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Detroit's financial crisis comes to fore

Darren A. Nichols and Leonard N. Fleming/ The Detroit News

Detroit — Mayor Dave Bing tonight is expected to lay bare the city's bleak bottom line in a televised address aimed at bracing city residents for painful cuts to come.

It's unclear whether Bing will outline a specific strategy in response to a financial audit that concluded the city — if it does nothing — could run out of cash by spring.

But City Council members and political analysts say the mayor has several options, which include initiating massive layoffs, pursuing a consent decree that expands his power to make cuts, or — the most drastic step — seeking an emergency manager.

"The mayor will offer a frank and sober assessment of the city's financial condition and services, and address remedies to longstanding problems," mayoral spokesman Stephen Serkaian said.

Council President Pro Tem Gary Brown said he is hoping the mayor presents a plan to address the city's structural deficit as well as its cash flow problems.

"Hopefully he has a plan that's ready to be implemented," Brown said. "(If not), the council will be preparing to submit its own plan. Hopefully we can agree on one plan."

In April, Brown suggested the city enter into a consent agreement with the state that would give Bing more power over the budget without resorting to emergency manager status. A consent decree would give the mayor authority to privatize city operations, sell assets and change ordinances — but wouldn't alter the city's basic governing structure.

Emergency managers, by contrast, are given sweeping powers to fire employees and break union contracts.

Pressure has been building on the Bing administration since an Ernst & Young audit prompted the mayor to suggest he would consider becoming emergency manager if asked to do so by the governor.

The preliminary audit, reviewed by The Detroit News, shows the city is being crippled by plunging property and income tax revenue, a significant dip in state aid and higher payroll and pension costs. The audit suggests the city could have only about $23 million in cash available by the end of the fiscal year on June 30.

The report also points out that revenue-generating ideas included in the city's budget this year — such as increasing fees on booting cars and more aggressive income tax collections — have yet to materialize, leaving the city with a $63 million budget gap. That assessment also assumes $15 million of $25 million in council-mandated cost savings are not realized.

"It's a tough situation that we're in because we haven't seen revenues pick up the way we anticipated, and we've seen additional people leave the city," Councilman James Tate said. "That leaves us with a reduced tax base. I hope (Bing) comes out and gives the full story and that's what people need to know. There's no hiding the fact the city is in a financial crisis now."

James T. McTevia, a financial expert who has served as a receiver all over the country and a federal bankruptcy trustee in Michigan, said Bing must be "upfront and honest and forthright" in his message today.

"What the city is facing is not a usual set of circumstances. There have been many institutions, cities and states that are existing on deficit spending," said McTevia. "The difference between Detroit is that their tax base has eroded as a result of the massive movement of taxpayers out of the city, but their income has dropped dramatically. And they have not adjusted their spending."

Gov. Rick Snyder, who said he is not in favor of appointing an emergency manager in Detroit right now, said through his spokeswoman, Sara Wurfel, that he is "hopeful Detroit can resolve its financial problems, and our team will continue to offer all the support and resources we can to help make that viable and a reality."

"The governor still feels strongly about avoiding the need for an emergency manager for Detroit and will continue working in partnership with Mayor Bing, the city and other communities to be strong and successful," Wurfel said.

Council shortens break

Earlier Tuesday, the City Council voted to forgo its annual winter recess for the first time in recent history. Council members said the panel could not afford to take the annual respite — scheduled next week through Jan. 4 — because if they don't address the fiscal crisis, the break could be permanent.

"For this body to be perceived to be out on vacation while this city is sinking into the Detroit River ... is a real consideration for me," Councilman Kwame Kenyatta said. "At some point we should stop playing with this thing and say this city is in serious trouble, and we ought to act like it."

Council members haven't come up with a plan for the panel's meetings, but agreed to work through Dec. 16. The city will then shut down operations until the end of the year.

Members said Tuesday that if Bing doesn't come up with a palatable plan, they will work toward submitting their own fiscal proposal. Council President Charles Pugh said the fact that the council is working through the winter break shows it is committed to action.

"It further underscores the point we're serious, available at any moment and can discuss and approve a plan that will involve consolidations, eliminations and layoffs," Pugh said.

Rising benefit costs take toll

Health and pension benefits continue to be a major issue.

Earlier this year, Bing and the council scored a victory after gaining $60 million in concessions from the city's two pension systems.

Pension payouts now amount to 25 percent of the city's $1.2 billion general fund this year and would grow to 50 percent by 2015 if structural changes are not made. These figures represent union and nonunion pension expenses.

Detroit has an aging work force and is paying pensions to 22,000 retirees — nearly twice the 13,000 workers now on the payroll. The city paid $200 million this year toward pensions. Bing wants to change how pensions are calculated and eventually move new employees to a defined contribution plan similar to a 401(k).

The city pays another $191 million a year in health care to employees and retirees, and administrators want to save $90 million a year by persuading unions to pay 20 percent of the costs. The costs have increased 40 percent in the past four years, even though payroll has declined by $40 million, city officials said.

Bing has asked city unions to agree to concessions estimated to save about $118 million annually. The mayor said he hopes he can get officials to settle on an agreement on medical, pension and work rules that would save the city $42 million in the next fiscal year. A Monday deadline has been set for an agreement with the city's 48 unions.

'A dark day for Detroit'

Greg Murray, vice president for a city accountants and appraisers union, said he met with city officials Tuesday and he's not confident there will be a resolution by Bing's deadline.

He noted Bing wants to end furlough days in exchange for a 10 percent pay cut across the board. City unions already are working under imposed contracts that include a 10 percent pay cut, he said.

"We haven't rejected it, but we did demand to know why the city isn't pursuing any other avenues of initiatives at its disposal," Murray said. "What I hope the mayor will say is he will leave no stone unturned in identifying revenue to offset the crisis (and) we're going to work together to resolve it. There are no sacred cows."

Political analyst Steve Hood described the developments as "a dark day for Detroit."

But he added the city's problems are not unworkable if it takes on work force cuts and improves efficiencies. He added the city needs to privatize areas such as the Planning and Development Department and look to turning over the Health Department to Wayne County.

"I've never seen them cancel winter recess. This must be very serious," said Hood, whose father and brother served on the Detroit City Council. "Pittsburgh was in the same type of position, but they came back strong. It's just pressing the reset button. It didn't have to be this way had Dave Bing been taking on these problems from day one."

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