Police Wall St execs called out on pension deal

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| Chief Financial Officer Sean Werdlow (l) and Standard and Poor’s Stephen Murphy, listen to bond plan presentation. |

 **By Diane Bukowski**The Michigan Citizen

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.

Bankole Thompson contributed to this report.

*E-mail: dbukowski@michigancitizen.com*