

Detroit chief financial officer outlines program of permanent austerity

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The third day of confirmation hearings for Detroit's bankruptcy restructuring plan on Thursday was dominated by the testimony of the city's chief financial officer, John Hill. Concealed beneath the dry, antiseptic figures and pie charts was a program of austerity, the extent of which has never been seen before in a major American city.

Hill outlined hundreds of million of dollars in "cost-saving initiatives" contained in the city's so-called Plan of Adjustment. Increased outsourcing of municipal services and unprecedented cuts in city worker pension and health care benefits will be combined with a sharp increase in tax collections and the introduction of service fees for Detroit's mostly low-income population.

During the day it became clear that even deeper cuts, not included in the current plan, are being prepared. An email from Hill was cited, in which he told city officials, "The discussion we need to have with your team and the mayor is what the city will no longer do. Reducing what government does will ultimately take pressure off the plan of adjustment." Hill's email continued, "We can't put everything in the plan now and have no room to make future adjustments as a result of negotiations."

Under cross-examination Hill acknowledged that the city, which has already privatized street lighting and trash collection, had sent out bids to privatize municipal parking services and was considering leasing or privatizing water and sewerage service.

Asked by city bankruptcy lawyer Geoffrey Stewart what part of the city will be affected by restructuring, Hill responded, "All parts."

Stewart then asked: "What assurances can you give us that if the plan is confirmed, you will adhere to the budget?"

"We will do everything we can to adhere to that with a couple caveats," Hill said. "If revenues don't come in, we will have to make adjustments."

In fact, the adjustment plan is based on wishful thinking

about a general economic improvement and a rosy picture of increased tax collections—even though tax revenue has been on the decline for years due to the long decimation of the auto industry and population loss. This makes it all the more probable that even more brutal cuts will be imposed.

Hill explained that he was putting in place a financial authority to oversee spending in the city based on proposed state legislation to establish a Financial Review Commission. This unelected body will exercise virtual dictatorial control of city finances for at least 13 years. Any deviation from the restructuring plan, Hill said, would have to be approved by the Financial Review Commission.

In his testimony, Hill complained that under proposed state legislation some of these powers were being ceded to the city's mayor.

"I've made my criticisms known about the independence of the CFO. The mayor [Mike Duggan] said our goals are aligned—the city will never have another deficit. He will allow me to hire who I want and implement my structure and operate independently."

Emergency Manager Kevyn Orr appointed Hill last November. During his testimony, Hill outlined his credentials. He oversaw the federal government's General Accounting Office and was tasked with making cuts to every government agency from 1990-91. Hill then led the five-member Financial Management and Fiscal Authority board appointed by President Clinton to oversee the finances of the District of Columbia, where he was given unilateral power to impose deep cost reductions and financially restructure the nation's capital.

"One of the biggest issues was reductions in staff," Hill said of his role in Washington, DC. When the mayor and the city were "unwilling to make those changes we took control of the budgeting process, and I was principally responsible." Hill boasted that after restructuring, the city

now had an AAA credit rating with the Wall Street banks.

Orr's previous appointee for CFO, James Bonsall, was forced to resign last year after he let slip an unguarded comment showing his real contempt for the democratic rights of workers and youth. In a reference to the fatal shooting of Florida youth Trayvon Martin, Bonsall asked another city official if he would be able to shoot anyone in a hoodie if he participated in the city's annual Angels' Night anti-arson patrols.

Hill comes from the same affluent and politically connected section of the black political and corporate establishment as Orr. He sits on several corporate boards, headed up the Federal City Council, a group of major corporate CEOs dedicated to improving the business climate in Washington, DC. He also directed the government consulting operations for Arthur Andersen LLP, the now-defunct accounting firm that was implicated in cooking the books for Enron and WorldCom.

Hill was called as a witness to counter objections from municipal bond insurers, Syncora and FGIC, which are arguing that the city's plan of adjustment does not go far enough. The insurers want even deeper cuts in pensions and are demanding that the city sell the masterpieces of the Detroit Institute of Arts and other public assets to provide a higher payout to bond holders, which Syncora and FGIC must compensate for their losses.

Before Hill took the stand, Judge Rhodes heard testimony from legal representatives from the Oakland, Macomb and Wayne County governments, which are opposing the plan because it will divert \$428 million from the Detroit Water and Sewerage Department over the next ten years to pay pension obligations for city workers. The lawyers complained that this would leave the DWSD critically underfunded for necessary capital improvements, requiring unsustainable rate increases on surrounding counties.

Jaye Quadrozzi, an attorney representing Oakland County, said that under the city's plan of adjustment major pipelines and water mains, which are all more than 50 years old, will be repaired at a rate of only 1.5 miles a year. This means it would take 561 years to replace the worn-out pipes. This period of time, Quadrozzi said, was equivalent to the half millennium between today and the Fall of Constantinople at the end of the Middle Ages.

To increase the rate to 8.5 miles per year, which would shorten the period needed to replace the antiquated system to merely a century, capital improvement costs would have to rise from the proposed \$2.9 billion to \$4.5 billion

over the next decade. To pay for this, Quadrozzi said, DWSD funds should not be used to pay pensions.

Instead, she said, the water department should "reduce headcount" while the city implemented its plan to "right size" Detroit by shutting water and other essential services to poor neighborhoods.

Thursday's proceedings underscored again that the interests of the working class are completely excluded from the courtroom. The trade unions, including the United Auto Workers and the American Federation of State, County and Municipal Employees have thrown their support behind the restructuring plan and the savage attack on workers and retirees in exchange for control of a multibillion-dollar retiree health care slush fund, known as a Voluntary Employees' Beneficiary Association or VEBA.

On Thursday UAW lawyer Peter DiChiara spoke before Judge Rhodes, saying he hoped he could help resolve a dispute with the city over a small number of library and Cobo Hall Convention Center employees represented by the UAW and AFSCME. These workers, like the rest of those in the general retirement system, DiChiara said, were having their pensions and health care benefits cut, but he complained that the union was not being given control of a VEBA. Moreover, he argued, the library was a separate municipal corporation that was not in bankruptcy like the rest of the city.

Adding to these specious arguments, a representative from AFSCME said the plan of adjustment should not be approved unless library and Cobo Hall employees were removed from it.



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