

# Detroit city worker union pushes bankruptcy restructuring plan

**Jerry White**  
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The American Federation of State, County and Municipal Employees (AFSCME) union has reached a deal with Detroit's emergency manager for new labor agreements covering several city departments.

The deal, reached on June 12, is based on a five-year agreement AFSCME and 13 other city worker unions signed in late April, which imposes deep concessions on 3,500 out of the city's 9,300 public employees. AFSCME, which is the city's largest union, has now reached agreements for virtually all of its members.

Details of the agreement are sketchy and being concealed until after the ratification vote, which is to be held sometime before June 30. However, the outlines are clear. City workers, who took a wage freeze in 2010 and a pay cut of 10 percent and deep benefit cuts in 2012, will suffer a further erosion in living standards. The contract reached in April includes a wage hike of only six percent spread over five years, well below the rate of inflation.

In addition, the employer-paid pensions will be replaced with 401(K) defined contribution plans, health care benefits will be reduced and work rules, seniority rights and other job protections eliminated. The deal will also pave the way for unpaid furlough days and another reduction in the city workforce, which has been cut by 25 percent over the last four years alone.

According to the bankruptcy court statement announcing the agreement, the deal must be approved by state officials before it is incorporated into the plan of adjustment. Workers are being kept in the dark about the deal and the vote. "They haven't given us information on when we're supposed to ratify or anything. It's a bunch of crap," said Raymond, a worker at the Detroit Water and Sewerage Department, which faces the elimination of nearly half of its workforce and possible privatization.

"They owe us 10 percent from what they took from us. Everything they're doing is wrong. Pensions are being cut, everything. They give us \$200 million then turn back

around and take \$290 million from us. That's not going to help us.

"This grand bargain is a grand bull crap," said Raymond, referring to the scheme crafted by the bankruptcy court with wealthy foundations, the state government and the unions to allegedly protect pensioners and the collection of the Detroit Institute of Arts from creditors. "It's a lot of tricky stuff they're playing. And the workers are losing everything."

The so-called grand bargain is in fact a line-up of anti-working class forces, which will all agree that workers and the people of Detroit in general must pay for the crisis they did not cause. In exchange for a \$815 million "rescue package" of private and public funding, retirees and active workers are told they must vote "yes" on Orr's bankruptcy restructuring plan.

The AFSCME agreement follows similar deals reached by union-affiliated retiree associations, which sanction cuts in pensions—whose "impairment" has long been prohibited by the Michigan state constitution—along with deep reductions in health care benefits for 23,500 retirees and dependents.

General retirees will see their pension checks—which average only \$19,000 a year—cut by 4.5 percent and will also lose their cost of living adjustments. The city will also "claw back" another 15.5 percent from retirees who were supposedly paid "excessive interest payments" from an annual annuity savings fund. If workers vote 'no' on the plan Orr has threatened to impose far deeper cuts.

The unions have dropped their phony opposition to the bankruptcy and are echoing the emergency manager's threats. In the statement announcing the AFSCME contract deals, the bankruptcy court wrote:

"In separate voting on the City's bankruptcy Plan of Adjustment, AFSCME leaders are urging all active and retired city employees to vote 'yes' to approve the Plan. The latest agreement covering units not subject to the city-

wide master agreement, and resolution of matters related to the state contribution agreement, is why AFSCME Council 25 urges all current and former city employees to vote ‘yes’ on the Plan and return their ballots as quickly as possible.”

The statement quoted AFSCME Council 25 President Al Garrett, who said, “We remain severely concerned with the way this bankruptcy has been handled from its inception. However, the agreements we have achieved are, in our view, the best path forward for city employees and retirees. They simply cannot risk the further serious reductions in pension, pay and job security if the Plan, and our collective bargaining agreements, are not approved.”

Over the last year, union officials have periodically postured as opponents of the bankruptcy. This never had anything to do with opposing attacks on workers, which AFSCME and other unions have long supported. Instead, the union executives were upset that Orr was suspending “collective bargaining” and was prepared to circumvent the unions altogether.

In the end, the bankruptcy judge, well aware of the deep popular opposition opted to use the services of the unions and secure the well-paid positions of Garrett and the other upper middle class businessmen who run the unions. In exchange for union support for Orr’s restructuring plan and dropping lawsuits, the unions were given control of a half-billion dollar retiree health care slush fund and have retained some level of influence over the multi-billion-dollar pension investment funds.

“Collective bargaining,” from the standpoint of the interests of workers, has been rendered meaningless. Under the terms of the state’s antidemocratic emergency manager law, the city reserves the right to tear up labor agreements it deems financially unsound. These powers will continue under a permanent financial oversight board, which is being established as a condition for the state government’s contribution to the grand bargain.

With widespread opposition to the plan of adjustment expressed at a series of meetings called by retiree associations, Orr, the unions, the media and state and local politicians are ramping up pressure for workers to vote for the plan. Ballots sent out to 32,000 active and retired workers are due by July 11.

The entire vote is a sham aimed at giving the process a democratic veneer. Orr has the power to redraft the restructuring plan whether or not workers vote for it. And if it is rejected, the bankruptcy judge can impose this deal or a worse one unilaterally. Underscoring the bogus

character of the vote, spokesmen from the union-affiliated General Retiree System have told workers they can get another ballot from the city in order to change their original vote.

Rhodes recently pushed back the start of his confirmation hearing on the plan of adjustment to August 14.

While the plan will gut pensions and other benefits, federal mediators said this week they had reached an agreement with big investors and municipal bond insurers that recognizes the “unique” status of limited-tax general obligation bonds. Under the deal, the financial investment houses will be covered for 74 percent of their bond holdings—almost five times the amount originally proposed in the plan of adjustment—and almost 10 percent higher than the average of 65 percent on defaulted bonds from 1970 to 2012, according to Moody’s Investors Service data.

The outcome should renew the view of general obligations as sacrosanct, John Dillon at Morgan Stanley Wealth Management told *Bloomberg News*. “If the recovery is 74 percent in what has been one of the worst municipal bankruptcies, that should give some people in the market more comfort,” said Dillon.

While pensions are treated as “unsecured” debts, Orr declared last week that the unlimited-tax general obligation debt would be considered as “secured” debts in the plan of adjustment because they held a claim on a portion of property tax revenue. Orr had previously included them among bondholders with lesser claims on revenue—with a proposed payout of as little as 14 cents on the dollar. The reversal has reportedly led to a renewed wave of speculative activity on the \$3.7 trillion municipal market.



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