Detroit (USA) : The Takeover of Motor City

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Sommaire

IN EARLY APRIL the Detroit City Council, by a 5-4 vote, and Mayor Dave Bing signed a "consent agreement" with Michigan Governor Rick Snyder that essentially turns over the city's financial management to an appointed board. City officials maintain they avoided the imposition of Michigan's draconian Public Act 4 (Emergency Manager Law), but in effect agreed to stay in office with their hands bound — as the language of the agreement states that they agree "to restrain their respective exercise of their powers, privileges and authorities…."

Residents and city workers, angered by the impending takeover and the stripping of union contracts, had turned out in force at public hearings, urging council members to reject the agreement. They pointed out that later in the month a petition signed by 225,000 for a referendum on the Emergency Manager law was to be placed on the November ballot, and the law suspended. Why then feel threatened by Governor Snyder's deadline that he would impose an Emergency Manager on the city if they failed to sign ?

Probably fewer than 2% of all the speakers had supported the agreement — yet the city's corporate press, "liberal" and "conservative" alike, and television stations banged the drums for the takeover.

On March 26 a financial board including former Democratic state legislative leader, now State Treasurer, Andy Dillon concluded that the city was in a condition of "severe financial stress" (duh). The purpose of this declaration was to satisfy the legal requirement for a state takeover by one means or another. Clearly Detroit did not have the cash to make it through the spring — but interestingly enough, the consent agreement doesn't provide any.

The agreement does outline the 12 required provisions for any future collective bargaining agreement, and specifically notes that 30 days after the agreement goes into effect, the outsourcing of services to save money will not be subject to bargaining. Another list of 21 items indicates the prioritization and timing for reorganizing, outsourcing and privatizing city services for Phase I of the reform program.

This agreement voids the concessionary collective bargaining agreement the Mayor had just negotiated with a coalition of city unions. The tentative contracts were said to contain $102 million of union concessions in 2012 and $258 million in 2013 — but the Governor claimed that wasn't enough, and backroom maneuvering kept the contract from being approved by City Council. The coalition of unions rushed into court to block implementation of either a consent agreement or Emergency Manager law, but that proved unsuccessful.

_With "Help" Like This…

All along Governor Snyder appeared calm and reasonable, wondering why people testifying against the consent agreement were incensed. He explained that all he wanted to do was help the city get back on its feet. Given that "help" was the verb he used to appoint Emergency Managers in Flint, Pontiac, Benton Harbor and the Detroit Public Schools, it is probably best to investigate what was promised.

The state will pick up half of the salaries and expenses of the Financial Advisory Board, Chief Financial Officer and Project Management Director (up to $500,000), provide technical assistance (payroll system upgrade, integration of financial reporting system, implement a new grants management system) and provide some legislative assistance.

In Phase II, the Michigan Treasury Department pledged to work cooperatively with the city to formulate options for post-retirement plans, which may mean consolidating them. Critics feel Detroit pension programs are better-funded than comparable state benefits, and thus ripe for takeover. Additionally, the Treasury Department will provide technical assistance and support of the city's real estate management and demolition of abandoned structures.

The only additional money promised up front is $3 million to clear title on parcels in order "to ready them for speedy economic development."

The document notes that the state just signed off on a $137 million bond for the city. Thirty-three million will "refinance existing debt," with the rest to be placed in an escrow account and, when approved by State Treasurer Dillon, used to pay operating expenses and the reform program.

In summary, the agreement provides little concrete financial aid, while demanding huge givebacks by the 11,000 city workers along with a massive restructuring of city departments and city assets. First up are the workers, whose contracts end June 30.

For their part neither Mayor Bing nor the City Council slouch when demanding concessions. While the Mayor recently called for 1000 layoffs, Pro-tem Councilman Charles Pugh was demanding 2,300. Last November the Mayor boasted of having eliminated 2,000 city positions since his election, imposing a 10% wage cut, a 10% increase in workers' contribution to their health care and further flexibility in work rules. In fact city workers have worked under concessionary conditions for years.

If the majority of city officials agreed with the state officials that cuts had to be made, then from their point of view the question was who would be in charge.

The consent agreement, unlike the Emergency Manager, preserves the fig leaf of representative democracy with a nine-member board instead of a naked dictatorship. Three members will be picked by the Governor, two each by the City Council and Mayor, one by the State Treasurer, with the final individual jointly appointed by the Governor and Mayor and confirmed by the City Council.

Further, a Chief Financial Officer, with a salary pegged at $280,000 a year, will oversee the budget, and a Program Management Director, who will drive the reforms, earning $250,000, will be chosen by the Mayor from a list of candidates agreed to by both Mayor and Governor.

From Governor Snyder's point of view, the consent agreement is superior to the Emergency Manager for two reasons :

First, the EM law may be suspended between the end of April and the middle of May, assuming there are enough valid signatures to put it on the ballot as a referendum issue in the November elections (and if courts don't step in to block it on bogus technical grounds).

Second, if Public Act 4 had been invoked, more than half of the African Americans in Michigan would have been effectively disenfranchised in local elections. Given the discussion about the EM takeovers of Flint, Pontiac and Benton Harbor — all towns with an African-American majority — the political price became more than Snyder wanted to pay. He felt his takeover would look much better if the city officials themselves agreed to his plan — and I believe his calculation was right on the money.

Detroiters are already outraged over the takeover of the Detroit Public Schools by a state-appointed Emergency Financial Manager, resulting predictably in the gutting of DPS by school closings, chaotic reassignment of teachers and the conversion of many schools to foundation-operated "charters." Appointing an EM to run the city would add fuel to the anger.

Behind Detroit's Deficit

Detroit's financial crisis has been in the making for the past 50 years. What other city of 140 square miles has gone from a population of two million to fewer than three-quarters of a million ? Forty percent of the city lies vacant, although some sections of the city are more abandoned than others. Fortunately many block clubs, churches and neighborhoods have taken over land and planted more than 1500 urban gardens.

Currently there are about 80,000 abandoned structures. Many are burned wrecks. Mayor Bing has pledged to tear down 10,000 buildings during his term in office and in his 2012 State of the City address pledged to demolish the the Brewster Projects — four 14-story towers and surrounding townhouses — by the end of the year.

The complex was the first federally funded public housing built for African Americans. It was once home to Motown singers Diana Ross, Florence Ballard, Smokey Robinson and comedienne Lily Tomlin. The demolition pricetag is estimated at almost $10 million but the area is close to downtown and prime for redevelopment.

Since the 1950s corporations left or significantly downsized. As factories closed and jobs left, property taxes decreased. Out of a population of 713,000, some 174,000 residents between 16-64 do not have jobs, the worst rate among U.S. cities. Of course, some are retirees whose pension and benefits are not subject to city tax.

Only 15% of the city's revenue comes from personal income tax ; an additional $155 million a year goes uncollected because many suburban employers don't withhold Detroit income tax. City property values have also plummeted.

Blighted communities, often suffering from severe toxic waste, dot the city. This is particularly true for residents in southwest Detroit, who suffer high asthma rates from industrial pollution, and now must contend with the recent expansion of Marathon Oil, just over the city border, in order to process oil from the Alberta tar sands.

Over the years mayors developed plans to rebuild downtown while ignoring the neighborhoods. With a declining tax base, needed infrastructure projects, including the municipal lighting system, were postponed. The city has a water and sewerage system that not only provides for Detroiters, but for 4.4 million throughout the metropolitan area. However many of its operations have already been outsourced.

To be sure Detroit suffers from corruption and mismanagement, but it is not worse than many other cities of its size. (It is still the 18th largest U.S. city.) Aside from having one infamous mayor, Kwame Kilpatrick, who thought the city belonged to him and his buddies, city officials have floated bonds to cover regular operations — a risky practice actually dating back to the 1960s.

In addition, officials foolishly agreed to “swap” deals with the banks for a fixed interest rate, which added $1.1 billion more to the city debt. They also agreed to allocate tax revenues to a trust to ensure collateral, therefore reducing available cash.

Worse, the city engaged in speculation on “hedging derivatives,” which by 2011 meant $3.8 billion worth of assets had the market value of only $560 million. These desperate acts were undertaken as the state reduced its stream of revenue sharing.

Back in 1998 Governor John Engler and Detroit Mayor Dennis Archer agreed that in exchange for the city phasing out its business tax and reducing its income tax one percentage point, Detroit would receive additional revenue sharing. But Engler reneged on the $220 million deal and the city ended up cutting its tax half a percent. When Detroit officials bring up the $220 million as a debt owed to the city, state officials reply “That was then, this is now.”

It’s true that Michigan also suffered a decade-long recession. Between 2001-2010 Michigan sales tax revenue, one source of the revenue to municipalities, declined 4%. Yet the payment to Detroit dropped 28%, resulting in a loss of nearly a half billion.

Governor Rick Snyder, who has been in office since January 2011, cut the statutory revenue sharing portion by one third, and Detroit received $100 million less. Snyder has replaced previously unrestricted revenue sharing with one that “rewards best practices.” One third of the funding will be based on “transparency,” another third on a municipality consolidating its services and the final third require specific rules (cuts) for employee benefits. For example, a city can receive the final third only if its employees pay at least 20% of their health care.

Crushing Debt Burden

The agreement does not address the city’s enormous $13 billion debt. Add another $5 billion for interest, with some $600 million in interest due this year alone. Even if city workers donated their salaries, the city cannot pull itself up by its own bootstraps. As the April 8, 2012 Detroit News editorial in support of the consent agreement noted, “If Detroit devoted 42 percent of its general fund revenue to debt payments, it would take 42 years to pay it off.”

For its editorial of the same day, the Detroit Free Press discussed the importance of “moving quickly to rack up visible improvements” and listed transit, lighting and police as key services needing visible change. In the case of lights, the agreement has the state and city collaborating to set up a separate authority that will “make financing more attractive to bondholders.”

Realizing that this doesn’t turn street lights on today, the editorial suggests the need for “creative” solutions. It highlights a community group’s work to install porch lights since the streetlights don’t function consistently, and suggests in other areas “portable lights powered by generators.” Since we have 88,000 street lights, but 40% do not work, this sounds like a massive undertaking for a temporary fix.

Detroit Free Press writers Dawson Bell and Paul Egan reported that a review of the consent agreement reveals “the near-term cost to the state could be $50 million — or more.” But then they remark that the state assistance “skirts pesky questions altogether.” Given a right-wing legislature that is hostile to Detroit, those pesky questions will likely remain unaddressed.

The final consent agreement has a three-page list (Annex E) of “supportive activities already in progress.”

These range from already funded and ready-to-go projects to a wish list the legislature is unlikely to fund. Many seem geared toward providing business with vacant land that they might profitably develop. Some, such as providing technical assistance for city income tax administration, are common sense, but one wonders why the state couldn’t have offered its technical services without all the drama. But what is obviously missing is a willingness to take on the banks that hold the city’s crushing bond debts.

Would the consent agreement’s projects be ones Detroiters would make ? It would seem to me that high up on our list would be improving bus service, not cutting, outsourcing or privatizing the system.

A Way Out of this Mess ?

What about jobs ? As a manufacturing center since the Civil War, Detroit could be a natural site for alternative energy research, development and manufacturing. We can retool plants for photovoltaic batteries, solar panels and wind and water turbines. We not only need mass transit, but we can build it as well !

With so many historic buildings, Detroit has experience in converting buildings to energy efficiency. The nearly 100-year old Oddfellows’ Hall in my neighborhood was renovated, with a state-of-the-art geothermal heating and cooling system installed.

Where it is not possible to reuse buildings, workers can dismantle components into materials for recycling rather than just knocking them down with a bulldozer. Of course, many of these old buildings contain lead and asbestos, so having sites tested before deconstruction is an important part of the process. All of this necessary work can be carried out by people who have been trained for green jobs.

Detroit is saddled with such a large debt and has so many structural problems that many throw up their hands and say, “Well there’s nothing we can do.”

How can it be acceptable for workers to take cuts, or to have a fire sale on our assets, but banks can’t take concessions on their bonds ? Yet it’s the banks we must target if we are to reverse Detroit’s poverty.

I would suggest we’ve got to take hold of the budget process ourselves. We need to learn how to read, question, understand and learn the method of pulling apart and putting budgets together. We need to start with a People’s Audit that establishes priorities.

Two years ago when Mayor Bing decided to have town meetings throughout the city and ask people’s opinions about how we could rebuild our city, thousands came out ready to discuss and set priorities. People were disappointed and angry because the process was a phony one — but it’s clear that city residents will come to meetings with ideas.

One of the ways the agreement specifies ending the takeover would be triggered when the city’s credit rating is been restored by at least two nationally recognized securities rating agencies. As I read it, we are being held hostage to the one percent.

A People’s Audit is the first step. As we gather the information and discuss the disastrous debt we face, we can find the strength among ourselves to explain to people in other cities and towns throughout Michigan that we are being boxed in by rising inequality. As we organize ourselves, we will find allies who also see the undemocratic and anti-social constraints and will join us in seeking an alternative.

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P.-S.

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http://www.solidarity-us.org/site/node/3580