Detroit's emergency manager outlines slash and burn "restructuring" plan

Jerry White
14 May 2013

Detroit's emergency manager released a report on Monday, outlining a "comprehensive restructuring plan" for the city involving savage cuts to city workers' jobs, wages and pensions and the shutdown of services to a large section of the population.

Michigan Governor Rick Snyder appointed Kevyn Orr, a former Washington, DC bankruptcy attorney, as emergency manager on March 14. Under the state's emergency manager law, Orr was mandated to issue a preliminary Financial and Operating Plan within 45 days.

The plan was drawn up in close collaboration with Andy Dillon, a former hedge fund manager and Democratic Speaker of the State House of Representatives, picked by Snyder as state treasurer.

The report begins with a lie, claiming that measures about to be unleashed in Detroit are aimed at improving the "governmental services essential to the public health, safety and welfare of its citizens." In fact, the aim is to extract every penny possible from the working class to pay back an estimated $9.4 billion in debt, which currently costs the city $246 million to service, or 19.3 percent of the General Fund budget.

Orr's former law firm, Jones Day, represents some of the same Wall Street banks—including Bank of America and UBS—that have profited from its financial misery.

In the report, Orr paints a dire picture of the financial state of Detroit. Unemployment has tripled since 2000 and is now officially at 18.3 percent. State revenue sharing has fallen by $160 million, or nearly 50 percent from its peak of $334 million in 2002. There has been a 40 percent decline in income tax since 2000, with a loss of $145 million.

These conditions are an indictment of the capitalist system. They point in particular to the devastating impact of the financial crash of 2008, which led to hemorrhaging of the auto industry, a wave of foreclosures and sharp cuts in federal and state aid. But nowhere is there any suggestion that the corporate and financial elite should be made to pay for the catastrophe they wrought. As a hatchet man for the banks, Orr, like Obama and the Republicans in Washington, is seeking to exploit this crisis to further enrich the financial criminals at the top.

According to Orr his plan has three principles. The first is "improving public safety and promoting reinvestment in the city." These are code words for ridding the city of "undesirable" elements, including large numbers of unemployed and impoverished workers, and making way for the redevelopment plans of multi-billionaires like Little Caesars owner Mike Ilitch and Quicken Loans CEO Dan Gilbert. Already hundreds of low-income and elderly tenants are being evicted from apartments in the downtown area targeted for the development of upscale housing and shopping.

The second principle, according to Orr, is "evaluating and restructuring the City's long term liabilities." This means slashing the pensions and medical benefits of tens of thousands of retired city workers and their families. In his report, Orr complains that there are now more retirees, 18,500, collecting benefits, compared to 10,000 active city workers. The emergency manager, he states, plans to "reduce or eliminate certain healthcare costs for both active and retired employees" and "suggest modifications to the [pension] plans…"

The third principle is "evaluating and streamlining the City's operations," which entails an acceleration of the plans by Democratic mayor David Bing to downsize the city by eliminating services in areas deemed too poor or under-populated.

The city, Orr writes, has already developed strategies to address what he calls the "surplus land" issue, using three neighborhood categories (steady, transitional and distressed) to determine whether services in these areas will continue. This strategy, which would be incorporated into the comprehensive plan, would include a "coordinated program of foreclosures, demolition, public/private partnerships and targeted investment."

In a press conference Monday, Orr said that the privatization of trash collection, transportation and other services were "all on the table." He pointed to nearby Pontiac, Michigan as a model for his plan.

In that city, as the *New York Times* recently noted, the EM "overhauled labor contracts, sold off city assets and privatized nearly every service Pontiac once provided to citizens…Its Fire Department belongs to a nearby township. The city's payroll, once numbering more than 600 workers, now amounts to about 50 public employees. Even parking meters have been sold."

Other parts of Orr's plan include:

* Reviewing “options for shared services and contract services” for the Detroit Fire Department, which has been slashed to the bone, leaving only 812 ill-equipped firefighters to cover 139 square miles.

* The possible full privatization of the Department of Transportation, which has already outsourced management duties and cut routes for its depleted bus fleet and employees.

* Turning “daily operations and programming” of the city’s remaining 17 recreation centers “over to experienced entities capable of providing improved services,” which would include “fee-based programming provided by third party operators.”

* The selloff of the Department of Public Lighting.

“The Emergency Manager believes that it is in the best interest of the citizens of Detroit for the City to exit the power supply business,” he writes. Beginning in 2014, the city will “pare down the current number of streetlights from approximately 88,000 to approximately 46,000,” providing lighting only to the “main thoroughfares and population centers.”

The first step will be to transform DPL into an “authority” with the power to issue debt. Once the city pays for infrastructure improvements, the system will be handed over to a “third party,” most likely the electric monopoly DTE Energy. Three years ago, the City Council and Bing administration approved a $150 million deal to buy 100 percent of the city’s power from DTE Energy, replacing the electricity produced by the city-owned lighting department. Before becoming mayor, David Bing, sat on DTE’s board of directors for two decades, and former DTE CEO Anthony Early was the chairman of his election campaign.

Also being targeted for privatization is the Detroit Water and Sewerage Department, one of the largest municipal water departments in the nation. Orr writes that he will evaluate all options regarding public assets, including “entering in partnerships with other public entities, outsourcing of operations and transferring non-core assets to other private or public entities in sale, lease or other transactions.”

In regards to labor costs, Orr says the city has “made great strides” under the Consent Agreement reached between the city government and the governor last year, “in reducing costs imposed by its numerous active and expired collective bargaining agreements between the City and various labor organizations.”

This included the unilateral implementation of “City Employment Terms,” which froze or reduced active employee benefits, reduced or eliminated pension and retiree medical benefits and imposed a 10 percent wage cut. It also gutted seniority protections, expanded management rights, changed shifts, hours of operation and overtime procedures and revised or eliminated job classifications.

Nevertheless, Orr complains that these concessions have not been uniformly applied to all bargaining units. The emergency manager’s “labor strategy will be developed with a view that any concessions are equitably distributed across” the city’s entire workforce.

While the emergency manager law suspends the city’s duty to bargain under the Public Relations Act and empowers him to “reject, modify or terminate” collective bargaining agreements, Orr states that he has willingly negotiated with the unions. In this, he is counting on the complicity of the American Federation of State, County and Municipal Employees (AFSCME) and other unions to reach what he calls a “consensual agreement” and block any resistance by workers to the demands of the banks.

“Overall, employee headcount ultimately may be lower in the future than it is today,” he adds. At the same time, a new “compensation structure” will be established to retain “high performing individuals,” by which he means the army of highly paid consultants and turnaround specialists he is bringing in to help loot the city.

On the eve of the report’s release, Orr’s press secretary Bill Knowling said, “Unless we change and restructure city operations, it’s not going to get any better. That’s a message to the capital markets… If we stop providing services, and basically stop functioning as a city and only paid our debts but kept collecting taxes, we couldn’t pay it off in 20 years.”

Here Knowling may have said more than he intended. The essential purpose of Orr’s plan is to transform the city into little more than a cash machine for the banks and big business. To pay off the wealthy bondholder in the next few years, instead of twenty, will require the suspension of city services for virtually everyone but the well-to-do and a limited number of workers who service them.

As for his boss, Orr made it clear he is essentially a dictator for the banks and oblivious to the concerns of the working people in the city. “The public can comment,” he told WWJ radio, “but it is under the statute, it is my plan and it’s within my discretion and obligation to do it. This isn’t a plebiscite, we are not, like, negotiating the terms of the plan.”