



Motown No More

No Money, Mo' Problems

"We refuse to let Detroit go bankrupt."

Barack Obama 2012

Detroit, the heart of America's automobile industry, filed for bankruptcy yesterday. Just 60 years ago, Motown was the fourth largest city in the USA with almost 2 million residents. Today it struggles to hold 700,000 citizens.

Is it the largest municipal filing in American history in terms of debt, which is estimated at a whopping \$18 to \$20 billion?

Consider the facts:

- Debt of \$18-20 billion
- An operating deficit of \$327 million last year alone
- There are an estimated 78,000 empty buildings in metro Detroit
- Only 10 to 14 out of 36 ambulances are on the road
- The average response time for a police call is 1 hour (if they show up at all) compared to a national average of 11 minutes
- The average age of a Detroit Fire Station – 80 years
- 40% of the city's streetlights do not work

While it is getting some press; I think the implications and ramifications of this filing will ripple down the road.

The rise and fall of Detroit reads like a movie script. Detroit expanded at a stunning rate in the first half of the 20th century with the arrival of the automobile industry, then shrank the last half of the century at a similarly remarkable pace.

The nature of Detroit's situation ensures it will be closely watched by the municipal bond market, by public sector unions, and by leaders of other financially challenged cities across the nation. Since the mid 1950's, just over 60 cities, towns and counties have filed under Chapter 9 Bankruptcy, so it's not that common.....yet.

Prior to Detroit, Jefferson County, Alabama had been the nation's largest municipal bankruptcy, having filed in 2011 with \$4 billion in debt. But unlike Jefferson County, where a troubled sewer system was largely responsible for the downfall, Detroit's

implosion was brought on over many decades by mismanagement, big unions, high taxes, overspending, and lots of corruption.

The last elected Republican mayor of Detroit was Louis Miriani.....in 1952. That was pretty well the peak. Since then, all Democrats, seven in a row, including Coleman Young (1974-1994 – with lots of corruption accusations) and Kwame Kilpatrick (2002-2008 – who rode around in limos and fur coats, and was elected twice and resigned after pleading guilty to two counts of felony obstruction of justice). To be fair, I think current mayor David Bing, a former NBA star, is a decent man who inherited a bad situation.

In the most recent Federal election, November 2012, Detroiters elected (with 68% of the vote) an ex-convict (Bryan Banks) who was convicted eight times between 1998 and 2004 of writing bad cheques and credit card fraud. His slogan was a touching, "You can bank on Banks." In the same election, in Michigan's 11th district, they also elected a reindeer farmer named Kerry Bontivolio, who once said in a disposition that he wasn't always sure if he was himself or Santa Claus, and whose brother described as "mentally unbalanced." (Source: CBS Detroit Nov 7, 2012).

So I guess a logical person would say Detroit got what it deserved by repeatedly electing these types of people?

In the end, it is a sad story, but one in which we must take heed. High taxes and unending spending, with a total lack of fiscal responsibility combined with ever increasing entitlements and legacy costs, with a dash of corruption, will only have one result. Detroit is the post child of mismanagement.

Consider this statistic: Even if Detroit was able to take 1/5 (20%) out of the budget, it would take 68 years to get their balance sheet on side.

This is an important story to follow, because if Detroit is allowed to wipe the slate clean and renegotiate all deals, it will affect public unions everywhere, civil servant pensions, etc.....and no doubt other centers will follow.

I'm not implying anything, but did I mention that the last Republican mayor of Detroit was in 1952?

I'm just saying.....

Stay tuned,

Vito Finucci
Vice President and Director
Investment Advisor

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