

# State officials, Wall Street target Detroit schools for bankruptcy restructuring

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The *Detroit News* revealed this week that Detroit Public Schools (DPS) debt payments will balloon from \$6.6 million to \$26.8 million a month this year, essentially bankrupting the largest public school district in Michigan. These new payment levels, to begin in February, will cause the district to run out of money by April 2016.

Debt payments will rise from \$1,111 per pupil to an absolutely unsustainable \$3,094 per pupil. With each student's state foundation grant set at \$7,296, this means over 40 percent of state-allocated money will be diverted to the banks and wealthy bondholders.

The doomsday scenario recalls almost exactly the politically-orchestrated campaign surrounding the Detroit city bankruptcy of 2013-14. At that time, the financial elite, Democratic and Republican politicians, the courts and the media declared that emergency measures were needed to resolve an imminent crisis, which was manufactured by the speculative activities of the big banks. They then used this pretext to abrogate the state constitution, loot city workers' wages, health benefits and pensions, hive off assets for privatization and terminate essential city services.

While the rationale and actors are largely the same, the target has been extended to Detroit's schoolchildren, teachers and school workers, as well as the Michigan state pension system and retiree health benefits.

In effect, state officials from both big business parties and the financial interests they represent are threatening 45,000 school children and their right to learn with a potential mid-year school shutdown in order to ram through their reactionary and self-serving political and economic agenda.

The attacks are provoking deep opposition. On Thursday, hundreds of Detroit teachers called in sick

and forced the closure of two high schools in a protest over overcrowded classrooms, budget cutting and attacks on their living standards. The Detroit Federation of Teachers has long collaborated with the attacks on public education by both big business parties and teachers are looking for a way to fight.

DPS schools have been under state financial supervision since 2009, with undemocratic, unelected emergency managers specifically responsible for fiscal policy. The nature of this "supervision" can perhaps be best indicated by the fact that the DPS's current emergency manager (EM), and the point man in this crisis, is Democrat Darnell Earley who, as EM in Flint, Michigan, switched the municipal water supply to the Flint River and oversaw the lead poisoning of thousands of residents.

There are the "reasons" spelled out in the media for the imminent bankruptcy of the DPS; then there are the real reasons. The precipitating event has been explained as a February due-date for the district to begin repayment on a little-reported short-term loan which DPS secured last August. Apparently, at that time, an \$83 million deficit for the 2014-15 school year was rolled over and added to the regular debt service requirements for 2016.

The unusual way a virtually immediate repayment plan was quietly set up between state authorities and Earley would likely indicate that a political decision was made to deliberately bankrupt the district and/or impose a reorganization. It would be inconceivable that the DPS could triple its annual debt payments when it could not even make the monthly payments at the 2015 levels.

The long-term debts of the school district are also the product of deliberate decisions by the corporate and political establishment. Once one of the highest quality

school districts in the country, DPS, like the former Motor City as a whole, has suffered a slow death caused by the deindustrialization of Detroit, the massive tax breaks for the auto industry and other big business interests and budget cutting on the federal, state and local levels. The school crisis has been exacerbated by the diversion of scarce public resources to for-profit charter schools, a policy the Obama administration has championed since taking office.

The crisis of DPS and other school districts has been turned into a lucrative opportunity for the banks and municipal bondholders. There has been a sharp increase in high-risk, and therefore highly profitable, forms of debt held by school districts. Distressed debt industry analyst Debtwire describes DPS's status as "zombie credit." The banks, which include underwriters JP Morgan and Loop Capital Markets, have driven up rates a full percentage point in just six months to 5.75 percent. By contrast, the benchmark rate for municipal bonds is only .25 percent.

Similar to the Detroit municipal bankruptcy, first the schools are starved of resources over decades, forced to load up on immense levels of debt, and then declared financially "distressed." This is then used to justify a state takeover, a declaration that the wages, benefits and pensions of teachers are "unsustainable," and the further destruction of public education.

Since the end of last April, Republican Governor Rick Snyder has faced a legislative logjam in his push for the division of DPS into two districts, one to collect the taxes from the population, the other to run the schools. Under his plan, developed with the assistance of Paul Pastorek who transformed New Orleans into an entirely charter school district, the policies of the new Detroit district would be set by the state and its "education business" consultants in the guise of a Financial Review Commission. Rick Snyder, an early proponent of school vouchers, has long worked with big business "education industry" interests and has been involved in more than one dirty scandal involving education profiteering.

A slightly different variation of the same plan was proposed by the union-friendly Coalition for the Future of Detroit Schoolchildren, which included industry and Chamber of Commerce representatives, but also gave the nod to a number of corrupt Democratic Party political fixtures in the guise of "community

organizers" and school board members. Both plans aim to increase privatization and undermine pensions.

For example, both suggest the use of OneApp, which establishes one portal throughout Detroit for all schools, putting charters on an equal basis with traditional public schools.

Complicating the horse-trading in the Michigan Legislature has been pushback by tea-party-style Republicans who oppose reorganization, citing "Detroit fatigue," and using the opportunity to call for the complete dissolution of DPS and complete privatization with a voucher system that could be used at any public or private institution. Michigan's state constitution bars the use of public funds for private schools, and a 2000 statewide ballot initiative to amend the ban was overwhelmingly defeated.

Setting a precedent for the destruction of public employee pensions is also a major priority. Since the Detroit bankruptcy and its legal vacating of the Michigan constitutional protection for municipal pensions, the floodgates have been opened. Significantly, a December 29 *Detroit News* editorial openly characterized "addressing retiree cost" as "the whole point of the EM law ... and **why Snyder has proposed a legislative fix for DPS**" [emphasis added].



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