Detroit Bankruptcy Facts

As the Court continues to make decisions regarding the City of Detroit's filing for bankruptcy protection, it has become clear that there are a number of misconceptions related to municipal bankruptcy, including how the City came to these circumstances, the funding status of the City's pension plans, and whether Federal intervention is either warranted or appropriate. For questions or additional information, please contact any of our legislative representatives listed below.

Municipal bankruptcy is not pervasive.

- Chapter 9 filings are actually very rare: Only 14 localities, or one out of every 1,668 eligible localities (0.06 percent), have sought bankruptcy protection over the past five years.
- Only 12 states specifically authorize Chapter 9 filings for their general-purpose local governments, while 24 states either have no Chapter 9 authorization outlined, their laws are unclear, or such filing is otherwise prohibited.

Detroit's economic problems are extreme and were not created by the pension benefits of city employees.

- Detroit's population has declined 63% since its postwar peak, including a 26% decline since 2000. This declining population has resulted in a decrease in state revenue sharing since FY 2002 of approximately 48%.
- Property tax revenues have decreased by approximately 20% over the past five years, and income tax revenues have decreased by approximately 30% since 2002.
- The city's unemployment rate has nearly tripled since 2000.
- Detroit pays a relatively modest median pension of about $19,000 a year to general government retirees and $30,000 to police and fire retirees, who are not covered by Social Security.
- According to detailed calculations performed by professional actuaries in conformance with both actuarial standards of practice and general accepted accounting principles as set by the Governmental Accounting Standards Board (GASB), the City's General Retirement System and its Police and Fire Retirement have, respectively, 82.8 percent and 99.9 percent of the assets needed to pay benefits to current and future retirees over their lifetimes. [A separate assessment that suggests that the plans are less well funded describes the data it presents as "very rough preliminary guesstimates" based on "rules of thumb and knowledge from general experience" rather than the product of detailed actuarial calculations].

Calls for one-size-fits-all Federal regulation of states and localities are unwarranted.

- States and local governments have made tough budgetary decisions in response to the Great Recession, as well as meaningful changes to their pension benefit structures, financing arrangements, or both, without the need for Federal mandates.
- There is no provision in Chapter 9 of the Federal Bankruptcy Code for a Federal bailout and it is erroneous to imply that filing for Chapter 9 is synonymous to asking for one. The Code is uniquely designed to ensure a municipality can continue to provide essential services while debts are reorganized.
- Costly Federal regulation of state and local governments in reaction to isolated cases of Chapter 9 filings is counterproductive and will interfere with and unnecessarily complicate reform initiatives already being undertaken in states and localities around the country.

Resources

- Governing at http://www.governing.com/gov-data/municipal-cities-counties-bankruptcies-and-defaults.html
- City of Detroit, Proposal for Creditors at http://www.detroitmi.gov/Portals/0/docs/EM/Reports/City%20of%20Detroit%20Proposal%20for%20Creditors1.pdf
- Brookings at http://www.brookings.edu/research/reports/2013/04/18-job-sprawl-kneebone
- GRS Review of Milliman's City of Detroit Retirement System Studies at http://www.gabrielroeder.com/grs-review-detroit-studies/

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