

<http://www.crainsdetroit.com/article/20120108/SUB01/301089967/whoever-does-it-restructuring-detroit-will-require-lots-of-cash#>

January 08, 2012 8:00 PM

Whoever does it, restructuring Detroit will require lots of cash

By [Nancy Kaffer](#)

Cuts and increased revenue that will keep the city from running out of cash in April will give Detroit Mayor Dave Bing's team time to make the structural changes required for economic survival, the mayor said last week.

The Detroit City Council remains skeptical that the changes Bing says he's put in place -- like layoffs, payments from **Detroit Public Schools** for power from the city's **Public Lighting Department**, some pension concessions and anticipated union concessions -- will forestall a cash crisis in April, if not sooner. It's still not clear whether the mayor's team can stave off the appointment of a state-appointed emergency manager -- or municipal bankruptcy.

But there's another problem: Even if the crisis is averted, restructuring could be difficult without a large cash infusion, turnaround experts say, no matter who's in charge.

And fixing Detroit's structural problems requires changing the way the city offers pensions, health care, services -- even its debt.



Moore

"If you want to really try to restructure your obligations, having cash makes it significantly easier to do that," said Chuck Moore, senior managing director at Birmingham-based turnaround firm Conway MacKenzie Inc.

How much cash?

"I couldn't even begin to give you an estimate," Moore said. "Most likely in the hundreds of millions range."

Moore points to the experience of the two automakers that went through bankruptcy, General Motors and Chrysler.

"When the auto companies went through bankruptcy, and the (Voluntary Employee Beneficiary Association) was established, that had to be funded," he said.

Even for a cash-strapped city with a junk bond rating, money is gettable, Moore said.

But it's complicated.

"I think the one thing that I could tell you is a key potential source of cash to facilitate any restructuring could come from the sale of assets," Moore said. "There are a number of assets the city has or hasn't considered selling in the past. ... People refer to the (Detroit Water and Sewerage Department), selling something like that."

However, a popular vote is required to approve the sale of city assets, unless Gov. Rick Snyder appoints an emergency manager -- state law grants an emergency manager the power to sell assets without a vote.

But the city's assets are largely encumbered. The water department has about \$5.1 billion in debt, for which revenues are largely pledged to debt service, something that could complicate a sale. It would be equally complicated to sell other city assets, like Belle Isle or the collection at the **Detroit Institute of Arts**, from a practical or public relations standpoint.

"I don't think there's really going to be many assets that could generate significant proceeds where there wouldn't be complications," Moore said.

The city could try to borrow money, said Oakland County Deputy Executive Robert Daddow, first to get past the cash crisis or later to restructure, but it's not going to be easy.

"The banks are going to be reticent to provide short-term notes," he said. "(Bing) can go to the banks for short-term tax anticipation notes, probably on property taxes, but the problem is that's not going to be enough."

But, Daddow said, long-term borrowing is equally complicated -- municipalities can borrow up to 10 percent of the total assessed value of property. This time last year, just \$299 million was available of the total \$1.2 billion the city is legally able to borrow.

The most recent assessment dropped 9 percent, according to the **Southeast Michigan Council of Governments**, putting the state equalized value of property inside the city at \$10 billion -- or a debt limit of roughly \$1.01 billion.

The most likely source for Bing to get cash, Daddow said, is the state.

Sara Wurfel, Snyder's press secretary, didn't respond to a question about whether the state would issue bonds to support Detroit restructuring.

The state has the option to go out for bonds through its emergency loan board, Daddow said.

"The state through the emergency loan board can provide them the assets, and what they have the ability to do is seize either revenue sharing or other specific debt sources," he said. "The problem is, those debt sources, like revenue sharing, have been committed for prior payments."

Revenue sharing was used to securitize payment for \$250 million in budget stabilization bonds sold by Bing's administration in 2010; casino taxes were used to avoid a \$400 million cash payment that could have been triggered in 2009 because of a credit swap.

"The state would essentially be taking an unsecured position in providing that loan," Daddow said.

But whether the city can fund restructuring is likely to be moot, Daddow said, in light of its ongoing operational deficits.

And the options for the city are narrowing.

A petition group is likely to file sufficient signatures to suspend Public Act 4, which grants the state power to intervene in a troubled municipality, later this month. If PA4 is suspended, it's questionable whether Public Act 72, the law PA4 replaced, will come back into play. But PA72 doesn't allow a state-appointed manager to change union contracts or restructure health care or pension costs. And that means the city could face municipal bankruptcy.

But an emergency manager can't ask for permission to file bankruptcy until making a good faith effort to fix the city's fiscal crisis, which could mean that any long-term solution to the city's problems could be more than a year away, Daddow said.

"Regardless of all this activity going on in background, it doesn't create one thing -- it doesn't create cash," he said. "It doesn't make a hill of beans, if you don't have cash to pay people and don't have cash to pay vendors. That cash has got to come from somewhere, and the only place is the state."