DETROIT POC DEAL STORIES FROM MICHIGAN CITIZEN, AUTHORED BY DIANE BUKOWSKI, BANKOLE THOMPSON, 2005-06

POLICE, WALL ST. EXECS CALLED OUT ON PENSION BOND DEAL

By Diane Bukowski
The Michigan Citizen

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(DB note, July 22, 2012: Michigan Citizen editor Teresa Kelly deleted the author's opening reference to the fact that City Council president Ken Cockrel, Jr. called out the police to force city council members including JoAnn Watson, Sharon McPhail, Barbara Rose-Collins, and Brenda Jones to the table to ensure a quorum at this meeting. She failed, however, to edit the headline, which is nonsensical with the deletion.

It was NOT the financial executives who were "marshaled to the table" to support borrowing $1.2 BILLION from UBS Financial Services and Siebert, Brandford, Shank and Co. in pension obligation certificates.They came MORE than willingly. It was the City Council members who were marshaled there.

This was an election year, and the Michigan Citizen was preparing to favor, if not endorse, Kilpatrick for a second term. Werdlow's remarks that "it took a lot to get them here" meant that he and Kilpatrick were desperate to get the controversial deal passed and called on the ratings agencies representatives for help. Later that year, Werdlow left the administration to take a position as managing partner with Seibert, Brandford, Shank, and Co.

Later, the story by Bankole Thompson sought to put the spotlight on former Mayor Dennis Archer, who was a lobbyist for UBS. But BOTH Archer and Kilpatrick, along with Werdlow, criminally conspired in this deal to the great detriment of the people of Detroit.

To a great extent, this deal was responsible for the city's current slavery to Wall Street banks, who threatened to call in this debt in 2009. Then interim Mayor Kenneth Cockrel, Jr. agreed to funnel all of the city's casino income taxes through US Bancorp, acting as trustee, and increase the city income tax, to ensure payment of the debt.)

Story by Diane Bukowski as edited:

DETROIT — Mayor Kwame Kilpatrick marshaled financial executives to the table during a council public hearing Jan. 31 in a last-ditch attempt to get the body to approve a bond to fund pensions.

“It took a lot to get them here,” said the city’s chief financial officer, Sean Werdlow.

Werdlow objected loudly when Councilwoman Sharon McPhail got a representative of Fitch Ratings, a bond rating agency, to admit his company had “frequently been apprised” of the city’s plan to use layoffs and service cutbacks to deal with a $300 million budget deficit.

The representative, Joe O’Keefe, said his agency currently rates the city’s credit as “A, with a negative outlook,” unless the city enacts those cuts. In 1992, Wall Street bond rating agencies drastically downgraded the city’s credit after city unions voted down a ten-percent pay cut.

Werdlow said 2,000 to 3,000 city employees would be laid off unless the bond deal is approved. He said it would save the city $160 million in this year’s budget, and compared the deal to refinancing a home mortgage, from a current rate of 7.8 percent to a lower rate of 5.6 percent.

Werdlow added that the city could not borrow only the money owed to the pension funds this year, but the entire $1.2 billion in liabilities owed over the next 14 years.

He was directly contradicted at various times by the bond executives, who said the city’s pension debt is a “soft liability,” not a “hard liability” like a home mortgage, and could be borrowed in annual allotments.

Stephen Murphy of Standard and Poor’s, however, said it would be “financially prudent” to make the debt a hard liability.

Councilwoman Sharon McPhail and George Orzech, who both sit on the city’s Police and Fire Retirement System Board, pointed out that a “soft liability” can vary to the city’s advantage. In previous years, Orzech said, that system was over-funded due to successful investments, eliminating the city’s liability.

Addressing Murphy, Councilwoman JoAnn Watson said, “If the transaction is approved but the stock market goes south in the following years, what would that do to the city’s bond rating?”

Watson cited negative factors influencing the nation’s economy, including competition from automakers in China and elsewhere, and the war in Iraq.

Murphy responded, “That would be a significant problem.” He stressed that for the deal

to succeed, pension boards would have to resist demands for better retiree benefits and distribution of excess profits, as with the “13th check” city retirees used to receive.

Werdlow said the elected retiree boards would still control the distribution of proceeds from the bonds.

The city council is deliberating not only on the bond issue, but also on an ordinance to form two non-profit corporations that would oversee the funds, doling them out to the boards on an annual basis.

Henry Sciortino, head of the state oversight board now running the City of Pittsburgh, tried to assuage the impact of remarks he made at Kilpatrick’s economic forum Jan. 5.

At the time, he had cited a pension bond deal as partially responsible for the city’s default. During the council session, he said that the deal was “non-callable,” meaning interest rates could not be renegotiated even after they went down on the national market. That goes against Werdlow’s claim that only 10 to 15 percent of Detroit’s proposed bond deal is “non-callable.”

Councilwoman Barbara Rose-Collins said the city council should not rush to pass the bonds without exhausting other possible options.

Union presidents Emily Kunze and John Riehl, representing workers in the city’s Water, Public Lighting, Finance and Human Resources departments, laid out some of those alternatives during the hearing.

Kunze said it was the responsibility of big business to deal with the city’s deficit.

“They got all the tax abatements,” she said. “What are they giving back to the community? We demand some of that money they’re spending on the Superbowl for our services!”

She said part of the problem behind the deficit is that the Kilpatrick administration failed to pay payroll taxes on time to the federal government, which has left the city with about $4 million in fines.

As for the bond deal, Kunze added: “We can’t enter into a scheme like this with no guarantees. We can’t gamble with Detroit’s future.”

The deal was scheduled for a council vote on Feb. 2, when Council President Maryann Mahaffey is expected to return from an absence due to shoulder surgery.

Council caves: Votes for risky pension bonds

By Diane Bukowski
The Michigan Citizen

DETROIT — After months of opposing it, the Detroit City Council's "Fabulous Four" voted for a $1.2 billion pension bond deal Feb. 4, stunning many supporters while comforting city workers worried about keeping their jobs.

"The state took over the schools to control a $1.5 billion construction bond proposal," Agnes Hitchcock of the Call 'Em Out Coalition said. "Now it looks like we're telling them that the city is a good thing to take over as well."

Helen Moore, head of the Keep the Vote No Takeover Coalition, agreed: "Call 'em out, call 'em out, what's it all about — elected politicians selling us out."

But many city employees reacted with relief, saying they feared being laid off if the council didn't go along with the deal.

Prior to the vote Mayor Kwame Kilpatrick told the council that if the bond deal didn't pass, "I'll have to lay off 2,000 workers. We've already told Wall Street we would use the pension obligation certificates to close the gap in our budget."

For a while during the lengthy discussion, the council president, Maryann Mahaffey, along with Councilwomen Barbara Rose Collins, Sharon McPhail and Joann Watson, went toe to toe with the mayor.

McPhail, a candidate for Kilpatrick's job, told the incumbent mayor: "This is a very risky transaction. Your own people at your economic forum called this one of the seven deadly sins of municipal finance. If the deal doesn't do what is expected, we could face receivership under the local government Fiscal Responsibility Act. If the stock market does well, that $1.2 billion in unfunded pension liability could go away, but we'd still owe it in bonds."

"So what?" Kilpatrick responded.

McPhail and the vice president of the Detroit Police Officers Association, Paul Stewart, who both sit on the Police and Fire Retirement Board, said their colleagues would likely support a different scenario to address the budget crisis: deferring the city's payments to the system for this year and spreading out future payments.

Kilpatrick turned the proposal down flat, saying that borrowing the bonds at a lower interest rate would still be preferable.

In a seven-point alternative plan, Watson proposed rescinding non-essential private contracts, including one between the water department and the Infrastructure Management Group.

“I want you to commit to no layoffs and restoration of bus services until there are deep cuts in management,” she added.

Mahaffey pointed to a list of $300 million in no-bid contracts, asking that those be slashed.

Others who would not endorse the bond package included Ed McNeil and Jimmy Hearns, representing Michigan Council 25 of the American Federation of State, County and Municipal Employees (AFSCME).

Their boss, Council 25 President Al Garrett, later said he was misquoted as being in support of the deal, but added, “Frankly I didn’t see any better alternative. We’re in favor of bringing private contracts back in, but my concern was the timetable. How long would it take, and what litigation would be involved?”

In the end, with Watson and the mayor several times leaving the room together, and Collins abruptly saying the matter could be resolved, the four council members jointly capitulated.

They voted yes on the strength of verbal promises from Kilpatrick to retain all workers — other than the 700 fired last month — until July 1; to freeze new non-essential purchases and real estate leases; and to meet with the council on a regular basis.

In statements, McPhail and Mahaffey said they gave their vote with “unreadiness” and “reluctance.”

Watson, who has lobbied for a “team approach” to deal with the budget crisis, said she felt the mayor would use upcoming meetings to address the council’s concerns about private contracts.

Asked whether she felt Kilpatrick would agree to eliminate the contract with IMG, whose executives have contributed large amounts to his campaign fund, Watson said campaign finances were not the issue.
he mayor must now meet with city unions to see if they will agree to ten-percent pay cuts like those he asked the council to endorse for non-union members.

Ron Gracia, president of the Senior Accountants, Analysts and Appraisers Association, said afterwards, “The mayor held city employees hostage to get this vote, but he’s not laying off police and fire employees, and he’s not asking them for a ten-percent cut. The deficit is in the general fund, and 60 percent of my members are not paid out of that fund. He’s creating an economic underclass.”

Garrett, the Council 25 president, said Kilpatrick had already told his union that at least 600 AFSCME workers would be added to the unemployment rolls if they voted down the pay cuts.

ARCHER ON BOND DEALER'S PAYROLL

Bond dealer to reap millions in fees

By Bankole Thompson
The Michigan Citizen

DETROIT — As the city prepares to hand UBS Financial Services the pension bond deal, it will in a way reward former Detroit Mayor Dennis Archer, a lobbyist on the payroll of the giant investment bank.

Faced with a growing deficit of over $300 million for 2005-2006, Detroit turned to its retirement systems last week to borrow $1.2 billion in pension bonds in the name of saving jobs.

Several Detroit City Council members had expressed fear that borrowing money to pay for the city's financial woes without proper structural changes in city government was bad business. Nevertheless, the Detroit City Council voted 8-0 to approve Mayor Kwame Kilpatrick's plan to do just that.

In March 2004, The Associated Press carried an article by Justin Pope showing how large investment banks like UBS thrive off bond deals with the help of lobbyists such as Archer.

"Like many big investment banks, UBS Financial Services relies on a stable of well-connected local lobbyists to steer lucrative municipal bond underwriting business back its way," Pope wrote.

He reported the firm has about 28 political consultants under contract, including Archer.

In 2003, UBS paid its consultants $1.8 million, up 66 percent from 2002, Pope reported.

"UBS isn't the only firm spending big money lobbying to win business underwriting, or selling a government body's bonds to the public, usually at a markup," he wrote. "Merrill Lynch spent nearly $3 million last year, and J.P. Morgan Chase spent $3.3 million. Payments to consultants by the top 15 securities underwriters hit $7.3 million in the first half of last year, up 70 percent since 1998, according to data compiled by The Bond Buyer, an industry publication."

He said the media hardly covers the $1.9 trillion municipal bond market, which is a critical part of the economy.

"The sector has thrived in recent years; budget cuts have sent state and local governments scrambling for funds, while low interest rates have made it appealing for

them to seek those funds in the bond market," Pope wrote.

Archer could not be reached for comment on whether he's playing a role in securing the bond deal between UBS and the city.

"There is too much cronyism in this administration," said City Council President Maryann Mahaffey, referring to Kilpatrick's mayoralty.

UBS was among several rating agencies and bond insurers, including Fitch Ratings and Standard & Poor's, that went before council at the behest of the Kilpatrick administration to answer questions about the deal as a possible solution to the city's fiscal crisis.

"It is standard business practice in the modern world but I find it very bothersome," Mahaffey said. "I don't even know if there was an open bidding to deal with UBS. That is part of the secrecy. I just don't like it."

Either way, Mahaffey voted for the deal. Ironically, it was Archer who added nearly 3,000 employees to the city's payroll during his administration, contributing to the budget deficit that in turn created the need for the bond sale.

But the bond deal is fraught with questions, a major one being whether such a deal could work for a city like Detroit.

"Pension bonds should not be used to fund plans that require substantial liquidity to meet net cash outflows," said James B. Burnham, an expert on pension bonds.

Burnham, the Murrin Professor of Global Competitiveness at Duquesne University in Pittsburgh, said it is challenging to manage pension bond obligations.

"Like any financial debt instrument, pension bonds are two-edged swords. In the hands of the right borrower, a well-designed pension bond issue may play a useful if limited role in managing pension obligation certificates," he said.

But a poorly-designed issue, he went on, reflects "a desperate effort to avoid coming to terms with fiscal reality, with unpleasant ultimate consequences for all concerned."
The City of Pittsburgh, now under receivership, makes a strong case against pension bonds, Burnham said.

"Pittsburgh is a poster child for the case against pension bonds," Burnham said. "In the case of Pittsburgh's plan, in 2001 the gap between payments and contributions plus interest and dividends was a negative $8 million."

That meant the plan managers had to liquidate an equivalent amount of investments in a down market, he said.

He added: "Such an action violates the basis behind the apparent long-run returns on

investment in equities. No serious effort was made to address the problem of the underlying structural deficit. Instead the city resorted to one-shot financial transactions, such as the sale of the water and sewer operations to an off-balance sheet entity and the sale of tax liens."

Burnham said the Government Finance Officers Association recommends state and local governments to use caution in issuing pension obligation bonds.

"GFOA says governments should be sure they are legally authorized to issue these bonds and that other legal or statutory requirements governing the pension fund are not violated," he said.

Burnham said the GFOA states that the issuance of pension obligation bonds should not become a substitute for prudent funding of pension plans.

Visit www.gfoa.org for the full text of GFAO's recommendations.

With the passing of the pension bonds, Kilpatrick now has to work out details with UBS Financial Services and hire bond attorneys, according to one city analyst. The analyst said the deal will cost the city about $12 million in legal fees.

Wall Street junks Detroit, but fight may be brewing

ANALYSIS
By Diane Bukowski
The Michigan Citizen

DETROIT — After meeting for several hours with Mayor Kwame Kilpatrick and his top aides shortly after city elections, Standard & Poor's once again downgraded the city's bond ratings, this time to BBB- one step above junk level.

Despite Kilpatrick's lay-offs of 1,396 city workers since June and recently disclosed plans to close most of the city's recreation centers, S&P said, "The administration's hesitancy to cut positions, as well as the inability to adjust union contracts to gain savings, has deepened the budget gap for fiscal 2006."
The agency went on to demand that city workers and retirees pay even more for their health care, although they have already shouldered increasing health care co-pays. S&P also endorsed Kilpatrick's other contract proposals, which include a 10 percent pay cut in the form of a shortened work week.

S&P found a note of hope, however.

"Union negotiations appear hopeful because the contracts are currently expired, and should no agreement be made between the two sides a last-best offer (determined by the arbitrator) could be imposed," said S&P.

“Since new contracts will be in place by March 1, 2006, the city has assumed some savings in contracts costs during the last four months of the fiscal year.”

Whether city workers will agree to Wall Street’s demands remains to be seen, however. A demonstration by the city’s largest union local, representing water department workers, was planned for Dec. 1 to honor the 50th anniversary of the day Rosa Parks refused to relinquish her seat on a city bus in Montgomery, Alabama.

“If Detroit stands up for decent public services and fair treatment for public workers it will set the wheel in motion across the nation,” reads a flyer for the demonstration, scheduled for 4:15 p.m. outside the Coleman A. Young Municipal Center. “People everywhere are waiting for someone to stand up and fight. If not Detroit, then who will do it?”

Standard and Poor’s recently slashed credit ratings for General Motors and Ford even lower than the city’s, dumping them into the junk bond basement.

But threats by unions representing Delphi workers that they would strike in response to the company’s demands to slash wages from an average of $27 an hour to $12.50, have forced GM, Delphi’s largest customer, to intercede in the Delphi negotiations. Delphi has now postponed its deadline for filing a motion in bankruptcy court to cancel union contracts from Dec. 16 to Jan. 20 next year.

Even Republican legislators have recently come out to challenge Wall Street, in the wake of the collapses of Enron and WorldCom after exposures of massive fraud.

In July, U.S. Congressman Michael G. Fitzpatrick (R-Pennsylvania) introduced a bill in the House of Representatives to regulate ratings agencies, H.R. 2990, the “Credit Rating Agency Duopoly Relief Act of 2005.” The bill’s introduction spurred the Securities and Exchange Commission’s staff to outline “Key Issues for A Legislative Framework for the Oversight and Regulation of Credit Rating Agencies.”

Fitzpatrick said, “As a Bucks County Commissioner, I remember the financial hardships that the people in the 8th District of Pennsylvania faced when Enron and WorldCom went bankrupt. It is extremely disturbing that the two largest Nationally Recognized Statistical Rating Organizations (NRSROs) – Moody’s and S&P – rated Enron and WorldCom at invest grade just prior to their bankruptcy filings.”

Fitzpatrick went on, “Credit rating agencies claim that they are not in the business of detecting fraud, but they are most certainly in the business of impacting the bottom line of companies, municipalities and school districts. The better the credit rating, the lower the interest rate the borrower must pay to expand its operations, construct a road or build a school.”

S&P has responded in alarm, conducting a concerted campaign to defeat the legislative efforts. In a letter to Pennsylvania Congressman Paul Kanjorski, S&P executive Kathleen Corbet even claimed that government regulation of credit ratings agencies would violate

their First Amendment Rights.

She alleged that the agencies “perform journalistic functions by gathering information, analyzing that information, and disseminating their resulting opinions—in the form of credit ratings and commentary—to the general public.”

In 2004, S&P and Moody’s downgraded Puerto Rico’s credit ratings, causing the government to carry out massive lay-offs of public employees and increase utility rates, bus fares, highway tolls, car registration fees and public university tuition by huge amounts. The government has also refused to negotiate wage increases with public workers.

In its release on Detroit’s bond rating downgrade, S&P cited the city’s “high debt burden” including the recent addition of $1.2 billion in pension obligation bonds that S&P analyst Steven J. Murphy came to Detroit to campaign for, as another negative factor in the city’s economic outlook.

But S&P did not ask the banks, to which the city paid $366 million in 2005 alone for that debt, or the city’s wealthy contractors, who refused en masse to take a 10 percent cut in their payments from the city, to sacrifice along with the city’s workers and youth. It did not ask President George Bush to end the war in Iraq and give the $400 million a year which Detroit provides in tax dollars for the military budget, back to the people of Detroit.

The coming period will show whether Detroit’s residents, workers and youth will mount a fight against Wall Street’s escalating demands.