

Banks, bondholders driving the legal conflict over Flint's water supply

Sheila Brehm, Jerry White
6 July 2017

In an extraordinary turn of events, the state of Michigan's Department of Environmental Quality (MDEQ) has filed a federal lawsuit against the city of Flint for not signing off on a 30-year contract to buy water from the Great Lakes Water Authority (GLWA), the entity that took over Detroit's public water system. The suit was filed on June 27, four days after Flint's City Council balked on the long-term deal, opting instead to sign a three-month renewal with the GLWA.

Flint signed onto the GLWA in October 2015, following the eruption of protests by the city's largely working-class population over the lead poisoning of the city's water supply. The poisoning of the city's water resulted from the April 2014 decision by Republican Governor Rick Snyder's emergency manager to sever Flint's decades-long connection with the Detroit water system and instead draw the city's water from the polluted Flint River.

The legal action filed last week would compel the city to sign the 30-year-deal, which is backed by Snyder, the city's Democratic mayor, Karen Weaver, Genesee County and the Karegnondi Water Authority, the corporate entity contracted to supply Flint with water following the termination of the city's agreement with Detroit. In mid-May, Snyder said of the long-term agreement to stay with the Detroit-based GLWA, "You really can't do much better than that. It's a long-term win for the city of Flint."

The only explanation being given for the lawsuit against the city is that the long-term deal with the GLWA is in the best interests of the people of Flint. The City Council's failure to act will cause an "imminent and substantial endangerment to public health in Flint," the Michigan Department of Environmental Quality's complaint states.

The Snyder administration and the state's environmental agency have as much credibility as a subprime mortgage lender. After three years of lies, virtually no one in Flint believes the professed concerns about the people's well-being coming from the very officials, beginning with Snyder and the MDEQ, who organized the switch from the Detroit system to the Flint River in the first place and then covered up evidence that the switchover was killing and grievously harming people.

These officials were utterly unmoved by Flint residents' protests, which saw workers holding up jars of rust-colored water and complaining of rashes, breathing problems, hair loss and other illnesses. Only after public health experts and scientists proved that the corrosive Flint River water was exposing the population to alarmingly high levels of lead, permanently damaging the brains

and nervous systems of the city's children, did Snyder, the MDEQ and the city agree to switch the water supply back to the Detroit system.

Now, three years after they precipitated a social catastrophe by switching the water supply, they are suing to push through a long-term deal to switch back—in the name of the health and well-being of the very people they previously poisoned!

As for Mayor Weaver, who was elected in November 2015 after the discrediting of her Democratic predecessor, Dayne "Drink the Water" Walling, she has gone from vocal opponent of the Detroit deal to earnest advocate.

No accounting is being given by any of these forces for their extraordinary reversal, nor is the corporate-controlled media asking for one.

So what is really going on?

The *World Socialist Web Site* does not at this time claim to have all the answers. The forces that are pulling the strings in the background and their various maneuvers are kept well hidden from public view by high-priced lawyers, bribed politicians and a corrupt and compliant media. But one thing is certain: neither side in this legal conflict is motivated by the interests of the workers and poor people of Flint. The City Council itself signed onto the original water switch and was fully complicit in the cover-up.

What the known facts indicate is that the overriding aim of the 30-year deal with the GLWA and the lawsuit to enforce it is to ensure the repayment of the loans made to Flint and the Karegnondi Water Authority by the wealthy bondholders and Wall Street banks that control the debt.

The switchover to the Flint River was not, as was claimed at the time, a move to save money for the sake of the economically devastated one-time hub of General Motors production, which had been bled dry and then abandoned by the auto giant. Instead, it was part of a scheme by private investors, contractors and law firms with close political ties to the Snyder administration and both big-business parties to make millions by exploiting the economic plight of the city.

These forces very likely saw, in the forcing through of the emergency manager law despite its rejection in a popular referendum, a political mechanism by which they could plunder the city with impunity, since the emergency managers—unelected and appointed by the state—rule essentially by decree. With the ongoing bankruptcy and rape of Detroit at the hands of emergency manager Kevyn Orr—a Washington DC lawyer with close links to

Wall Street, and a Democrat—they saw a window of opportunity to turn Flint’s water supply into a moneymaker for themselves.

This is how it worked. In 2013, the same year that Snyder’s emergency manager threw the city of Detroit into bankruptcy in order to slash city worker pensions and sell off public assets, Genesee County, which includes Flint, sold \$35 million in bonds to start the construction of an alternate pipeline to bring raw, untreated water to Flint from Lake Huron.

The plan for the Karegnondi Water Authority, which was overseen by Genesee County Drain Commissioner Jeff Wright, a Democrat, had absolutely no economic, social or environmental justification. The pipeline, which would take years to complete, would be entirely redundant, running parallel and only six miles away from the existing pipeline owned by the Detroit system.

The Snyder administration claimed that lack of money had forced the emergency manager, whom he had appointed to run Flint, to slash 20 percent of the city’s workforce and cut the workers’ pay by 20 percent. Yet it was backing the KWA scheme, which entailed loading up the city with another \$145 million in debt to service bonds and refurbish Flint’s long-mothballed water plant. To sidestep legal limits on the amount of debt the city could incur, the MDEQ signed an Administrative Consent Order, which presented the scheme to enrich banks and wealthy investors as a “public improvement” and “water protection” project.

In April 2014, the same month the city switched to the Flint River, KWA sold \$220 million in bonds to more than 30 investors, including JPMorgan Chase, Wells Fargo, and Stifel, Nicolaus & Company, Inc. The latter had previously acquired the investment banking and financial restructuring firm Miller Buckfire, which played a key role in the Snyder administration’s conspiracy to throw Detroit into bankruptcy.

Behind the backs of the city’s residents, Flint officials agreed to pay 34 percent of the \$220 million owed to the KWA bondholders, with Genesee County pledging to cover Flint’s payments within 15 days if the city was unable to make its payments. The money would be extracted in part by increasing the already exorbitant water rates paid by Flint residents.

So bullish were the bond investors, which the Wall Street rating agency Moody’s gave an “upper medium grade” of A2, that the municipal finance web site *The Bond Buyer* bestowed on the KWA its Midwest “Deal of the Year” award at a ceremony at New York’s Waldorf Astoria Hotel in December of 2014.

The Flint water crisis and the eruption of angry protests by the city’s residents threw a wrench into these operations. The KWA has been totally discredited and it is possible that some of the criminals behind the investment scheme, including Wright and Snyder himself, could end up in jail. The KWA could collapse. The prospect, in any event, is for a downgrading of its bonds, leaving Chase, Wells Fargo and company facing major financial losses.

Under these conditions, it appears that the big boys on Wall Street are looking to cut their losses, get their money and get out of town.

The 30-year agreement negotiated by the state, the city, Genesee County, the GLWA and the KWA itself includes a financial mechanism to pay off the bondholders in full. Under the proposed

plan, the city would receive \$7 million a year from the GLWA in return for effectively ceding its water rights in the KWA for a period of 30 years. The city would use that \$7 million to meet its annual debt obligation to the bondholders.

Two days after Weaver announced the city’s intention to stick with the GLWA instead of shifting to the KWA pipeline, S&P Global Ratings issued a bulletin to investors saying it was continuing to give the KWA bonds an “A” rating. “Regardless of whether Weaver’s deal is done or not, that responsibility to pay the bonds remains,” Genesee County deputy drain commissioner Kevin Sylvester told the *Bond Buyer*.

All sides in the legal dispute, including the holdouts on the City Council, agree that come hell or high water, Flint must pay off the bondholders, regardless the cost to Flint residents. In this, the dictatorship of the banks and the completely subservient position of the politicians of both parties are expressed.

It should be noted that despite the expiration of emergency manager rule over Flint, the bankers’ dictatorship continues in a somewhat different form. Last month, the City Council passed a temporary moratorium on the imposition of tax liens on the homes of residents with outstanding water bills, only to have its decision overturned by Snyder’s unelected Receivership Transition Advisory Board. Now some 8,000 homes are threatened with foreclosure if residents do not pay the bill for water that is still tainted with lead and other toxins.

The most plausible explanation for the recent turn of events is that the governor, the Michigan Department of Environmental Quality, the mayor, the KWA and Genesee County have all made a 180-degree turn because the banks and bondholders have told them to. Snyder and Weaver cannot, of course, admit this, so they are posing as defenders of the health and well-being of the people.

While the courts and the politicians are scrambling to make the bondholders and the financial institutions whole, they have no intention of compensating Flint residents for ongoing health problems, the collapse in the value of their homes, the loss of their life savings and permanent damage to the development of their children.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact