

# The Detroit News

THE FINAL WORD

## Detroit's emergency manager must enforce rules city officials ignored

By James M. Hohman

While some argue that the appointment of an emergency financial manager for Detroit demonstrates a state takeover of a democratically elected local government, it's actually the final step to enforcing state rules that city officials have repeatedly shirked.

All local governments are creatures of state policy. Michigan's Constitution requires a balanced budget for state expenditures, and likewise the state requires local governments to live within their means. The emergency financial manager law is the final step to ensuring that when a city pledges its residents' resources, the promises are fulfilled.

Detroit is on the verge of insolvency: not being able to pay the bills when they are due. This is above and beyond the \$9.3 billion due in long-term debt or the \$5.7 billion the city is expected to pay in optional retiree health care.

Cities are not supposed to be in this situation. If Detroit followed the budgetary rules that every other city works under, it wouldn't be in this position. Local governments are required to draft budgets that stop them from running deficits. Cities are required to pass budgets that accurately reflect revenue and expenses. Detroit's done neither.

Indeed, the city's deficits — amounts that Detroit owes beyond what it has the resources to pay — have existed for a decade.

When municipalities fall into deficit, they must submit a plan to get back into balance. The city has filed a number of these plans, but implementation has not been adequate. After these failures, the state tried to craft an agreement to get Detroit to fix its problems, but the city is again expected to run out of cash this spring.

Problems in financial management mean that even a state bailout would only perpetuate the city's financial crisis. It may allow temporary payment of urgent expenses, but without fixing financial mismanagement, the relief would only be temporary.

The state's final option to enforce its solvency rules is to appoint an emergency financial manager. We now know that is Kevyn Orr, a bankruptcy attorney who represented Chrysler during its financial difficulties.

If Orr is not up to the task, he can take the city into federal



(David Guralnick / The Detroit News)

**Kevyn Orr, right, Detroit's emergency manager, could be better for the city than a bankruptcy judge. Orr will first need to fix the city's mismanagement: Not only does the city not follow state financial rules, it doesn't follow its own rules.**

bankruptcy, where a judge has the power to negate many of the city's financial obligations. But an emergency financial manager's abilities can be even more potent than a bankruptcy judge's.

Orr needs to first fix the city's mismanagement. Specifically, the material weaknesses its auditors repeatedly point out. Not only does the city not follow state financial rules, it doesn't follow its own rules. For example, the city is supposed to take an annual stock of its assets — buildings, parks, fire trucks, etc. Not every department does this as city policy requires, according to the state financial review team's findings. In other words, the city doesn't even know what it owns.

Problems with financial controls are like problems with a person's central nervous system — the proper messages don't get sent to the head.

Until these problems are fixed, it's difficult to successfully negotiate with city unions or even seek bids from private vendors on city services and assets, as [Mackinac Center](#) analysts have argued several times in the past that Detroit should do.

Orr may not be able to solve all of Detroit's deep financial issues, but it's the last option the state has available to get Detroit into balance.

*James M. Hohman is assistant director of fiscal policy at the [Mackinac Center for Public Policy](#) in Midland.*