



Could Detroit's Bankruptcy Filing Be the First of Many?

Detroit, Michigan's [bankruptcy](#) filing is causing fear that other major U.S. cities face a similar fate as they too are dealing with burdensome underfunded liabilities, such as retiree benefits.

Just months ago, Michigan Governor Rick Snyder brought in an [emergency financial manager](#) to examine Detroit's dire financial situation. Four months later, that financial manager, Kevyn Orr, filed for a municipal 9 bankruptcy.



The New American's Bob Adelman summed up Detroit's financial troubles:

The city has a cash shortfall of \$162 million and is running a deficit this year alone of \$368 million. It has already defaulted on a pension plan payment and has slashed services drastically. It takes police 58 minutes to respond to 9-1-1 calls, half the streetlights don't work, trash often isn't picked up for days, the homicide rate is the highest in the country according to the FBI, unemployment is approaching one out of every five, and the population continues to shrink. At present nearly 40 cents of every dollar of revenue goes toward debt service and "legacy" costs (i.e., health and retirement benefits), and, if nothing is done, they will reach 65 cents in less than four years.

For some major cities in the United States, Detroit's financial woes are all too familiar.

Last week, Chicago's credit rating was downgraded by Moody's Investors Service owing to its \$19 billion in underfunded pension liabilities. According to Moody's, the liabilities are "very large and growing" and warned that Chicago is facing "tremendous strain" in meeting future funding requirements.

And like Michigan, Illinois is in no position to bail out its struggling city. In fact, Illinois is facing its own \$97 billion pension shortfall.

Detroit is not the only city to have filed for bankruptcy, but it is the first city of its size to be in such dire financial straits. The *Detroit News* reported, "Since 2010, 36 cities, counties and special districts — such as utility authorities — filed for bankruptcy, including Detroit, five other cities and two counties."

The number of municipal bankruptcies has increased over the last few decades. Between 1970 and 2009, there were 54 municipal bankruptcies, including just four cities and counties, noted the *Detroit News*.

Michael LeFaive, director of fiscal policy at the Mackinac Center for Public Policy, contends that cities should view Detroit's plight as a warning. "I would hope cities are looking at their under-funded liabilities and the health care costs associated with future and current retirees," he said.

Similarly, Detroit Mayor Dave Bing warned that Detroit may be the first major city to declare bankruptcy, but not the last. "We're not the only city that's going to struggle through what we're going through," said [Bing](#) on [ABC's This Week](#). "There are over 100 major urban cities that are having the same problems we're having. We may be one of the first. We are the largest, but we absolutely will not



Written by [Raven Clabough](#) on July 23, 2013

be the last.”

Mayor Bing, a first-time mayor who will not be seeking reelection, cut the size of the city government approximately 20 percent in an effort to balance its books, but the effort was not enough to combat 60 years of overspending.

Fox News reported that some cities should be watched closely because of their financial situations:

Other cities now on the radar include Cincinnati, Minneapolis, Portland, Ore., and Santa Fe, N.M. — following Moody’s saying in April that they and 11 other municipalities were being reviewed for a possible credit downgrade, the result of a new analysis system that further considers pension liabilities.

Struggling cities are mostly plagued by pension liabilities, as well as healthcare costs, for retired municipal employees. Fox News noted, “Amid the \$18.5 billion in long-term debt that led Detroit to file for bankruptcy is roughly \$3.5 billion in under-funded pension liabilities. However, roughly \$5.7 billion of that debt is health care costs and so-called ‘other post-employment benefits.’”

That particular issue is not limited to Detroit. A Pew Charitable Trusts study found that 61 major cities in the United States had enough money to cover 74 percent of pension liabilities, and enough to cover just 6 percent of healthcare liabilities.

Another report by the same group found that New York City has a total of \$1.15 billion in underfunded pension and healthcare costs. Philadelphia has \$8.6 billion. Baltimore too struggles with underfunded liabilities. Fox News calculated that the cost of funding the retiree healthcare there amounts to approximately \$10,000 per household.

And Timothy Blake of Moody’s Investor Services believes that if Detroit manages to successfully reduce its debt and liabilities through bankruptcy court, other cities may follow suit. “We have to acknowledge there is a trend,” Blake said. “If the outcome is that they do reduce some of these liabilities, that could be an incentive for the filing.”

Officials at Standard & Poor’s do not necessarily agree. S & P reportedly called Detroit’s filing “idiosyncratic” and “not as a symptom of a wider issue.” S&P credit analyst Jane Hudson Ridley asserted, “We do not anticipate a contagion effect.”

Similarly, the National League of Cities executive director Clarence Anthony states that a number of cities are trying to solve their financial problems outside of bankruptcy. “The vast majority of cities continue to make the difficult, yet prudent financial decisions that keep their cities in sound financial shape and in good standing,” he said. “Outside of bankruptcy, they renegotiate contracts, draw on rainy-day funds, form public-private partnerships and reduce health care and pension benefits.”

Meanwhile, a judge in Ingham County has [ruled](#) that Detroit’s bankruptcy filing is in violation of the state constitution because it potentially cuts the pension benefits of retired public employees. However, state law does permit Detroit to file bankruptcy, as long as the city can prove it bargained with employees in good faith. The city will have to battle its way into court.

Photo is of the former Packard automobile plant in Detroit



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