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# What's behind Detroit happy talk?

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**Despite happy talk of Detroit “rebounding” from bankruptcy, the basic problems remain: lack of jobs, deep poverty, the state takeover of the public schools and a 28% decrease in state revenue sharing over the last decade.**

What's Behind Detroit Happy Talk?

â€” Dianne Feeley

If one statistic could sum up the problem, the median Detroit family income is \$19,800 while the national average stands at \$60,700. How can such inequality exist? How can the city's maternal death rate be so high? During 2008-11 it stood at 58.7 per 100,000 babies â€” higher than Libya, Uruguay or Vietnam, and three times greater than the U.S. average.

We know the answer: Detroit is 83% African American, with more than 40% in poverty and an official unemployment rate double that of the state. Detroit is a city redlined by racism. Kevyn Orr, appointed by governor Rick Snyder, remarked to the Wall Street Journal shortly after he became the Emergency Manager, Detroit had been “dumb, lazy, happy and rich” â€” that is, we are the cause of our problems.

With the city bankruptcy saving \$7.8 billion by reducing retiree pensions and health care benefits, it's easy to see that for those workers â€” not all of whom live in the city â€” it was a disaster. Over their lifetimes, uniformed pensioners (police and fire), who receive no Social Security or Medicare, take an 18% cut; all other retirees, who lost their cost-of-living increases, suffer a 13% cut.

The city dumped \$4.3 billion in retirement health care benefits by establishing VEBA trusts that will pay a miserable \$125 a month to general system retirees to purchase individual health insurance through the Obamacare exchange. Uniformed retirees will get a whopping \$400.

In one last turn of the screw, the city demanded that retirees who contributed to city's annuity savings account between 2003 and 2013 return any interest overpayment. This “clawback” may amount to \$190-239 million. For those who cannot return the full amount, money will be deducted from future pension checks, with a state mandated 18% interest tacked onto the bill.

While emergency manager Orr claimed Detroit's debt and liabilities totaled \$18 billion, previous figures had put the figure closer to \$13 billion. Figures were inflated by including water and sewer bonds that had their own sources of revenue. One might also question the notion that future liabilities should be considered in the bankruptcy plan. (If a person purchases a house with a 30-year mortgage, it would be crazy to calculate the total owed against one's yearly wage and talk about one's enormous debt.)

A summary of the bankruptcy settlement speaks of cutting \$7 billion of retiree benefits and \$3 billion in restructuring deals with Wall Street creditors. But if those creditors received about 13 cents on the dollar, their deals were never thoroughly investigated. Additionally they receive choice property along the Detroit River, and longterm deals on collecting fees from the international tunnel crossing and various city-owned parking garages.

Clearly the burden of debt elimination was placed on the backs of retirees who thought they had a secure future. The Michigan Constitution protects pension benefits â€” until Bankruptcy Judge Steven Rhodes ruled federal bankruptcy

supersedes state guarantees.

Over the years various media reported that UBS, Bank of America and JPMorgan Chase lent the city approximately \$3.7 billion in bonds to cover deficits and pension shortfalls from 2005 onward at high interest rates, handling expenses and insurance fees. They encouraged the city to bet on derivatives, also demanding that penalties be written into agreements if certain triggers occurred – such as a lower bond rating – and the city's liabilities rose to \$15 billion (including shortchanging pension funds by at least \$770 million over 22 years).

We do know that in 2005, when mayor Kwame Kilpatrick borrowed \$1.4 billion from UBS to cover a pension payment, \$46.4 million was allotted for fees. The next year UBS sold \$948.5 million in city bonds, with Detroit charged \$61.8 million on the transaction. For his work, Wall Street rewarded Kilpatrick with the 2005 Bond Buyer's Deal of the Year.

By 2012 the derivative deal left the city \$439 million in the hole (later falling to \$350 million). By the end of the year, however, mayor David Bing found that because of low ratings and high deficits, the city was unable to borrow. He turned to the Michigan Finance Authority, which arranged a \$129.5 million bond issue underwritten by Bank of America. This cost \$1.6 million in fees, with part of the bond repaying an earlier \$80 million loan.

On December 10, 2014 Judge Steven Rhodes finalized the bankruptcy exit he'd approved a month earlier. It included paying \$85 million on the derivative deal as well as the transfer of city property to various creditors. The law firms that managed the bankruptcy will receive \$150 million. Detroiters are told it's a new day.

Euphoria about how Detroit is coming back focuses on the gentrification that has taken place in the downtown and midtown areas, while neighborhoods face another wave of tax foreclosures in 2015 – a figure 34% higher than the previous year. Of the 230,000 Detroit residential properties, 62,000 are to be auctioned off, including 37,000 that are occupied. With a general rule of 2.74 occupants per household, this means the possible displacement of 100,000 people in a city of 688,000.

Market values of Detroit homes have dropped significantly, yet no reassessment has been carried out. Instead of a moratorium until assessments have been carried out and taxes adjusted, the city announces that taxes owed over the past three years on these properties total \$326.4 million, with \$100 million of that in unpaid water bills and interest fees. The city is counting on taking in a big chunk of that money.

But the tax bills are too high and people too poor to pay. Without a jobs program, and having just reduced retiree benefits, residents own their homes yet are cash poor.

With the resumption of water shutoffs by the end of October 2014 more than 13,000 households were without water – approximately 30,000 people. Yet mayor Mike Duggan chose to ignore the recommendation of UN representatives that there be an accessible affordability plan.

Meanwhile downtown apartment rentals are going through the roof, forcing out seniors and people with disabilities.

You think water and housing are human rights? For the banks, that's a good laugh.

[ATC](#)