Emergency manager to decide on Detroit bankruptcy within six weeks

Bryan Dyne
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Detroit emergency manager Kevyn Orr has set a six-week deadline—until the end of the current fiscal year—to decide whether to file Chapter 9 bankruptcy. Detroit would be the largest city in US history to file for bankruptcy.

Orr is using the threat of imminent bankruptcy—much like the Democrats and Republicans used the manufactured "fiscal cliff"—to force through sweeping concessions on city employees, privatize city services and sell or lease city assets.

Orr has been given virtual dictatorial powers to restructure the city on behalf of the banks and big business. In a recent interview he scoffed at the popular opposition to his actions, telling the media, "Opinions matter to politicians because it translates into votes. I'm not running for anything."

Indeed, Orr was appointed as emergency manager by Republican Governor Rick Snyder and Democratic Treasurer Andy Dillon and is answerable to no one but Wall Street. His task is to make Detroit profitable for big investors and bankruptcy is seen as one of the best avenues to do just that.

Similar blackmail methods were used by the Obama administration to force auto workers to accept historic rollbacks during the forced bankruptcy of General Motors and Chrysler in 2009. As a lead attorney for Chrysler, Orr argued before the bankruptcy court, clearing the way for the closure of hundreds of car dealerships and the destruction of thousands of jobs.

The urgency for Detroit, according to Orr, is that it is facing an immediate cash flow shortage of $162 million. Moreover, the city has exhausted its borrowing power and cannot sustain itself by accruing more debt as it has in the past. Meanwhile, some $250 million a year of public resources are squandered to service debt and financial derivatives to the big banks, consuming nearly 20 percent of the general budget.

According to Orr, the city is capable of running through December. Past that, by March 2014, the city will not have the revenue to perform the most basic services, from trash pick up to firefighting. "In my opinion, we are already insolvent," said Orr. "In March 2014, we go off the cliff, underneath the line, never to come back. We are in mission critical right now. It just gets worse. March is free-fall."

Bankruptcy is being used to force maximum cooperation from pension boards and unions, who in turn use the threat to force their members to accept concessions on the grounds that the losses from bankruptcy court would be even worse.

Orr's baseline for givebacks is being drawn from last July's consent agreement between the city and the state of Michigan. To stave off bankruptcy then, the Mayor and City Council imposed what are known as City Employment Terms (CETs). These allowed the imposition of concessions on virtually all sections of city workers—both those under the auspices of the city's 48 unions and those that aren't. Only transportation workers were not targeted, because the city wished to keep federal transportation subsidies, which under federal law would be stopped if collective bargaining were halted.

The CETs included a 10 percent wage cut and a 20 percent health care cut, eliminated sick leave accrual, halted sick time cash payouts, stopped annual bonus vacation days and reduced vacation accrual from 320 hours to 160 hours. Even greater cuts are now being planned.

The primary targets for privatization that will be considered in the next six weeks are the sanitation, water and sewerage and lighting departments; their annual running costs are $15 million, $50-$70 million and $30 million respectively. Other departments, such as tax collection, will possibly be consolidated to make them more "efficient," or eliminated all together.

In an interview given to the *Detroit Free Press*, Orr said that he is looking to lease Belle Isle, the largest island city park in the US. It has been the subject of repeated proposals for state ownership, leasing or even sale to private investors. It is now being seen as a haven for the rich in Detroit, a place to oversee the blight they are inflicting on the city.

Orr has also said that even after his tenure is over, whether in eighteen months or beyond, the city will most likely still be under the auspices of a financial board or state-appointed comptroller, which could be around for decades, similar to what happened to New York City after its near bankruptcy in 1975.

He then explicitly ruled out higher taxes, saying that this would discourage private-sector investment in the area. "We don't want to run people out of the city."

"People" in this instance are billionaires like Quicken Loans founder Dan Gilbert who are going to make a mint of the gentrification of areas like downtown and midtown. Every section of the political establishment rules out even modest tax increases on the extremely wealthy who have largely dodged paying any taxes, even thought this would do a great deal to ease Detroit's burden. Instead, they all support Orr's plan to slash city services and privatize assets to raise revenue.

Though bankruptcy is being presented as an "equal sacrifice" between bondholders and Detroit's residents, this is a fallacy. Already, insurance companies for the bondholders, such as MBIA, Inc., National Public Finance Guarantee Corp, and Assured Guaranty, have stated that they will be sure to reimburse the bondholders if Detroit does go bankrupt.

"Should the city of Detroit fail to make a required debt service payment for any reason, including a bankruptcy filing," wrote Adam Bergonzi, chief risk officer of National in March. "National's insured bondholders are guaranteed their scheduled interest and principal payments on time and in full."

Together, these three companies insure at least $4.3 billion of the long-term bonds held by Detroit's creditors. Assured also insures $321 million of Detroit's general obligation and general fund debt. There will be no insurance for the tens of thousands of workers and retirees in the city who will find themselves incapable of meeting even basic needs.

This state of affairs will be the "new normal" for Detroit.