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## **Detroit nears financial collapse, runs out of options, review panel finds**

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An emergency review team's report on Detroit describes a city on the verge of collapse -- too inflexible to restructure itself, unable to explain why its budget forecasts are routinely wrong and no longer capable of papering over its crisis by taking out loans.

How bad is it?

- As far back as 2005, the city's general fund has operated at annual deficits ranging from \$155.4 million to \$221.9 million. The primary method of reducing it: issuing more debt in the form of bonds.

- As of June 30, the 36th District Court had \$279.3 million in uncollected fines, fees and other



costs from parking violations, civil infractions, traffic and drunken driving cases and other misdemeanors. The court's collection rate of 7.7% is way below the 60% rate in suburban courts.

- The Detroit Police Department has about 2,030 employees, but the city has “no reliable information” on how they are deployed. Some city officials said one-third are on patrol, but police officials say that number is 68%.

- The city charter contains restrictions that make it “extremely difficult to restructure city operations in any meaningful and timely manner.”

- Detroit's long-term liabilities, including unfunded pension obligations and retiree health care, exceeded \$14 billion in 2012. Those obligations are expected to cost \$1.9 billion over the next five years, yet the city has "no satisfactory plan" to address the issue.

Those problems and an array of others prove Detroit is out of time, a six-member review team led by state Treasurer Andy Dillon said in a report delivered to Gov. Rick Snyder today. Snyder is widely expected to use the evidence to appoint an emergency financial manager to tame a years-long runaway budget crisis.

"We gave the city every chance to avoid the outcome that we're recommending to the governor today," Dillon said at a news conference at Cadillac Place in Detroit's New Center.

But the review team does not recommend a remedy. It cites what some have said is obvious: that problems are so deep and structural that the city cannot correct itself.

Despite the grim findings, Dillon praised recent cooperation on spending cuts from Mayor Dave Bing and the City Council. He declared: "I do believe strongly that Detroit is fixable, and that we can see brighter days ahead in the near future."

Fixing Detroit was, perhaps, an impossible task for city officials to take on without deeper state intervention. The city is accustomed to patching budget holes with ever more borrowing, something its trashed credit rating now prevents.

The report found the city will have to pay up on \$2 billion of its long-term debt over the next five years, even as it slid toward another \$100-million annual cash shortfall by the end of the fiscal year in June.

Snyder spokeswoman Sara Wurfel said today that the governor will review the report "carefully and closely before he makes his decision on whether to appoint an emergency manager. We expect that to be sooner rather than later."

In a statement released shortly after the report's release, Bing said his administration "will stay focused on the initiatives that most directly impact the citizens of Detroit: public safety, public lighting, transportation, recreation and neighborhood blight removal."

"Certainly, I am not surprised by the findings of the state's financial review team," Bing said. "My administration has been saying for the past four years that the city is under financial stress. If the governor decides to appoint an emergency financial manager, he or she, like my administration, is going to need resources — particularly in the form of cash and additional staff."

The review team said Detroit's experiment with a consent agreement — reached in April 2012 to avoid appointment of an emergency manager — did not work. And although Dillon said he doesn't believe the last 10 months delayed progress on fixing Detroit's mess, it's clear the city's problems are no less severe.

The review team made a point of stating that its "conclusion is unaltered by whether the lack of progress lies in the complexity of the city's financial and operational activities, subsequent litigation initiated by city officials to challenge the legal validity of the financial stability agreement or other considerations."

Some of the city's pension obligations may be underfunded by as much as 50%, worse than previously reported.

Despite a scramble in recent weeks to cut employee pay and benefits and collect unpaid taxes, the city projected a cumulative cash deficit of more than \$100 million by June 30.

The report said that Bing and the council "deserve credit for considering and, in some instances, adopting difficult financial reforms," but that the efforts were "too heavily weighted toward onetime savings and apply only to nonunion employees who represent only a small portion of the city's overall wage and benefit burden."

The report also notes that Detroit hasn't had a general fund surplus since 2004 and would have had an accumulated deficit of nearly \$937 million had it not floated bonds.

The report also concludes that city officials violated uniform accounting and budgeting rules and failed to amend budgets promptly to prevent deficit spending.

Now, the countdown begins on Snyder's decision on what to do next.

Political observers and financial analysts say the governor has little option but to appoint an outside emergency manager who will do what Bing and the City Council have not: restructure a city government that is far too large, costly and sclerotic for Detroit's shrinking population and tax base.

Under state law, Snyder has 30 days to decide whether to declare that an emergency exists and that an emergency financial manager is needed. But he has no deadline to appoint that person, though he may do so within weeks.

By now, state officials had hoped to see more evidence of change. That hasn't happened, but likely will — and quickly — under an emergency manager, said Patrick McCauley, a longtime metro Detroit municipal lawyer who has represented cities, townships and counties for more than 30 years.

"His or her efforts are going to be pretty draconian in light of the financial straits the city is in," said McCauley, a partner in Gasiorek, Morgan, Greco & McCauley in Farmington Hills.

Crime, a loss of manufacturing jobs and a law passed by the state Legislature in the late 1990s barring residency requirements for city workers resulted in residents leaving the city in droves. The national foreclosure crisis further decimated Detroit's real estate values, the major source of revenue for city government.

The city's accumulated deficit is \$326 million. There is little indication that it would be brought down significantly without state intervention.

"The question will be: How long the emergency manager will wait before he or she believes the (corrective) actions taken have really taken hold?" McCauley said. "If, after six months, the emergency manager determines there's no feasible plan to fix the city, then he or she can recommend to the governor that a bankruptcy should proceed."

State Rep. Thomas Stallworth, D-Detroit, said the state has to get out of the city's way and allow it to come up with creative ways to raise revenues.

"We've cut our core services to the bone, and we've made more cuts than anybody would reasonably expect," he said. "The state still owes us revenue sharing, which they refuse to pay, and they refuse to take the shackles off the citizens of Detroit and allow them to vote to tax themselves. ... Detroiters want to resolve this problem, and we all realize that it is a crisis that has to be dealt with."

But Ari Adler, spokesman for House Speaker Jase Bolger, R-Marshall, said Detroiters shouldn't hold their breath waiting for financial assistance from the state.

"If anyone is waiting for a cash bailout from Lansing, it's not going to happen," Adler said. "We've done a lot of things to help Detroit -- like the lighting authority and the regional transit authority -- but at this point, there's really nothing else for us to do."

Council President Pro Tem Gary Brown, often a supporter of the state's push for changes, said today that he would not support a municipal bankruptcy or the appointment of an emergency financial manager. He said he feared "the draconian cancellation of union contracts and sale of city assets under an EFM will affect the economy in dramatic fashion, including raising unemployment and negatively impacting businesses operating in the city."

Councilwoman JoAnn Watson said earlier today that the council should challenge a finding by the state that Detroit is in a financial emergency

because corporations, the state and others owe the city more than \$800 million. But that's a figure Bing and others in his administration say is overestimated.

City Council members were not ready tonight to predict whether Snyder would appoint an emergency financial manager.

Councilwoman Saunteel Jenkins said the council's authority under an emergency financial manager is unclear at this point. "In large part, it'll depend on who the emergency manager is, what their philosophy is and their goals for the city," she said after community meeting in northwest Detroit.

Councilman James Tate said he had no idea what Snyder will do, but he hopes the state and the city forge ahead cooperatively. "I know it's an emergency. I clearly understand that. But in terms of trying to look into the future in a crystal ball to figure out what the governor is going to come up with, I don't know," Tate said. "I'm just hopeful it is one where it is a cooperative relationship with this city."

Some who want to become the city's next mayor weighed in on the report's findings, as well.

"I firmly believe that the city has the capacity to work through these issues under local control; however, if an emergency manager is appointed, I think that it is important that the state partners with the elected leadership and the community to address these issues," Wayne County Sheriff Benny Napoleon said.

"Whoever is going to be the next mayor ... would do well to work with the emergency manager," state Rep. Fred Durhal Jr., D-Detroit, said in a prepared statement. "I worked with an emergency manager in Highland Park. If you go and talk with them and remain open to discussion, a lot can still be done by the council and mayor."

On her Facebook page tonight, former state Rep. Lisa Howze said: "The financial review team found out what we have known about Detroit's finances for at least the last four years. ... The city needs to collect more revenues than we did the previous year and certainly more than we are paying out in expenses. The practice of austerity in the form of cuts to wages and employment levels, furlough days and 12-hour shifts do not work and will not work. The city needs a better system for collecting its taxes and other debts due to Detroit, along with restructuring of our long-term debt."

Former Detroit corporation counsel Krystal Crittendon could not be reached for comment. And former Detroit Medical Center CEO Mike Duggan declined to comment through his spokesman John Roach.