Five years since Detroit bankruptcy

# Moody’s warns investors about Detroit’s mounting debt

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Recent financial advisories from Moody’s Investors Service, one of the top three US credit rating agencies, warn that the city of Detroit’s failure to address economic problems in its neighborhoods and schools is threatening the ability of the city to meet post-bankruptcy obligations to its credit holders.

In back-to-back reports in November, Moody’s issued warnings about the financial arrangements that underlay the Detroit bankruptcy in 2013–14, the largest municipal bankruptcy in US history, and about financial shortfalls of massive proportions in the schools. The second report zeroed in on a deal with the state of Michigan to supposedly resolve the crisis in the city’s schools in 2016.

The financial advisory has been followed by the announcement by General Motors of 14,000 hourly and salaried job cuts, including the closing of the Detroit-Hamtramck Assembly Plant, that will further devastate Detroit and other struggling cities already hard hit by the 2008–2009 recession and decades of deindustrialization.

The 2013–2014 Detroit bankruptcy amounted to the rape and pillage of city workers, residents and retirees in the interests of Wall Street, in which hundreds of millions of dollars were taken from the pockets of city workers and pensioners and poured into the coffers of the hedge funds, banks and bondholders. Now the financial elite is warning that the tribute extracted was not enough.

Two years after the bankruptcy, the Detroit Public Schools (DPS) was dissolved into the Detroit Public Schools Community District (DPSCD). These fiscal machinations created a “new” and “old” school district to address debt obligations, along the lines of the 2009 auto reorganizations that created a “new” and “old” General Motors.

The so-called bailout of the Detroit Public Schools in 2016 was billed as relief for a district cash-strapped by decades of underfunding, in which emergency managers appointed by both Democratic and Republican governors carried out round after round of brutal cuts.

Conditions in the Detroit schools reached such a scandalous state that teachers staged unauthorized walkouts in the spring of 2016 in protest. Only with great difficulty were the Detroit Federation of Teachers and its national affiliate, the American Federation of Teachers, able to bring the incipient rebellion under control.

The reorganization of the Detroit schools was based on a scheme aimed at paying off creditors that did nothing to resolve the legacy of cuts. The financing utilized a state infusion of funds and private money, but was designed to keep the school system on rations. The arrangement left the “new” district, DPSCD, unable to borrow for years for any of the capital repairs it desperately needed for buildings in advanced disrepair.

Moody’s financial advisory along with the GM job cuts announcement punctures talk by Democratic Mayor Mike Duggan, the corporate media, and pundits and politicians of both major political parties of Detroit’s supposed comeback.

Moody’s initial November report referred to the $143 million in annual pension contributions Detroit must begin to pay a decade on from the bankruptcy crisis, starting in 2024. In that report, and a corollary one that followed, Moody’s also cautioned that the looming crisis in the city’s public school system threatens to put the brakes on revival plans for the city.

A July assessment conducted by the consulting firm OHM Advisors reported a staggering $530 million in capital needs and deferred maintenance is required for the district’s 100-plus school buildings in operation in the city. Delay in repairs could push the figure over $1.5 billion by 2023.

The Moody’s report attaches some real-world figures to the contrast between Detroit’s redeveloped central city and the shocking and persistent poverty and blight in the city’s vast working-class neighborhoods.

Moody’s notes that despite the 10,000 who have moved downtown, populating new and refurbished apartments, the city as a whole has lost a net 35,000 residents since 2010 as the neighborhoods continue to bleed. Unless the dire economic problems outside the seven square miles in the city's center are tackled, tax revenue will fall short of goals.

One shocking index of the social crisis in Detroit are water shutoffs, which are on pace to match the 17,655 shutoffs last year. *Bridge Michigan* reported between 1,500 and 2,500 occupied homes are still without water after shutoffs this year and 900 had gone three months without running water. High poverty led to one in three Detroit homes in arrears for water at the time of the bankruptcy in 2014.

Gary Brown of the city's water department has said overdue repairs to the water infrastructure in the city must be rationed. Sparsely inhabited neighborhoods should lose their water and the remaining tenants moved out. It is downtown and midtown that are top on the water department's list for repair.

According to the Moody's report the city is beset by high debt and pension burden with a citywide population declining and per-capita income just above 52 percent of the nation's. Payment of this debt depends on increasing tax revenue, they assert.

It is not the wealthy that Moody's expect will pay. Billionaire owners of entertainment venues and real estate have extorted huge tax abatements. The billionaire Illitch family got $325 million for a new sports arena and $618 million went to billionaire Dan Gilbert for building projects in the city, including a new skyscraper. Ford is expected to ask for some $240 million in forgone tax payments for its investment in the once-abandoned train station in Detroit.

Meanwhile, hundreds of thousands in Detroit live in daily economic desperation in blighted neighborhoods, suffering from unemployment, low wages and little social support. According to the US Census Bureau, Detroit is still the poorest large city in America, with 40 percent of the population living below the woefully inadequate official US poverty line.

Despite having land and house prices relatively low in comparison to "superstar" cities like New York and Los Angeles, Detroit and its larger metro area is experiencing an epic housing crisis that has left neighborhoods across the city resembling a war zone. Abandoned, burned and demolished homes line block after block.

Once the US city with the largest percentage of home ownership, now over half of Detroit consists of rental households. Hundreds of thousands of families live in what the industry calls "scattered site" housing, that is, single-family homes. They were once owner-occupied but now have been gobbled up by landlords, many who own properties in the hundreds or more.

Tax auctions churn this real estate. Absentee landlords regularly buy sub-standard homes at tax auction, neglect needed repairs, then dispose of them back to tax foreclosure when they become utterly unfit for habitation.

An estimated 4,300 households currently squat in homes actually owned by the Detroit Land Bank, people who are effectively homeless. A brief window, now closed, was open this summer to offer a relief program to a small number of residents who had experienced tax foreclosure. But they had to come up with $1,000 and maintain a payment plan. That sum was out of reach for impoverished residents.

Wayne County, which includes Detroit and many of its inner suburbs, has foreclosed on over 160,000 properties since 2002 in its annual tax auctions. The county counts on millions in revenue from foreclosures. They got $64 million in 2014 alone based on foreclosures and the huge fees and fines tacked on arrears.

Poverty and low wages drive the housing crisis. The policies of the Democrats in the city and county drive the poor out. Houses are torn down, not fixed, to create a shortage that will force the market to raise home prices and increase tax revenue. In the past 15 years one in three properties in Detroit has undergone tax foreclosure.

This is the state of affairs in Detroit five years after the bankruptcy. The result has not been a revival of the city but a vast expansion of the social divide between rich and poor, with workers being bled to feed the profits of banks and real estate developers.

The experience of Detroit demonstrates the utter inability of the capitalist profit system to address the most basic social concerns. It exposes all the fraudulent claims of various pseudo left organizations that workers could defend their interests through pressuring the trade unions or the Democratic Party. It raises in the sharpest manner the necessity for workers to adopt a socialist strategy aimed at ending the subordination of society to the profit demands of the banks and Wall Street.

*The author recommends:*

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