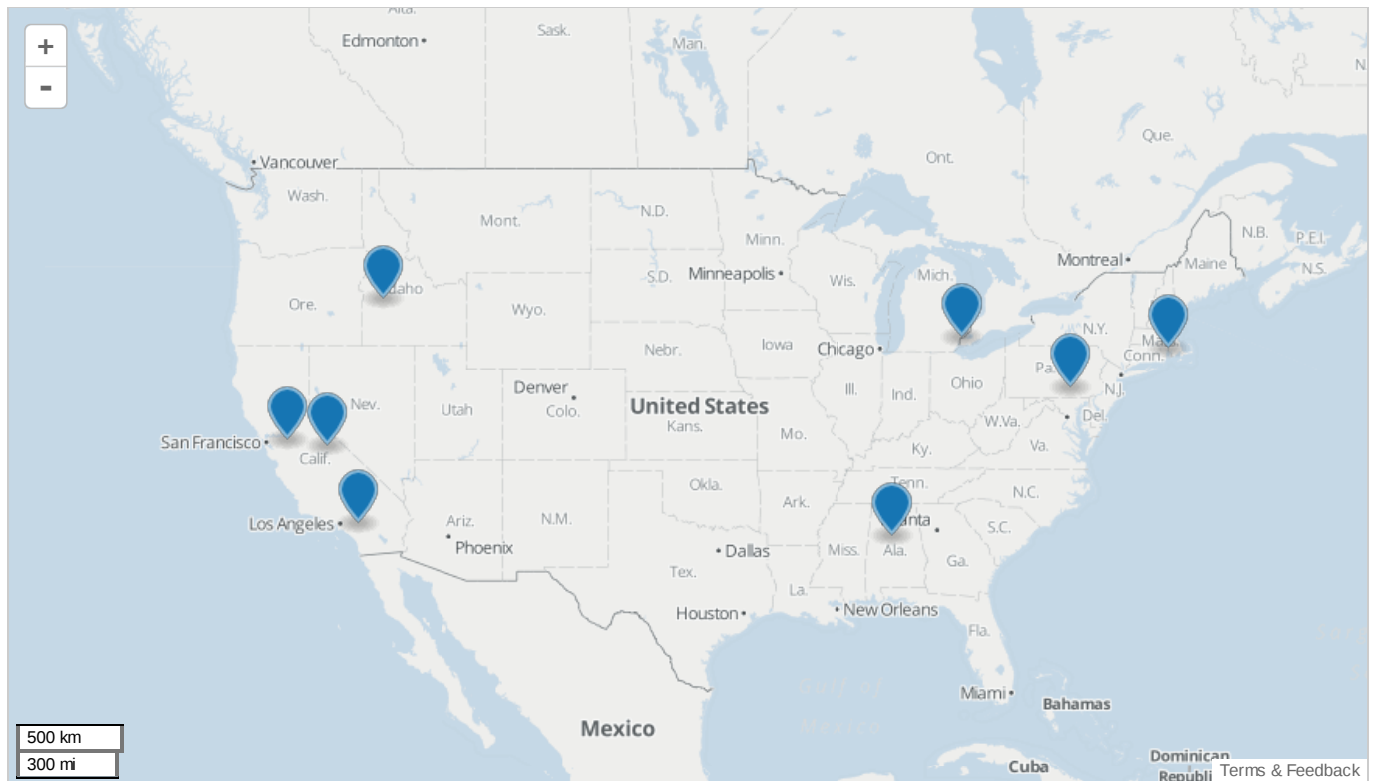


# Detroit not alone under crushing pension obligations

## U.S. CITIES, TOWNS AND COUNTIES THAT HAVE FILED FOR BANKRUPTCY

The city of Detroit filed for Chapter 9 bankruptcy protection in federal court Thursday. It is the largest U.S. city to do so. Cities, towns and counties that have filed bankruptcy since January 2010:



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Detroit filed for Chapter 9 bankruptcy protection July 18.



(Photo: Romain Blanquart, Detroit Free Press)

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WASHINGTON -- Detroit may be alone among the nation's biggest cities in terms of filing for bankruptcy (<http://www.freep.com/article/20130721/NEWS06/307210073/>), but it is far from the only city being crushed by a roiling mountain of long-term debt.

At the heart of Detroit's problem is a growing unfunded debt on benefits owed to current and future retirees — some \$3.5 billion, according to its emergency manager, Kevyn Orr — which mirrors a circumstance being seen across the U.S.

From Baltimore to Los Angeles, and many points in between, municipalities are increasingly confronted with how to pay for these massive promises. The Pew Center for the States (<http://www.pewstates.org/news-room/press-releases/pew-resources-examine-municipal-bankruptcies-and-detroit-financial-instability-85899491747>), in Washington, estimated states' public pension plans across the U.S. were underfunded by a whopping \$1.4 trillion in 2010.

**STORY:** [Legal battle brews over Detroit bankruptcy filing \(http://www.usatoday.com/story/news/nation/2013/07/19/detroit-bankruptcy-unconstitutional/2569481/\)](http://www.usatoday.com/story/news/nation/2013/07/19/detroit-bankruptcy-unconstitutional/2569481/)

**STORY:** [Judge selected to oversee Detroit bankruptcy \(http://www.usatoday.com/story/news/nation/2013/07/19/judge-selected-to-oversee-detroit-bankruptcy/2570417/\)](http://www.usatoday.com/story/news/nation/2013/07/19/judge-selected-to-oversee-detroit-bankruptcy/2570417/)

For years, watchdog groups and public-sector analysts have warned of the threat posed by unfunded liabilities. Much like the legacy pension costs that weighed on Detroit's automakers before the Chrysler and General Motors restructurings of 2009, the worry is that revenues can't keep up with growing debt and that rosy predictions for market returns downplay the actual financial risk.

As examples of the results: Chicago recently saw its credit rating downgraded because of a \$19-billion unfunded pension liability that the ratings service Moody's puts closer to \$36 billion. And Los Angeles could be facing a liability of more than \$30 billion, by some estimates.

It's no surprise — given the pressure public pensions are putting on municipal budgets — that any move to ease those liabilities, especially through a bankruptcy court order like what's happening in Detroit, is being watched carefully nationwide by state and municipal officials, union leaders, bond traders and retirees.

Early this year, the Pew Center released a survey showing that 61 of the nation's largest cities — limiting the survey to the largest city in each state and all other cities with more than 500,000 people — had a gap of more than \$217 billion in unfunded pension and health care liabilities. While cities had long promised health care, life insurance and other benefits to retirees, "few ... started saving to cover the long-term costs," the report said.

Public-sector pensions, given a municipality's supposed ability to raise taxes and set its level of services, were expected to be secure all the same. Corporations might seek relief from pension and health care costs in bankruptcy court, but laws in many places are supposed to protect public-sector pensions. Michigan's constitution, for instance, says they constitute "a contractual obligation ... which shall not be diminished or impaired."

But, barring a settlement now with public-sector unions, it's hard to see cuts not being part of Orr's plan in Detroit: relying on a bankruptcy judge to rule that federal law trumps the state constitution.

And such a ruling, once made, could change how public employees across the country see their futures, how their unions negotiate contracts, and how their retirees — some of whom, like police and firefighters in Michigan, don't contribute to or receive Social Security benefits because their pensions were expected to be guaranteed — pay the bills.

The situation in Detroit just took a big stride onto the national stage. Even the White House said officials there are monitoring the case — and offering help — though they stopped well short of any action that could be seen as involving them in a court dispute between the city, the state and creditors, knowing that any such move could be fraught with political overtones.

### **A rare filing**

No one really expects a rush on the bankruptcy courts nationwide, however — the unfunded pensions and health care liabilities notwithstanding. In a sense, that's why the Detroit bankruptcy filing, at \$18 billion or more the largest municipal bankruptcy ever, is so unique. And its potential outcomes are possibly precedent-setting.

Municipal bankruptcies are exceedingly rare, considering the 1.2 million personal and business bankruptcies filed last year. *Governing* magazine says there have been just 36 municipal bankruptcies since 2010, including Detroit's. And they were extremely occasional long before that.

New York City's storied financial problems in 1975 never led to bankruptcy, even after then-President Gerald Ford said he'd block any attempt to bail out the city. He later relented on low-interest loans after the city began to repair its finances. And Cleveland and its then-Mayor Dennis Kucinich defaulted on loans in 1978 but never went into bankruptcy.

**STORY:** [Detroit files 3,000 pages of bankruptcy documents \(http://www.usatoday.com/story/news/nation/2013/07/19/detroit-files-thousands-pages-bankruptcy/2568393/\)](http://www.usatoday.com/story/news/nation/2013/07/19/detroit-files-thousands-pages-bankruptcy/2568393/)

**FULL COVERAGE:** [Detroit's financial crisis \(http://www.freep.com/article/99999999/NEWS01/120322073&template=theme&theme=DETROIT\\_FINANCIAL\\_CRISIS\)](http://www.freep.com/article/99999999/NEWS01/120322073&template=theme&theme=DETROIT_FINANCIAL_CRISIS)

There's a host of solid reasons for a municipality not to file for bankruptcy protection: the stigma, the fact that it effectively blocks a city from the regular bond market for years and state laws that often remove it as an option in the first place, among those reasons.

"It's a black mark against the city," said Matt Fabian, managing director for Municipal Market Advisors, a Massachusetts research firm. "Bankruptcy is just bad. There's no mayor who wants to put his city in bankruptcy."

The reasons, said Fabian, are clear enough: Unlike in a Chapter 11 corporate bankruptcy proceeding, a Chapter 9 proceeding can't lead to restructuring government — that's a political decision outside a judge's purview. And debt might be wiped away, but the underlying issues of things such as poor governance and management, or of a shrinking population and tax base, won't be.

"It doesn't solve the problem," he said.

Generally speaking, municipal finances across the U.S. have been looking up, according to the National League of Cities, which reported that a majority of city finance officers, some 57%, said their cities were better able to meet fiscal targets in 2012 than they were in 2011.

But it doesn't mean the fallout from the Great Recession, and the buildup of municipal deficits, hasn't led to some high-profile fiscal collapses. And while the bankruptcies in the California cities of Stockton or San Bernardino may be dwarfed by Detroit's, many of the same issues regarding public pensions are coming up.

### 'The widening gap'

Last Monday, the bond rating house Moody's also downgraded Cincinnati's general obligation bonds, citing "budgetary pressure" from pension contributions. Its downgrade was to Aa2 — still a lot higher than Detroit's Caa3 for its general obligation bonds — but another part of the trend.

The Pew Center calls it "the widening gap" and says it's not going away anytime soon, and there won't be any quick fixes.

Bankruptcy might turn out to be one — though it might be a painful one to retirees — depending on the Detroit experience, said Cory Eucalitto, editor at *State Budget Solutions*, a nonpartisan, nonprofit group that researches budgeting.

As Detroit knows, you can't always raise taxes and you can't always cut services. And bankruptcy may loom as the only choice left.

"A lot of it's going to have to do with the outcome of it, which will take some time," Eucalitto said. "But upfront, it's going to show people bankruptcy is an option. ... That's going to be a big change."

*Contributing: Joe Guillen and Matt Helms, Detroit Free Press*



After tumbling from the top of the auto industry into financial ruin, Detroit filed for bankruptcy. Governor Rick Snyder said all services would continue. And he said now 's the time 'to say enough is enough' of the downward decline of Detroit.' (Ju

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