



## Detroit Should Look to Pontiac

By Michael D. LaFaive

### Summary

In order to fix Detroit's financial fundamentals, it should take the entrepreneurial approach employed in Pontiac. Through economic reforms such as monetizing assets and competitive contracting of essential city services, Pontiac shaved their budget successfully in order to support retiree pensions and meet more financial promises.

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The people of Detroit, including its retirees and bondholders, are justifiably nervous about how the city's bankruptcy will disturb their bottom lines. Kevyn Orr, Detroit's emergency manager, has taken sound steps to fix Detroit's financial fundamentals through spending cuts, management fixes and asset sales, but bolder action is required to protect citizens and improve public services.

In order to do so, Detroit should look to the city of Pontiac, whose revolutionized government has recovered decades of lost fiscal ground through sound economic reform.

In the last four years, two governors appointed three emergency managers for the city of Pontiac. Lou Schimmel — the third EM appointed in the city — completed his tenure last August. Schimmel worked under laws that gave him far more power far longer than previous EMs, which made it easier to make important fiscal changes and improve services, too.

When the state began appointing EMs in 2009, Pontiac's 2008 audited General Fund budget was \$54.2 million. By the time Schimmel took over in 2011, it had dropped to \$42 million. His efforts lowered that figure again for fiscal 2013 to an audited budget projected to be just \$30.6 million; a total decline of 43.5 percent.

Schimmel sold off and "monetized" other assets to reduce debt and avoid a court-imposed property tax increase. Some of the sales included (\$55 million) for unused water and sewer capacity; a city-owned theatre (\$135,000); a golf course (\$700,000); old public works equipment (\$1.5 million) and assorted vacant lots. Most of the sold property now produces tax revenue for the city.

Public safety was improved through competitive contracting of police, fire, 911-dispatch and ambulance services. The contract for policing with Oakland County and fire with Waterford Twp. is saving \$5.8 million each year while improving response times.

According to Undersheriff McCabe of the Oakland County Sheriff's office, police response times in Pontiac plummeted from over 76 minutes in 2010 to 6 minutes, 22 seconds in 2013. There are 25 more police officers patrolling Pontiac now, too. Waterford has also invested \$548,000 from its own resources improving Pontiac fire stations, according to Fire Chief Ron Spears.

The city of Pontiac is now also contracting out for trash collection, cemetery management, insurance administration, animal control, street light maintenance and more. In effect, Schimmel has turned Pontiac into a contract city, where most services are provided under contract instead of through city staff. Since

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fiscal year 2009, official city employment dropped from 495 to a proposed 20, excluding district court employees.

Detroit presents unique challenges and implementing all of Pontiac's reforms may not be possible, but it is worth exploring. After all, Detroit has unique opportunities, too, such as its great location, access to engineering talent, history, generous foundations and saleable assets.

So what would the savings look like in Detroit if they shaved the budget like in Pontiac? If Kevyn Orr — through aggressive asset sales, competitive contracting and ending unnecessary services — could reduce the city's \$1.1 billion general fund spending by 43.5 percent, the city would save \$478.5 million.

The city dedicated \$461.6 million to debt service and pension contributions in 2012, according to Kevyn Orr's 2013 Proposal to Creditors. In other words, the savings listed above would cover recent costs, at least theoretically. The total costs for pensions and creditors are scheduled to grow, but that increase could be offset with proceeds from asset sales, especially over time.

Pontiac's reforms cannot simply be superimposed on Detroit, and Kevyn Orr may well be prepared to sell assets and contract out. But by adopting Pontiac's strategy to analyze the city's unique opportunities for privatizing potential tax revenue, as well as dousing waste and neglect, Orr can help leave no stone unturned in revitalizing the city.

Orr's report to creditors did list the possibility of selling some city assets such as parking garages — but more could be done. The sale of Belle Isle alone could have generated hundreds of millions to the city if only the idea had been taken up. Competitive contracting needs to be done more aggressively, too.

To Orr's credit, his team has negotiated a new collective bargaining agreement with Detroit's emergency medical (ambulance) services. Why not just contract out with a private vendor as is now done in Pontiac? There does not seem to be an interest in intergovernmental contracting for police or fire services, either, but these could represent tremendous areas for saving.

Pontiac isn't far away from Detroit geographically. It shouldn't be so distant on Detroit's reform idea agenda either.

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