

Detroit Free Press

Detroit ran up debts as income plunged, review of finances says

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Detroit's elected leaders have allowed the city to rack up enormous debts and runaway costs at a time when the tax base was on a precipitous decline, according to a scathing report released Wednesday by state Treasurer Andy Dillon.

The preliminary review of the city's finances also questions whether the city misspent more than \$14.5 million in grants meant to help lower-income Detroiters.

"The City's deficit elimination plans and budget proposals have proven to be unrealistic," Dillon wrote. "City officials are either incapable or unwilling to manage its own finances."

The report is the first required step before the state decides whether to appoint an emergency manager. The state expects to soon perform a more vigorous review.

Among the problems cited in Dillon's report:

- During the last fiscal year, Detroit's fire and police departments went over budget by a combined \$69 million.
- Mayor Dave Bing's deficit elimination plan, which he vowed earlier this year would return the city to a surplus within a decade, actually increases the shortfall. In this year's budget, for example, the deficit will increase by about \$200 million.
- Instead of cutting the budgets to reduce the deficits, the city borrowed more than \$600 million from 2005-10 to try to cut into the shortfalls. This has increased the city's long-term debt without reducing the deficit.
- To pay down the city's more than \$8 billion in long-term debt on time, the city would have to pay \$597 million a year, which is more than the city collects annually in income and property taxes.
- Anticipating a rise in interest rates for bonds, the city entered into agreements that protected it from rising rates. But because interest rates fell instead, the city's agreements will cost it \$1.1 billion over the life of the debt.
- Generous pension benefits are spiraling out of control, and the city is quickly losing enough money to pay its obligations to retirees.
- The city was unable to account for approximately \$216 million in pension investments.
- The city appears to have misspent \$14.5 million -- mostly on salaries -- that was intended for community development block grants, WIC (Women, Infants and Children) recipients and other services to help lower-income Detroiters.

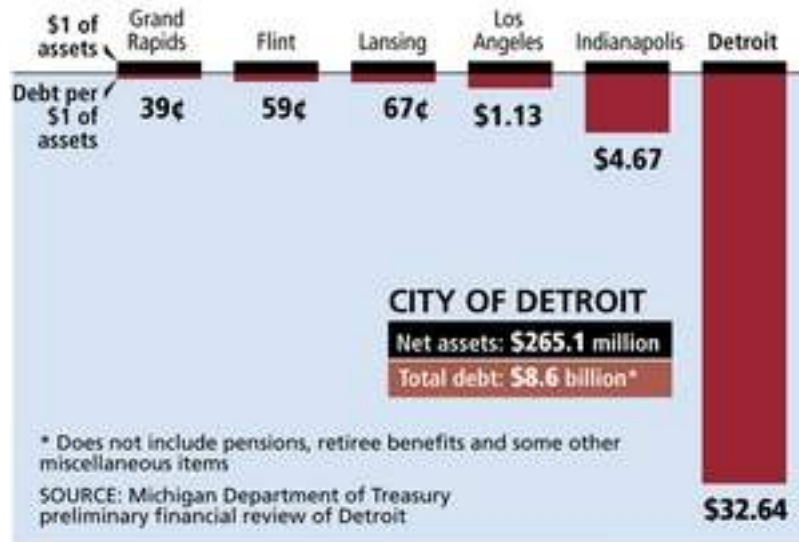
The report's findings underscore the urgency of correcting the financial crisis, state and restructuring experts said.

"When you're in a situation like this, timing is very important," said Van Conway, CEO of Conway MacKenzie, a Birmingham-based turnaround and restructuring firm that has helped reorganize municipalities and school districts. "I'm surprised the city made it this long."

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DEBT-TO-ASSET RATIO

Most cities have more assets than debts. Detroit, by contrast, has nearly \$33 in debt for every \$1 in assets.



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