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Detroit Chapter 9 Bankruptcy Filing
Who's Next?
What Does This Mean?

This has been years in the making with $18.5B in debt and the future of pension and health benefits of city workers hinges on the balance.

Bondholders may only receive pennies on the dollar (CNN Money, July 18th, 2013).

Here are some key points:

- Largest Municipal Bankruptcy filing in U.S. history.
- Detroit population was 1.8 million (1950) and is now 700,000
- 78,000 abandoned buildings
- **Detroit Municipal Bonds (June 15, 2035) lost 50% of their value since May 2013. (Traded at $76 in May with an 8.39% yield compared to $38.55 with a yield of 16% on July 18th [Reuters article July 18, 2013 - Detroit Files For Bankruptcy; Stage Set For Court Fight]).**
- 70% of Parks are closed since 2008.(1)
- 40% cut in Police Force in a decade.(1)
- 4 out of 10 street lights do not work.(1)
- What about selling Detroit's coveted assets like:
    - Coleman A. Young International Airport

- Beloved Belle Isle Park
- Auctioning off the Valuable Detroit Institute of Arts

Detroit residents pay the highest property and income taxes in the state. Last year its business tax doubled. About 40% of revenues go toward retirement benefits and debt, much of which was issued in the last 10 years to finance pension contributions. Payments on $1.6 billion of pension-related certificates of participation consume nearly every dollar of property tax revenue.

This process may take 2 to 3 years to see what cuts are made to pensions and what losses Municipal Bond holders will take.

Who is next: Chicago, Oakland, Philadelphia

Fox News reports on July 22nd that Chicago's credit rating was dropped last week and that Moody's Investment Services called liabilities "very large and growing." Chicago is the country's 3rd largest city.

Here is the full story on who's next from the Wall Street Journal. (below)

After Detroit, Who's Next?

The Wall Street Journal – 17 hours ago

Detroit emergency manager Kevyn Orr has outraged unions and investors by seeking to subordinate the city's debts to the welfare of its residents via bankruptcy. But what probably disturbs the creditors even more is that his plan could set a precedent for other municipalities that are going broke.

For years Detroit has been gutting services and sucking taxpayers dry to finance retirement and debt obligations. Nearly 70% of parks have been closed since 2008, and four in 10 street lights don't work. The city has cut its police force by 40% in a decade. Response times are five times longer than the national average, and it has one of the highest violent crime rates in the country. Meanwhile, Detroit residents pay the highest property and income taxes in the state. Last year its business tax doubled. About 40% of revenues go toward retirement benefits and debt, much of which was issued in the last 10 years to finance pension contributions. Payments on $1.6 billion of pension-related certificates of participation consume nearly every dollar of property tax revenue.

Investors jumped at the high yields on Detroit's debt because they expected the city to borrow and raise taxes to the hilt to avoid default. If Motown risked defaulting, creditors bet that the state or federal government would swoop in like Superman and save the city in the nick of time.
But no state bailout was forthcoming, and rightly so. Governor Rick Snyder appointed Mr. Orr to revive the moribund city, and he refused to take another pound of flesh from Detroit taxpayers. Instead, he plans to use bankruptcy to cut retirement benefits, slash capital-market debt and reinvest $1.25 billion in public services.

Unions that have propagated the conceit that pensions are inviolable are stunned to discover that they may have been wrong. Meanwhile, investors appear astonished that there's no such thing as a risk-free return, which they should have learned from Greece and Argentina. One question to ask now is if Detroit isn't too big to fail, is any city?

While few municipalities are as economically depressed or dilapidated as Detroit, many have borrowed heavily, raised taxes and hollowed out services to pay retirement and debt obligations. Some like Detroit may soon decide that clipping bondholders and pensioners is a better option than to keep whacking taxpayers.

Take Oakland, which is Detroit's doppelganger on the West Coast. The run-down Bay Area city, which has the highest crime rate in California, recently laid off more than 100 police to fund retirement benefits and pension-obligation bonds. Murders and robberies shot up by nearly 25% last year. To avert steeper cuts, the city borrowed an additional $210 million to finance pensions.
Philadelphia and Chicago have been less scrupulous about financing pensions and are now having to make balloon payments to prevent their retirement funds from going broke. Philadelphia is spending about 20% of its budget on pensions to make up for years of short-changing the system. In 1999, it issued $1.3 billion in bonds to invest in the pension fund, but it has paid more in interest than it has earned on its pension investments.

The city has recently raised sales, property and business taxes. The city council is now discussing using revenues from a one-percentage-point sales tax hike in 2009 intended for schools to finance pensions. Its sale tax rate is now 8%, the limit under state law.

Chicago is also fast approaching a day of reckoning. Chicago Public Schools last week announced 2,100 layoffs, which Mayor Rahm Emanuel blamed on a $400 million spike in pension payments. "The pension crisis is no longer around the corner," he said. "It has arrived at our schools."
Moody's downgraded the city's general-obligation bonds last week due in large part to rising retirement and debt service costs, which comprise about a third of its operating budget. Chicago plans to dump 30,000 retirees on Medicare and the ObamaCare exchanges in 2017. Yet all savings will go toward pension payments, which will triple in 2015. The mayor has warned that the bill could force a 150% spike in property taxes.

Smaller cities may present an even greater default risk because they have lower borrowing limits, and retirement costs tend to consume a larger share of their operating budgets. Take the Detroit suburb of Hamtramck, which is spending more than one out of every five dollars on pensions. Gov. Snyder this year appointed an emergency manager to help stave off bankruptcy. Trouble is, emergency managers can't force a restructuring of debts or retirement benefits. Hamtramck was under the control of an emergency manager from 2000 to 2007, which didn't resolve its deep-seated fiscal problems.

One of the benefits of bankruptcy is that it allows debtors to shed liabilities that impede growth and investment. That benefit must be weighed against the cost of being frozen out of bond markets, which might be a good thing if it prevents more borrowing to finance unsustainable costs.
In Detroit, unions and creditors helped to perpetuate a borrow-tax-spend cycle at the expense of city residents. Bankruptcy shows the party is over, as it may also soon be for many other cities.

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