Detroit to cut 81 percent of water and sewage jobs

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Workers at the Detroit Water and Sewerage Department woke up Thursday morning to see a glaring headline in the *Detroit Free Press* about their fate. Department management, Mayor Dave Bing and the Detroit Water Board announced support for a plan to cut 81% of department workers. The department would be reduced from 1,978 employees to about 374 over five years.

The proposals came from consulting firm EMA Inc., hired by the water and sewerage department to study operations and map out a plan to cut costs. EMA conducted the study over three months. In addition to the job cuts, the plan calls for:

• Outsourcing 361 positions to low-cost contract workers in noncore functions, such as billing and mailing, grounds maintenance, office cleaning and facilities maintenance

• Outsourcing for large engineering projects and peak times

• Reducing job classifications from 257 to 31

Besides cutting costs by hiring workers at lower pay, the city saves by not providing health benefits and pensions for contractors.

Detroit City Council President Pro-Tem Gary Brown, a Democrat, stated he supported the cuts and thought the changes at the water and sewerage department could be a model for other city departments.

The department provides water service to the city of Detroit and neighboring communities throughout Wayne, Oakland, Macomb, St. Clair, Lapeer, Genesee, Washtenaw and Monroe counties. The 1,079-square-mile water service area, which includes Detroit and 126 suburban communities, makes up approximately 40 percent of Michigan’s population, nearly four million people.

The Sewage Disposal System provides services to Detroit and 76 nearby communities. The system serves about 2.8 million people or nearly 30 percent of the population of Michigan. The sewerage plant is among the largest in the world.

Nineteen union locals supposedly represent the department’s workers. American Federation of State, County and Municipal Employees (AFSCME) Locals 207, 2394 and 2920 represent the largest number of workers, nearly 1,200.

AFSCME Local 207 President John Riehl claims there is no economic crisis and the plan is solely a racial attack on black workers in Detroit. The purpose of such rhetoric is to prevent workers from organizing a class response, carrying out industrial and independent political struggle against this attack by the capitalist ruling class and its political representatives, both black and white.

Mayor Bing, a black Democrat, and Governor Snyder, a white Republican, agree that workers should pay for debts brought about through financial schemes similar to those that triggered the 2008 financial collapse.

Other sections of the ruling elite are implicated in dictating this assault on workers’ jobs, living standards and working conditions: investment banks like Goldman Sachs; Wall Street rating services Moody’s and Fitch; and the federal courts, which ruled last November that the city could disregard collective bargaining rights and work rules in creating a plan for bringing the department into compliance with the Clean Water Act.

The financial crisis in the water department is a direct product of the Wall Street financial crash of 2008, although the corporate media, politicians, and unions prefer to keep workers in the dark about the relationship of the cuts to the banks’ financial arrangements with the city.

In the 1990s, investment advisors began convincing many municipalities that using derivatives, including interest rate swaps, would be effective to meet funding needs and limit risk. By 2007, these schemes had become common in public finance, including in Detroit and the water and sewerage department.

However, once the financial crisis exploded in 2008 and the recession began, these financial agreements cost Detroit millions of dollars each year, and investors worried about the solvency of the city. Moreover, the city's worsening budget deficit began to trigger clauses in the swaps and derivatives that required immediate, massive, up-front payouts.

In December 2011, the Detroit Water and Sewerage Department borrowed to terminate interest rate swaps. It sold $525 million in water bonds, using more than half of the funds, some $284 million, to end swaps tied to its bond debt. Only $210 million of the bonds went to actual construction and maintenance on the water and sewage system.

In other words, the water and sewerage department now devotes more of its capital expenditure to enriching the banks and bondholders than to maintaining or improving the water and sewage system that serves four million people.

In 2012 credit ratings agencies downgraded the ratings on Detroit's water and sewer debt. In June, Moody's cut Detroit's to two ranks above junk status. Detroit has the lowest credit rating of any American city. Downgrades triggered what is called a "termination event," the end of the interest rate swap agreements. Detroit was responsible for additional millions of dollars of termination fees.

The water and sewerage department proposed to sell $575 million of debt secured by sewer revenue in mid-June. Half of that—$288 million—would pay the termination fees owed the banks with the swap agreements. The balance would finance upgrades to the city's wastewater treatment system and refinance debt.

Wrangling among city and state politicians has created financial uncertainty. On June 12, underwriters led by Goldman Sachs put the bond offering on hold.

According to a report on Reuters, Detroit's main financial underwriters include some of the principal culprits in the 2008 Wall Street crash: Citigroup, JP Morgan, Morgan Stanley, Goldman Sachs, and UBS. Despite huge repayments financed by bonds whose burden will fall on the citizens of the poorest city in America, Detroit still has a staggering $3.8 billion in interest rate swaps outstanding, according to its most recent public filing.

In the case of the Department of Water and Sewerage, an agency that provides basic services essential to life has been transformed in the past several years into a means of boosting the profits of giant Wall Street financial interests.