Leases? Sales? City must find cash to get out of choking debt

So there weren't a lot of new numbers in the Detroit financial review team report.

The city's broke, spends more than it takes in, and its efforts to cut spending have not made a significant structural difference.

Those truths are so tired that we ought to consider translating them into Latin and making them the new city motto.

But there is one set of figures that has to dominate the conversation about the city's future from now on: $14 billion in long-term liabilities, $2 billion set to run past due in the next five years.

The city's bond, pension and retiree health care liabilities are gripping tighter around residents' necks. The payments required to maintain those liabilities stretch somewhere between 35 and 42 cents of every dollar, meaning services - streetlights, cops, firefighters, snow removal - all compete for what's left over.

The only way to fix that is to restructure those liabilities in a big way - and you'll need quite a bit of cash to do so.

Detroit's best alternative, at least the best one I see, is to begin talking seriously about how to leverage its assets - through creative leases, other revenue-generating agreements or, yes, sales - to raise the few billion dollars needed to put the city in a less obligated state.

The water department. The parking department.
The city has to start weighing the need to monetize (or sell) those assets against the value of keeping them in their current state.

It's not dissimilar from a family. If you spend 40% of your income on liabilities, you can cut all the other expenses you want - get rid of cable, buy your clothes secondhand, eat Ramen noodles every meal - without changing the fact that you owe more than you can support. You need relief from the liabilities.

This city sometimes feels like one big dysfunctional family - fighting and blaming and screeching to avoid obvious solutions.

And for the past year, the state has been a little like the crazy, visiting uncle. Two officials in Mayor Dave Bing's administration, program manager William (Kriss) Andrews and Chief Financial Officer Jack Martin, were appointed to help everyone else face reality. That never happened.

I suspect the problem is largely the city's political culture. The most minor discussions about city assets - such as the proposal to let the state manage Belle Isle - inspire paranoid fantasies of loss of control and self-governance.

But it's time for more sober discussion. What's the benefit to the city, for example, of owning a water department? Profits can't be spent enhancing or maintaining other services. And the water department's assets are so encumbered (with debt and the cost of deferred maintenance), that it can't even be leveraged reasonably to support other services.

From a purely financial perspective, its greatest value may lie in a sale, or an agreement with a private party to operate it. Either could raise significant cash for the city - and that cash could help restructure the city's liabilities, freeing more money to provide crucial services.

The city has about $5.7 billion in unfunded responsibilities for retiree health care, for example. With cash (you'd have to be talking hundreds of millions), you could begin thinking about how that liability can be off-loaded into a voluntary employee beneficiary association (VEBA), managed by the unions, with contributions from city coffers that decline over time and eventually end.
The city's bondholders might also be convinced to take haircuts - cash payments that equate to cents on the dollar of what they're owed, but represent a better, more certain payout than standing in line in bankruptcy court.

What stopped Bing, the City Council, or the state-chosen financial gurus from suggesting or pursuing these ideas?

Nothing, other than Detroit's toxic political environment - and, frankly, a long-standing lack of leadership.

If we need an emergency manager to finally break that stalemate, I say bring it on.