Bankruptcy judge approves final revision of Detroit restructuring plan

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US Bankruptcy Judge Steven Rhodes on Monday approved the draconian restructuring plan drafted by Detroit's unelected emergency manager Kevyn Orr.

The so-called Plan of Adjustment and accompanying Disclosure Statement contain provisions relating to every significant aspect of the city's financial structure, including retiree health benefits and pensions, the Detroit Water and Sewerage Department (DWSD), Belle Isle public park, the electricity grid, and many others. The self-described "global agreement" laid out in the plan amounts to a comprehensive reshaping of Detroit to the benefit of the super-rich and the most privileged sections of the upper-middle class.

Information packets will be sent out on May 12 to the approximately 170,000 creditors, including retired city workers, who are expected to vote on the plan by July 11. Rhodes will then convene a confirmation hearing—currently scheduled for late July—where he will rule on whether to implement the plan as is.

Even if a majority votes to reject it Rhodes can still unilaterally impose the plan through a process known as a cram-down. Moreover, the city can alter the plan after creditors votes. As the disclosure statement reads, "The City reserves the right to modify the terms of the Plan as necessary for Confirmation without the acceptance of all impaired Classes. Such modification could result in less favorable treatment for any non-accepting Classes than the treatment currently provided for in the Plan." The Plan is also subject to change in light of any other "Unforeseen Financial Circumstances."

City unions and various union-affiliated retiree committees are playing the key role in ramming this through in the face of popular opposition. A coalition of 14 city worker unions, led by the largest, the American Federation of State, County and Municipal Employees (AFSCME), has already acceded to Orr's demands for deep cuts in pensions and health care benefits. The only holdouts that remain are the Detroit Fire Fighters Association and the Detroit Police Officers Association.

As the *Detroit Free Press* noted, "the city hopes to strike deals with unions so that labor groups would then agree to actively support the city's bankruptcy plan."

As a reward for their services, the union executives are being handed control of two Voluntary Employees' Beneficiary Associations (VEBAs) funds to oversee disbursements of retiree health insurance. The VEBAs will receive $450 million from the city, which is ceasing all further payments for retiree health care and dropping $4.3 billion worth of liabilities owed to retirees in the process.

Retirees over 65 will be "transitioned" to Medicare, while those under 65 will be given a derisory $125 monthly stipend to purchase their own insurance through the markets established by the Affordable Care Act (ACA). The city will also halt all payments to the Employees Death Benefit Plan.

To justify the brutal cuts, the statement claims Other Post Employment Benefits (OPEB) are "unfunded" and therefore no longer affordable. "The City is obligated to provide OPEB benefits expected to cost approximately $4 billion in current dollars to existing retirees. Essentially all of these obligations are unfunded."

The plan also contains major cuts to pensions. Non-uniformed retirees will take a 4.5 percent cut, plus complete elimination of their cost of living adjustments (COLA). Uniformed retirees will have their COLA reduced from 2.25 percent to 1 percent.

The plan provides for an "Annuity Savings Fund Recoupment," also known as "clawback," whereby payments made to retirees over the past decade in the form of "13th checks" over the course of a year are to be taken out of any future pension payments to those same retirees. This will throw many retired city workers and their dependents, already barely subsisting on meager pension checks, into destitution.

At the same time, a significant section of the general obligation bondholders—including Wall Street investors and speculators—will be paid 74 cents on the dollar. The financial giants Bank of America and Swiss-based UBS, which swindled the city into legally dubious, if not criminal, interest rate swap deals, are being paid $85 million.

As part of the "grand bargain" built into the plan, the Detroit Institute of Arts (DIA)—held as a public trust for the people of Detroit for a century—is to be transformed into a private, "independent institution."

The plan notes that the $350 million in state funds promised for the deal will likely be reduced to $194 million. Such reductions in funding allocated to the bargain, of which this is probably the first of many, will spell even greater cuts to pensions. As the plan states, "If the DIA Settlement does not occur, or if the full amounts of the DIA Proceeds and the State Contribution are not received, then the recoveries on account of all Unsecured Claims, including Pension Claims, will be the lower recoveries estimated in the Plan."

The plan outlines procedures to carry out a raise in the retirement age for uniformed city workers, and raises pension contributions for police and firefighters hired after July 1 by two percent, effectively imposing another wage reduction.

Significantly, the plan contains provisions for the spin-off and/or outright sale of the Detroit Water and Sewerage Department (DWSD), one of the largest publicly owned water systems in the US. The plan states: "The City has been in contact with certain potentially interested parties regarding a recent request for information for a transaction that would establish a public-private partnership with respect to the DWSD…the Emergency Manager will also consider responses that contemplate alternative transaction structures, e.g., a long-term lease and concession arrangement or a sale…maximizing the value to the City."

It continues: "The City received 13 indications of interest regarding the DWSD, which the City is reviewing and analyzing. The City may allow a limited number of these parties to conduct due diligence and proceed to the next phase of the review process…final binding proposals must be submitted by June 1, 2014."

The bankruptcy is also being used as the occasion for the wholesale privatization of street lighting and the city's electrical grid. The documents approved by Rhodes on Monday state, "the City has entered into an 'Energy Services Delivery Agreement' with DTE, whereby the City will exit the electricity business by migrating customers to DTE over a seven-year period…Customers (including the City) will pay DTE's rate book, which could be higher than the current rate charged/incurred by the City."

Detroit's former mayor, Democrat David Bing—who served on DTE's board of directors for two decades before becoming mayor in 2009—had long sought the privatization of the electrical grid and the city's street lighting system. The latter is explicitly prohibited by the City Charter—a document approved by Detroit citizens that Orr has essentially discarded.

With the full backing of the Obama administration—which refused any Wall Street-style bailout for Detroit and intervened to block legal action by retirees against the bankruptcy—the former Motor City is being used as a model for similar attacks on pensions, health care benefits, city worker jobs and public services throughout the nation.

The Plan of Adjustment and Disclosure Statement are declarations of class war not only against workers in Detroit. As far as the capitalist class is concerned, secure retirement, access to culture, minimal social services, and public infrastructures are relics of a bygone era that must be eliminated in order to augment their already incredible fortunes.

The only power that can oppose this is the working class, which must be organized as an independent political force against the Democrats and Republicans, their servants in the trade unions and the profit system they defend.