation and attempts to take away binding arbitration from police and firefighters.

"The biggest fear I have is that they give a mayor or a city manager the same powers as a financial manager," he said. "That person could abuse that authority."

Dillon said he hopes that workers realize a financial manager isn't going to come in favoring any one side.

"Sometimes it's an obstinate union, but sometimes it's a mayor overreaching" that has led to financial woes, he said. "Who's to say a manager might not side with labor?"

The treasurer already is aware of nearly 10 school districts and local governments that may be close to needing help as they sink under the weight of too many expenses, falling state revenue and accumulated debt. Since taking office in January, he also has met with officials from two cities he declined to name that could run out of cash by June 30.

Dillon says he doesn't know exactly how many more are creeping toward the edge, and that worries him. The most recent information he has on local government finances is from 18 months ago. School data is more up-to-date, but shows dozens of districts with deficits this year or next, adding to his sense of concern.

Although the state trained dozens of emergency financial managers last month, Dillon doesn't expect to see the state appoint them in very many cases. He'd rather give workers and administrators the help they need to untangle their finances themselves, and thinks in many cases that's what will happen now that the tougher financial manager law is in place.

"If you have that hammer out there, people are going to solve their own problems," he said.