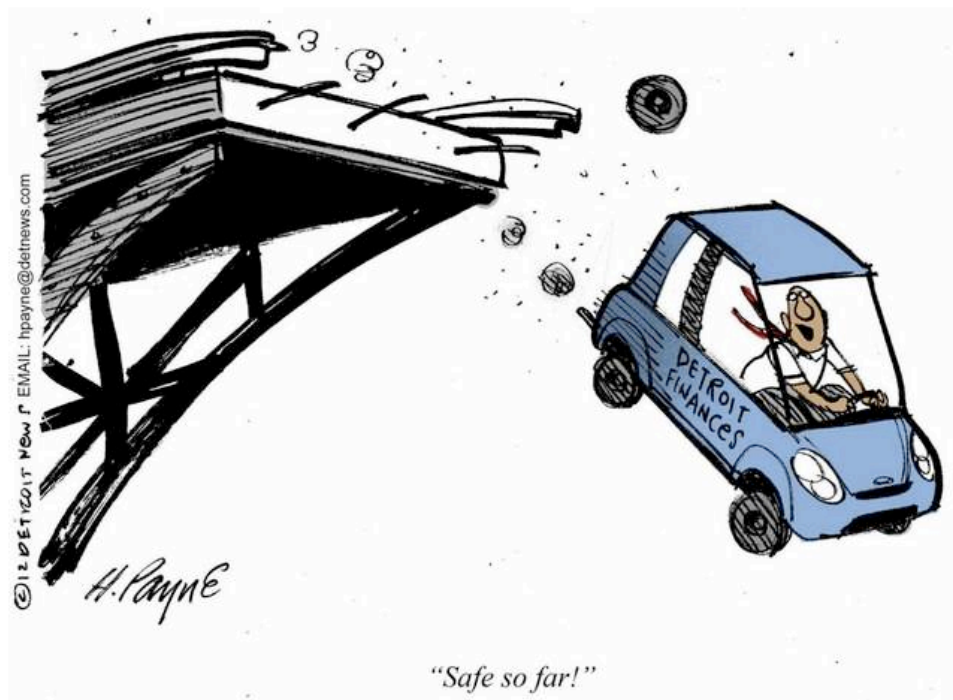


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McTevia: Hand over Detroit's checkbook then follow this plan

BY JAMES V. MCTEVIA 1 COMMENTS



'Safe so far!' (Cartoon by Henry Payne)

I have devoted my life for more than 50 years to working with clients who are insolvent and facing serious financial difficulties. I have yet to see any clients resolve their problems if they can continue to borrow money.

The city of Detroit's dire financial situation boils down to a common problem that has plagued individuals in our culture, locally based global corporations and our federal government: Detroit must be cured of its addiction to debt. At the same time, the city must increase revenue and restructure its finances. It is a challenging situation that requires the fundamentals of business turnarounds rather than attempts at political solutions.

The city must be viewed, financially speaking, as a business. Its product is people and, now, its product is suffering. It owes its creditors (bondholders) and it cannot repay, yet it continues to borrow. It cannot effectively collect sufficient revenue (taxes) from its customers (citizens). It struggles to cut expenses and reduce services.

The city must employ the painful but necessary approach that many of my business clients have over the years. Detroit needs to surrender its checkbook to an independent fiduciary that will be immune to political pressure and emotional decision-making.

In this case, an emergency manager would have the power necessary to save the city and have the legal freedom to operate with many of the tools of a Chapter 9 bankruptcy, but working much more expeditiously and without the unnecessary costs incurred in a bankruptcy proceeding.

The laws provide for very effective problem solving outside of court, which can happen quickly, even if painfully.

I suggest this five-year plan of action. It provides the basic fundamentals of financial problem-solving.

Year one

Initiate immediate sovereign default on all outstanding loans and bond debt. This would freeze existing debt. The message to bondholders and creditors is simple: "We can't afford to pay you now. You can sue us, but there is nothing to collect. We appreciate your patience as we work out our financial challenges. We need the time to balance our budget after which we will propose a plan for restructuring our debt."

Institute an immediate 20 percent across-the-board reduction of expenses including labor/employee expense from either personnel or wages, regardless of any contracts in force. If wages are temporarily reduced, my experience has been that a workforce would prefer to lose 20 percent of its salary than 100 percent.

Organized employee groups need to understand, from someone who was not a party to causing the problem, that the only way to solve it is short-term shared sacrifice. Or they are risking everything.

Institute an immediate 5-year surcharge of 20 percent of the net revenue from all commercial business conducted in Detroit to enable the city to pay for all current services and expenses.

Nobody understands the value of business to a community more than I do.

But in Detroit, the city government protects and serves business more often than it does the neighborhoods. If these businesses are going to be successful in Detroit long-term, they need to temporarily contribute to its turnaround.

As a business owner, I would have difficulty paying a surcharge knowing politicians are in charge.

I would feel differently if an independent fiduciary has control of the checkbook and accountability for administering a plan that protects the critical services of utilities, police and fire protection without disruption and that a safe environment exists for my customers and employees.

Develop a cash flow budget supported by tax revenue and the 20 percent surcharge. This would be a new budget that accounts for new realities of increased revenues, reduced expenses and suspended debt service.

Begin aggressive collection of all past-due taxes. Just like in a business, there is always additional revenue to be found, it just needs to be identified and collected as a top priority.

Within 90 days, structure a process to solicit bids for privatization of all city services.

Not every service should be privatized. But if even some become private, the city could realize savings and service could improve. Private companies should have an opportunity to at least propose how privatizing services could achieve both savings and quality.

Within 90 days, structure a bridge loan from either the state or federal government to enable the city to fund a municipal restructuring department independent nonprofit (MRD), which will be formed and administered by a governing board selected and appointed by the lender. The MRD will be totally autonomous and as a recipient of state and/or federal funds and will be liable for any misuse or fraud. If any government entity views Detroit as "too big to fail," an infusion of billions would allow the city to proactively solve multiple problems simultaneously in the ensuing years.

Years two through four

The MRD becomes funded by the bridge loan. A reconstruction/recovery plan is developed by the fiduciary and implemented.

All unemployed Detroiters have opportunities to become employees of the MRD and are paid by proceeds from the bridge loan.

All abandoned and/or vacant tax delinquent property after a 90-day grace period is seized by eminent domain and the land is cleared by MRD. Infrastructure, roads, sidewalks and parks are reconstructed by MRD employees. The cleared land is offered for sale to private parties at public auction. This helps solve the problem of abandoned homes and property in the city and returns it to the tax base.

Contracts are entered into with highest bidders for privatization of certain services where cost effective.

Year five

All funds from the sale of properties are held in a reserve account administered by MRD. The bridge loan is paid to the extent possible from these proceeds. The balance of any unpaid bridge loan debt is reduced annually from tax collections.

Pre-existing bond/loan debt is paid through the development of a composition and restructuring plan administered by the fiduciary

At the end of the fifth year, with a balanced budget and specific future plan for revenue, expenses and debt, the independent fiduciary would be focused on administering the repayment of the city's debt.

This plan is, at the very least, controversial. Bold change always is. Unfortunately, based on history, whoever would enact a plan like this would need to take some serious precautions, such as hiring private security and living in a secret location. Change such as this could lead some to violence until the benefits of the change are apparent.

This plan is not politically palatable. As we have seen, political agendas cannot solve the financial problems of Detroit's, or for that matter Washington's, magnitude.

But at the end of five years, Detroit would be poised to move toward its future without debt, the crippling legacy of the past.

History teaches us that many great societies — from the Babylonians to the Romans to the British Empire — were extinguished by debt. Without this type of plan, the same could happen to Detroit.

But history also teaches us that sound problem solving, with a focus solely on the future, is the most effective tool humans have in preserving societies.

About the author

James V. McTevia has more than 50 years as a bankruptcy receiver/trustee. He is a managing member at the financial consulting firm McTevia & Associates, LLC in Bingham Farms and author of "The Culture of Debt: How a Once Proud Society Mortgaged Its Future."

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