Emergency manager accelerates plans to "monetize" Detroit water department

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The proposed "regionalization" of the Detroit Water and Sewerage Department (DWSD) being promoted by Emergency Manager Kevyn Orr is an opening salvo by the financial elite to privatize one of the largest municipally operated water and sewage treatment systems in the US.

The regionalization plan would create a new entity--the Metropolitan Area Water and Sewer Authority (MAWSA)--to take over the operations of the DSWD. MAWSA would be an independent body run by the three largest counties--Wayne, Oakland and Macomb--that the DWSD currently serves. Under the proposal, the board would manage the system and make monthly concession or leasing payments to the city of Detroit, which would still own the infrastructure and be responsible to cover pensions and other employee costs.

Orr has claimed the plan would raise $9 billion over 40 years ($225 million per year). Months ago, accounting firm UHY Advisors was contracted by the three counties to conduct a study to determine the viability of such a plan. Oakland County Executive L. Brooks Patterson called the proposal "dead on arrival."

Even after Orr announced a smaller figure of $70 million a year county officials maintained their opposition. Deputy Oakland County Executive Robert Daddow told the *Detroit Free Press*, "They need to rethink the number; $70 million isn't doable. I don't know where he got the number, how he came up with it."

Central to the regionalization plan is the renegotiation of the $6 billion debt of the DWSD. Even though the department is one of the most valuable assets of the city, since it draws a regular revenue stream through the collection of water bills, the series of credit rating downgrades by Moody's Investors Service, putting Detroit bonds into junk status, has made its financing terms egregious. The spin-off is designed to sever the DWSD from the city and its abysmal credit rating.

In early January, the bondholders and insurers of Detroit's debt held closed-door meetings in the New York offices of the Jones Day law firm with federal mediators. US District Judge Gerald Rosen, who presided over the talks, ordered the city to submit information on the regionalization proposal. The companies involved in scrutinizing the plan in New York were: Assured Guaranty, Financial Guaranty and Berkshire Hathaway Reinsurance; investors Black Rock Financial Management, Fidelity Management and Research and Eaton Vance Management; and payments manager US Bank National Association.

According to a report in the *Detroit News*, the debt holders and insurers of the $6 billion in bonds of the DWSD are vehemently opposed to any deal that would reduce their rate of interest. According to the *News*, "While court-appointed mediators are pushing the opposing parties to reach a consensual deal, legal experts say arbitrary deadlines are bound to be broken in the free-wheeling process of a municipal bankruptcy bogged down by the competing interests of retirees, bondholders, banks, insurers and supporters of the Detroit Institute of Arts."

A representative of market research service Municipal Market Advisor, Matt Fabian, said the debt holders are not willing to accept lower interest rates. He described the antagonism: "I would think 'some' pushback is wildly understating the pushback. In talking to these guys, there is absolutely no interest in settling anything…Their resistance could be formidable if the city is insistent on reducing their full recovery." How did the DWSD accumulate such debt?

A report issued by the liberal think tank Demos in

November details the financial pilfering of the water department by the banks. Over a billion dollars in bonds were issued on the DWSD, more than half of which was to provide funds to pay bank fees for interest rate swaps. Earlier this month, in testimony before US bankruptcy judge, Steven Rhodes, Orr admitted that the swap deals were likely illegal, but Rhodes ruled that the banks involved should be paid anyway.

"During 2011 and 2012, the city issued more than $1.16 billion of bonds for its water and sewer enterprise. Approximately half of this debt was issued to fund $547 million in swap termination payments on financial deals that had been terminated by financial institutions because of a credit rating downgrade of the city," the report stated.

The water department serves three million people in southeast Michigan, providing what is arguably the most needed resource for the population. As a public entity managed by the city, state law prohibits the DWSD from charging rates higher than what is needed to recover its production costs.

The Demos report explains Orr's strategy of spinning of the city water and sewage department into a regional entity. "[H]e seeks to organizationally and politically separate the Water and Sewerage Department's system, which serves more than 3 million people in the city and surrounding areas (roughly 40 percent of the population of Michigan), from the city government, enabling (a) the department's revenue to be monetized through privatization and/or other means and (b) system employee pension and healthcare benefits to be separated from the city's programs."

During the Detroit bankruptcy eligibility trial, New York investment banker Kenneth Buckfire spoke for the financial speculators eyeing the water department, saying, "The only way is to sell it or privatize it. Several private equity firms have expressed interest, but only if they can charge higher rates."

In the mid-2000s, the city took a step in the direction of privatization, when it hired Victor Mercado from the British-based water conglomerate Thames Water North America to run the Detroit water department and began the shut-off of water supplies to tens of thousands of poor people who failed to pay their bills. Mercado was later jailed for his role in the corruption presided over by former Mayor Kwame Kilpatrick.

There are specific obstacles in the City Charter to selling off and privatizing city assets like the water department and public lighting, but Michigan's anti-democratic emergency manager law gives Orr dictatorial powers to override the City Charter.

Eliminating the legal prohibitions against profit gouging in the management of publicly necessary water resources and the cutting of public employment, pensions and health benefits only serve to benefit the financial elite. Moreover, privatization creates the conditions for a public health disaster, as the drive for ever-great profit becomes the central motive.

Other US cities that have relied on private companies to provide water services have had disastrous results. These include:

Atlanta, Georgia: In 1999 the city signed a 20-year contract with United Water Resources. Just four years later the city terminated the contract after residents complained of brown water and poor service by the company.

Indianapolis, Indiana: Veolia Corporation, one of the world's largest private water companies, bought a 20-year contract to manage the city water system. Employee benefits were cut and residents charged Veolia with overcharging and unfair billing practices. In 2005, more than a million residents were put on a "boil alert"--tap water unsafe to use until it was boiled--as a result of what was supposedly an employee's error, but was clearly due to aggressive labor practices. The contract was terminated by the city in 2010.

The threat to the DWSD is not a unique occurrence. Public water systems are being eyed by financial speculators all over the country and the world as a source of future revenues. As with all aspects of the social counterrevolution being pursued by the ruling elite, any programs created to provide for the public good are considered an unacceptable impediment to profit and are fair game for plundering.