

December 3, 2011

State of Michigan may step in to run Detroit

By COREY WILLIAMS, Associated Press – 2 days ago  

DETROIT (AP) — The idea is extreme, even in a city accustomed to fighting for survival: Should the state of Michigan step in to run Detroit?

The governor has taken steps in that direction, proposing an unprecedented move that could give an appointed manager virtually unchecked power to gut union contracts, cut employee health insurance and slash services. But city leaders bristle at the notion. Said the mayor: "This is our city. Detroit needs to be run by Detroiters."

If it happens, Detroit would be the largest American city ever taken over by a state. Michigan has seized control of smaller struggling cities, but until now Detroit was always off-limits.

That changed this week, when Republican Gov. Rick Snyder's administration said it would begin a review of Detroit's precarious finances. If the governor concludes that the city's economic situation constitutes an emergency, he could dispatch a manager who could push the mayor and city council to the sidelines.

It's not clear how everyday services like trash pickup and bus routes would be affected, but the fixer's mission would be clear: Do whatever it takes to stop the bleeding.

Democratic Mayor Dave Bing says Detroit doesn't need the help. He insists the city is reducing a \$150 million budget deficit and easing cash-flow problems on its own.

"We know what needs to be done, and we stand ready to do it," an indignant Bing said.

The financial review starts Tuesday and may last up to 90 days, meaning a takeover could be under way by the end of February.

The same fate has befallen other cities.

Atlantic City agreed in 2010 to let New Jersey take over its finances in an arrangement that allowed the city to spread a \$9.5 million deficit over five years, sparing homeowners and businesses a significant property tax increase.

In Pennsylvania, Gov. Tom Corbett signed a law in October enabling a takeover of Harrisburg.

New York City had a brush with bankruptcy in the mid-1970s, but the rescue package put together by then-Gov. Hugh Carey stopped short of a full state takeover.

"In terms of a city, I think Detroit stands alone," said Michael LaFaive, director of fiscal policy at Michigan's Mackinac Center for Public Policy, a nonpartisan group that espouses free markets.

An emergency financial manager would have the power to privatize utility departments, as well as the bus system and other agencies. A manager also could sell off city-owned parking lots and even Belle Isle, Detroit's popular island park, LaFaive said.

That person could even cut the pay of the mayor and city council members.

In a 2001 report, LaFaive wrote about Detroit's burgeoning fiscal problems and recommended privatization, contracting out services and ways to generate revenue.

"I think they knew what the recommendations were, but their hands were tied a bit by recalcitrant employee unions," LaFaive said. "Those kinds of bold reforms would be difficult to get over with the city council or voters, in general."

Last month, Bing declared the city government "broken" and said the public's checkbook would be short by \$45 million next year unless Detroit starts saving money fast. In an attempt to ward off an emergency manager, he proposed laying off 1,000 employees — 9 percent of the workforce — and negotiating 10 percent pay cuts with unions.

"If Lansing believes our plan isn't strong enough, I'd like to hear their suggestions for what they can improve," the mayor said. He suggested the state help by supplying millions of dollars that he says the city was promised in a decade-old tax overhaul. Detroit has also sought help collecting its income tax.

"It's our hope that the mayor and city council and labor can cut their own deal that works for the city," Michigan Treasurer Andy Dillon said Friday.

But even after a number of threats from the mayor, organized labor barely budged. Now that a state takeover looks more likely, adversaries have become partners.

"We're going to sit down and resolve these issues," said Al Garrett, president of the American Federation of State, County and Municipal Employees Council 25 in Michigan.

A Michigan-based corporate turnaround specialist, James McTevia, said there would be potential pitfalls for any Detroit manager. Pay cuts ordered without negotiation, he said, could make the city's workforce boil.

"You can breach all the union contracts you want, but if the police and the fire department walked out, you are in deep trouble," McTevia said.

Detroit has struggled for years after the auto industry collapsed, leaving the city with a much-reduced tax base and a dwindling population of 713,000, down 25 percent in just the last decade.

Managers already oversee Flint, Pontiac and Benton Harbor, as well as the Detroit public schools.

As Benton Harbor's emergency manager, Joe Harris has ordered firefighter cross-training for police officers, which reduced public-safety costs by a third.

He also negotiated new collective-bargaining agreements with many unions, forcing Benton Harbor employees to pay 20 percent of their health care premiums and contribute 10 percent of their wages to pensions.

In Pontiac, emergency manager Lou Schimmel dismissed the city clerk, the city attorney and the head of public works. He's also taken smaller steps, such as removing parking meters that cost too much to maintain. And he hopes to save \$3 million by having the neighboring community of Waterford take over fire protection.

"It's daunting anywhere but, yeah, you can fix it," Schimmel said of Detroit. "First, I'd want a list of all assets the city owns — the land, buildings, operations the city shouldn't operate and should sell. The lighting system is still run by Detroit. That's crazy. I'd want to concentrate on privatizing core services. I'd want to get police and fire contracts in line."

The Citizens Research Council, a nonpartisan group that studies government at all levels, analyzed Detroit's finances in 2010 and warned that the city "must be restructured." The city, it noted, owns a small airport, has its own health service, regional water agency and streetlight department, and uses city employees, not contractors, to pick up trash.

Sheila Cockrel, a city council member for 16 years until 2010, said long-term relief is unlikely until the city changes the pension system to a 401(k)-style defined-contribution plan and puts more health insurance costs on employees and retirees.

"The entire structure of the city reflects a 1950s model in which the United States was the dominant economy of the world and automobile manufacturing was the core driver," said Cockrel, who teaches at Wayne State University in Detroit. "None of that is true anymore."

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