

# CRAIN'S DETROIT BUSINESS

Detroit and Southeast Michigan's premier business news and information website

May 12, 2013 10:00 PM

## Orr report: City must stop shifting debt and postponing liabilities

By [Kirk Pinho](#)



**Detroit Emergency Manager Kevyn Orr spent the past 30 days putting together the financial plan being submitted to the state on Monday.**

The city of Detroit has an unsustainable way of doing business and can no longer use borrowing and deferring liabilities as a way to buy itself time. A report to be issued on Monday makes official what experts and consultants have been saying for years: "Detroit spends more than it takes in -- it is clearly insolvent on a cash-flow basis." Those words, 29 pages into the 44-page PDF document, are just part of the grim picture painted of the financial crisis in Emergency Manager Kevyn Orr's financial and operations report due to the state Department of Treasury. The city has spent, on average, more than \$100 million more than it takes in each budget year

since FY 2008, according to Orr's report. Those shortfalls have been remedied by borrowing millions of dollars, an unsustainable model. And while it provides little framework for restructuring Detroit's operations, the report gives clues about what may be on the horizon for the cash-strapped city -- and its unionized employees. "We've been making our house payments, buying our groceries, but paying our cards on another credit card," said Orr spokesman Bill Nowling on Sunday. "The city has reached a point of no return on credit to be able to function." Borrowing and the deferral of pension fund payments has spared the city from running out of cash by the end of the fiscal year, June 30, according to the report. "They recognize borrowing as revenue to balance the budget," said Patrick O'Keefe, founder and CEO of Bloomfield Hills-based turnaround specialists O'Keefe and Associates Consulting LLC. "It's

ludicrous on a number of fronts, but that's how they accounted for that. As long as revenues come in, they arguably didn't have a deficit." Meanwhile, as recently as April 26 the city was \$162 million short of its obligations, including debt and pension contributions, the report says. Detroit's long-term liabilities are estimated at about \$15 billion and its budget deficit is about \$380 million. "Without a significant restructuring of its debt, the city will be unable to break the cycle of damaging cutbacks in essential municipal services and investments," the report reads. "Moreover, without a significant restructuring of its debt, the city will be unable to dedicate sufficient revenues to the critical task of reinvesting in the critical task of needed improvements to public safety and quality of life for city residents and businesses." In addition, Orr will continue to evaluate the sale of city assets and the outsourcing of services, according to the report. No decisions on those options have been made. "There's no mystique about the deficit," said Jim McTevia, president of Bingham Farms-based turnaround consulting firm McTevia & Associates. "You have to increase revenues, decrease expenses, or a combination of both." Among the options available for addressing Detroit's budget woes are concessions from the city's nearly 50 labor unions, the report states. "The emergency manager's comprehensive labor strategy will be developed with a view toward ensuring that any concessions are equitably distributed across all bargaining units (as well as across unrepresented employees) and that the impact of these concessions on employees are mitigated to the extent possible," the report says. Orr's report also says that city employees have more than 20 health care plans covering more than 28,000 retirees and employees through 10 different providers. That may be another issue he addresses to "reduce or eliminate healthcare costs for both active and retired employees," the report states.

Enhancing public safety is Orr's "paramount concern," according to the report, which put public safety and reinvestment as one of the three primary areas "essential for the city's successful rehabilitation."

Public safety issues sacrificed at the expense of budget concerns remain at the forefront of the city's financial concerns, O'Keefe said. "When somebody doesn't answer that 911 call, that will be a real big indicator that's a problem," he said. McTevia said the city should temporarily raise taxes on the private sector to address the cash crunch. "Any idea with merit that can help address the city's finances is worth consideration," said Jim Martinez, director of communications for the Detroit Regional Chamber, in an email to Crain's on Sunday. "However, we would want to evaluate any proposal before commenting on it." Changes also could come

for the city's pension system, for which a task force has been assembled to analyze, the report says. Orr, appointed as EM in March, was an attorney in Washington, D.C., for Jones Day. Orr helped steer Chrysler Group LLC through its bankruptcy proceedings. The report, which will be sent to state Treasurer Andy Dillon and Detroit Mayor Dave Bing, was compiled over about 30 days, according to Nowling. Orr, not available Sunday for an interview, said the following in a statement: "The 45-day report I have submitted is a sobering wake-up call about the dire financial straits the city of Detroit faces. No one should underestimate the severity of the financial crisis. The path Detroit has followed for more than 40 years is unsustainable and only a complete restructuring of the city's finances and operations will allow Detroit to regain its footing and return to a path of prosperity. This plan offers (the) baseline from which the real restructuring work can begin." Public Act 436 of 2012, the state's emergency manager law, says the financial plan "shall be regularly re-examined by the emergency manager and the state treasurer and may be modified from time to time by the emergency manager with notice to the state treasurer." A public informational meeting is required under state law within 30 days of Orr submitting the plan, although it does not need approval from the electorate or the state Department of Treasury. A Chapter 9 municipal bankruptcy has not been discussed among Orr's top officials, Nowling said. "We hope that the report sets the tone to say that both of those (addressing the debt and deficit) have to be concurrent tracks," Nowling said. "We do have to solve this deficit issue, and we will, but that has to happen while we serve the long-term deficit issue. "There is going to be a Herculean lift to make that change," he said. "There is no rosy picture in there. There is a lot of work, and we are going to ask people and creditors to come to the table and roll up their sleeves.

"This is not going to be especially fun." To those who feel that Chapter 9 would be the best option, Nowling countered that it would "not be any less painful, and it will probably be more painful. Once you get the court, then what the judge decides, you have to do. It behooves everyone to come in with their best offer."

Kirk Pinho: (313) 446-0412, kpinho@crain.com. Twitter: @kirkpinhoCDB

<http://www.craindetroit.com/article/20130512/NEWS/130519977/orr-report-city-must-stop-shifting-debt-and-postponing-liabilities>