



Written by [Bob Adelman](#) on January 21, 2014

## Highland Park, Michigan, on the Brink of Bankruptcy

The final straw for Highland Park, Michigan, may have arrived in the form of a [letter from Fifth Third Bank last month](#) announcing it is ending its monthly checks that have provided life support for the Detroit neighborhood for the last three years. One of three banks sending checks to the city, Fifth Third said in its letter, dated December 12, that it is suspending the loans “based on the city’s and continuance of debt relating to, among other things, the city’s failure to pay amounts owed to the city of Detroit and [to] the Detroit Water and Sewerage Department.”



The bank’s last check, in the amount of \$168,000, was sent out last Wednesday. The next check for \$74,000, due by the end of the month, won’t be.

This will force Michigan Governor Rick Snyder to choose between naming another emergency financial manager to remove management responsibility from the city’s mayor and city council and allowing him the chance to cobble together a plan to save the city, or allow it to declare bankruptcy immediately.

The city, covering four square miles inside the city of Detroit and populated by just 11,000 citizens, owes Detroit’s water and sewage department more than \$18 million. That doesn’t count the unfunded liabilities of the city’s union pension plans for its employees, nor the amount (undisclosed at present) that it owes to the three banks, but the total [was estimated in November 2011](#) to be nearly \$60 million.

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The problem is obvious when looking at the mathematics: The city’s current budget [is just \\$12 million](#) and it ran up a \$500,000 deficit last year. The median household income in 2011 was just over \$18,000, with 42 percent of the city’s residents living in poverty.

Highland Park used to be the jewel in Detroit’s crown, with a population exceeding 50,000 during the Ford Motor Company’s heyday when it built its Model T and later its farm tractors there. The company began shrinking its operations in the 1950s, and by 1973 Ford had moved away entirely, taking with it many direct and indirect jobs.

But the death knell for the city was rung when Chrysler removed its operations in the early 1990s, taking with it another 6,000 jobs and 25 percent of Highland Park’s tax base, which generated half of the city’s budget. The downturn accelerated to the point where then-Governor John Engler was forced to appoint an emergency financial manager to take over the operations of the city, in essence turning the mayor and the city council into merely advisors and observers. A number of such managers were appointed over the years, one of whom was fired in 2009 for stealing city funds. The city was deemed strong enough a few years ago to return control to the mayor and the council.

In August 2011, the mayor and the council determined to cut its \$60,000 monthly electric bill by eliminating some 2,000 streetlights — not just turning them off, but [physically removing them](#) — leaving



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just 500 still operational. The decision was called a “winning proposition” by council member Christopher Woodard, as it cut the bill to just \$12,000 a month. Council members asked their residents to leave their own lights on at night in order to take the place of the city lights and to reduce crime. Woodard added, “We had to watch our backs when we got out of our cars before [the lights were removed]. Now we have to watch them even more closely.”

The city that used to be called “The City of Trees” is now the city without lights, and will soon be without water. In 2008, the city shuttered its own water treatment plant because it couldn’t afford the \$9 million needed to repair and upgrade it and thus began buying water from Detroit. Each year it fell behind in paying its water bills and so, in a final effort to bring its financials into balance, the council [sent out a letter](#) to all residents just before Christmas 2012, notifying them of their new program called WRAP — the Water Recalculation-Assessment Program — which included nasty surprises to many unsuspecting residents, such as requesting back-payments of up to \$3,000.

Last November, Detroit’s Water and Sewerage Department [sued Highland Park](#) for its unpaid bills. Now, coupled with the letter from Fifth Third Bank, the city’s financial doom appears sealed.

If Michigan Governor Rick Snyder opts to replace the mayor and council with another emergency financial manager, all that decision is likely to do is put off, albeit briefly, the ultimate day of reckoning. Just like Kevyn Orr, Detroit’s emergency financial manager, he (or she) will be forced to put the city into Chapter 9, ending the stranglehold the city’s pension plans have apparently had on the city for decades. That decision, however, will be a mixed blessing as it puts into jeopardy retirement benefits which are, in many cases, providing bare subsistence to many of Highland Park’s residents.

It’s too easy and simple to blame union pension plans for Highland Park’s decades-long financial problems. Regardless of who is to blame, it is fair to say that the price of bad management decisions, banks too willing to overlook weak financials, and city councils making promises that couldn’t be kept even in the best of times will ultimately be borne, once again, by the taxpayers.

Creditors like Fifth Third and its sister banks, which have been oxygenating the dying patient for years, are also going to take a hit. The lights in Highland Park have been going out for years. Those remaining will soon be going dark as well.

*Photo of the old Highland Park Ford Plant*

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