

Detroit: Lessons in Post Bankruptcy

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DETROIT BANKRUPTCY BACKGROUND

City of Detroit Bankruptcy Background (2013)

- \$18 billion in estimated liabilities
 - \$3.5 billion in unfunded pension liabilities
 - \$3.5 billion in enterprise fund liabilities (water and sewer)
 - \$1.1 billion in GO debt (secured and unsecured)
 - \$1.5 billion in pension bonds
 - \$6 billion in retiree health care liabilities

Detroit Balance Sheet (pre and post bankruptcy)

	Govt. (2013)	Business (2013)	Govt. (2015)	Business (2015)
Total Capital Assets	\$1.5 billion	\$5.2 billion	\$1.4 billion	\$5.2 billion
Total Assets	3.1 billion	\$6.7 billion	\$2.8 billion	\$6.5 billion
Net Pension Liability	N/A	N/A	\$2.0 billion	\$800 million
Total Liabilities	\$3.9 billion	\$6.6 billion	\$4.2 billion	\$7.5 billion
Net Position	-\$800 million	\$100 million	-\$1.4 billion	-\$700 million
Unrestricted Net Deficit	-\$1.7 billion	-\$600 million	-\$3.0 billion	-\$1.1 billion

Detroit Income Statement (govt. activities)

	Govt. (2013)	Business (2013)	Govt. (2015)	Business (2015)
Total Revenues	\$717 million	N/A	\$748 million	\$300 million
Extraordinary Items	--	--	\$1.7 billion	\$211 million
Net Expenses	\$844 million	N/A	\$822 million	\$91 million
Change in Net Position			+1.5 billion	+300 million

City of Detroit General Fund

	2013	2015
Revenues	\$1.05 billion	\$1.05 billion
Expenditures	\$790 million	\$1.2 billion
Other Financing	-\$55 million	+\$529 million
Fund Balance	-\$72 million	\$437 million
Unassigned FB	-\$133 million	+\$70 million

DETROIT FINANCIAL REVIEW COMMISSION

Detroit Financial Review Commission (FRC)

- Ongoing oversight of **City of Detroit** and **Detroit Public School District**
- Responsibilities include:
 - Budget and contract approval
 - Oversight of long-term facility and capital planning
 - Oversight of financial leadership

Detroit FRC Members

- State Treasurer
- Director of State Department of Technology Management, and Budget
- Three gubernatorial appointments with business or finance expertise (one has to be a resident)
- Mayor / local legislative leader
- One gubernatorial appointee nominated by Senate Majority leader and House leader

FRC Requirements and Powers

- Ensure compliance state budget and debt laws
- Approving 4-year city financial plan
 - Failure will allow FRC to impose a 4-year plan on city
- Compliance with plan of adjustment
- Contract approval over \$750,000
- Provisions for managerial accountability, streamlining of services, improved collection of revenues
- Approve all collective bargaining agreements
- Review and revise revenue estimates

FRC Additional Powers.....

- Require CFO to attend all meetings of FRC and provide information to FRC
 - May require removal of CFO
- Review and approve issuance of debt
- Approve appointment of CFO

Current Status

- City of Detroit government is on track to enter FRC dormancy in early 2018
- Detroit Public Schools is just entering process but first audit has some improvements
 - Balanced budget and surplus available

FRC Dormancy is Based on:

- City or school district adopt three consecutive years of deficit free budgets
- Ability to sell all necessary debt in capital markets
- Projects a balanced budget four years into the future
- No violation of plan of adjustment
- Transparency of contracts approved
- City or school district is in compliance with local budgeting law

KEY LESSONS

Detroit Pension Challenges, Post-Bankruptcy

- Two tiered management system in place
 - General employee pension board and police & fire pension board
 - Investment boards
- Post-bankruptcy, Detroit was to forego pension payments until 2024
 - Soon realized that due to computational errors, pension problems were larger than expected

KEY LESSONS

Future Detroit Pension Management

- A ramp-up system was developed to address pension problems
- Detroit would begin funding a new pension trust now for increased payments in 2024

Key Lessons from Detroit

- State oversight works in combination with a comprehensive (and flexible) long-term plan
 - Detroit Future City as example
 - Capital plan, operations plan, economic plan
- Strong financial leadership
- Commitment from private and not for profit sector to economic revitalization
- Getting the basics of running government right