

# **Detroit Seeks Answers To Long-Term Debt Problems**

Corey Williams, Associated Press

DETROIT (AP) — Faced with a mountain of debt and burdensome union contracts, Detroit's financial predicament appears similar to the one General Motors and Chrysler confronted during the economic meltdown. However, while the motor companies received a bailout, the Motor City likely will not.

Although state and city leaders say they're close to a compromise that would prevent the appointment of an emergency manager to take over the reins of city government, the deal would only give Detroit resources and support from state officials in Lansing — not cash. The automakers got a major boost from the U.S. government on their way back to profitability.

Thus, while Detroit's elected leaders would remain in charge, the challenges the city still faces are massive as it suffers from declining revenue based partly on an ebbing population. The city is saddled with \$13.2 billion in long-term obligations — including \$5.5 billion in future medical liabilities — and \$2.5 billion general fund debt. It's at risk of running out of cash by the end of May.

"Unlike a typical operating business, predicting cash flow for a municipality may be a little difficult," said Doug Bernstein, managing partner of the Banking, Bankruptcy and Creditors' Rights Practice Group for Michigan-based Plunkett Cooney law firm. "Revenue for a city is dependent upon taxes. But what they issue for tax bills doesn't exactly mirror what they get paid."

The auto companies were able to rebound from bankruptcy and painful restructuring to return swiftly to profitability. The reason, Bernstein said, is they had a product — cars and trucks — to sell.

Removing some of Detroit's long-term debt, including cutting medical and pension payments is the cornerstone of Mayor Dave Bing's restructuring plan for the city. His office and the City Council are negotiating a consent agreement with the state that would keep Gov. Rick Snyder from appointing an emergency manager to oversee the city.

Part of the agreement being hashed out could include the city's sale of \$137 million in bonds to help meet immediate cash needs, but does not address underfunded pensions, retiree health care and other structural debt.

"Our focus was on cash flow in the short term," said Kirk Lewis, Mayor Dave Bing's chief of staff and the city's deputy mayor. "As we look at the longer term ... future medical benefits liability ... that can be dealt with as we restructure the retirees' medical."

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Pension savings also would come out of restructuring under recent concessions from city unions on pay and health care.

"The city of Detroit needs to grow, and that's the best way to address long-term liabilities," Snyder said Tuesday. "It's about financial stability — budgeting, finances and about implementation."

Both General Motors and Chrysler, hamstrung by costly labor contracts and massive debt, went through bankruptcy reorganization in 2009. The companies were able to shed debt, get rid of bad assets and convince the United Auto Workers union to make concessions, and they emerged as leaner companies that are making money again.

While some on the Detroit City Council want the state to consider giving Detroit an advance on its revenue sharing, Snyder and Dillon repeatedly have said no financial bailout for Detroit is coming from Lansing.

"What's on the table now is a \$137 million in borrowing, not a gift from the state," Lewis said. "They will give us the authority to borrow. My view is you can't sustain a turnaround unless you have some infusion of money. The things that we need to get done — a new payroll system, a new general ledger system — take money. At some point as we sit down with the state we're going to have to clearly address how do we fund this?"

The City Council approved the borrowing measure Tuesday afternoon, but not without some rancor.

"I'm frustrated with the process," Councilman Kwame Kenyatta told other council members. "I don't have a problem with borrowing. This is a debtor nation. That's the American way."

But the city's best option still may be working with the state on its restructuring, Bernstein said.

"If there's a life-line for Detroit, it's the state of Michigan," he said. "But the state is not going to dedicate its resources on the same terms that got the city in the trouble it is in today. There has to be some kind of control, a plan for deficit reduction."

Time is running short, though.

A review panel appointed by Snyder on Monday decided not to recommend that an emergency manager take over the reins of city government. Snyder has 10 days to negotiate a compromise with city officials on a consent agreement before deciding if an emergency manager is needed.

"I think the restructuring of Detroit will be painful regardless if its Chapter 9 bankruptcy, an emergency manager, consent decree boards, or quite frankly, Mayor

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Bing and the City Council," said John Pottow, a law professor at the University of Michigan.

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