# *Rodney's Take*

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## The Detroit Way: They Can Always Steal Your Money

My, how the years have flown.

It's been a decade since Motor City declared bankruptcy, mostly because it had mismanaged pension funds. City authorities over promised city workers, like firemen and policemen, what the city would be able to pay in retirement benefits, but as the numbers went against them, they doubled down. Instead of striking new, realistic bargains with unions, city officials issued bonds and used funds to leverage the pension funds. As the markets went south in 2008 and 2009, this strategy made a bad situation catastrophic. By 2013, the city was underwater by an estimated $18 billion, leading to the largest municipal bankruptcy in history.

Normally, when an entity goes bankrupt, a judge will ask for a tally of all assets and all liabilities, and then dole out assets according to contractual obligations before splitting what's left over among unsecured creditors. Of course, that never happens when unions are involved. Somehow in the case of Detroit, a judge ruled that the city illegally issued bonds, so the bondholders ended up with 10 cents on the dollar, while the unsecured retirement funds walked away with 96 cents on the dollar. Part of the deal was selling the Detroit Museum collection to a newly established non-profit, with the stipulation that all the money would go to the retirement funds. There is no legal foundation for this. If the museum collection belonged to the city, then it should have been available to meet all obligations, not subject to certain rules, but the judge let it stand.

Detroit emerged from bankruptcy a year later having wiped away $7 billion in debt that mostly had been held by bond investors, and got a 10-year pass on making payments to its retirement funds.  Over the past decade, the city has banked about $460 million in a Pension Retirement Fund, which it will use to make future pension payments.  Those payments start next fiscal year at $135 million and after 10 years will bump up to $154 million.

But eagle-eyed readers will notice something.  If Detroit put this amount of money aside for pensions over the last eight years, then they should have saved about $60 million per year.  That's less than half of what they will owe every year starting in FY2024.  The city plans to make payments partially out of their operating budget and partially from the Pension Retirement Fund but expects that fund to run out of cash before the payments bump up to $154 million.

Then what?

Kudos to Detroit city management for putting a big chunk of money aside, but the math still doesn't work.  I presume city managers estimate that tax revenues will grow in the years ahead, giving them more funds for pensions, but the years since bankruptcy show that's not a good bet.  From 2015 through 2022, Detroit brought in more than $1 billion in revenue in four out of eight years, rising above that level and then falling below, with no obvious trend.  If the city can't consistently bring in enough cash to make its pension payments, it could find itself back in dire financial straits, looking for a way out.  If the city owes you money, either as a vendor or a bondholder, they might come looking for you.

I wish Detroit were alone in this, but the Puerto Rico bankruptcy fiasco shows that it isn't.  When we lend money, we can't count on courts following the law if things go bad.  It's better to avoid the situation by not chasing big yields, as they might just be bait, which makes your money the meal.

Rodney

*Got a question or comment? You can contact us at* info@hsdent.com.