

# SOME CONTEXT ON MI'S EMERGENCY FINANCIAL MANAGER LAW

On Saturday, I described how the democratically-elected government of Benton Harbor, a poor, segregated MI city about an hour south of me, lost its power to the city's Emergency Financial Manager.

There are two parts of the story that I didn't explain, which this post from wizardkitten does well. First, the EFM law goes back some years in MI and EFMs already had a great deal of power.

The idea of the state appointing an Emergency Financial Manager for local governments in distress actually dates as far back as 1988, and that led to Public Act 72 of 1990 (Blanchard did it!). Basically, it said that in order for the state to protect its own credit and fiscal operations, any city or school district that was on the verge of bankruptcy would receive a review of their finances from a state-appointed team, and, if that panel found that the city or school district did not have an adequate plan to get out of trouble, a manager would then come in and help clean up the mess.

The manager could hire staff and direct existing staff. They did not need public approval for a new fiscal plan. They could do anything they wanted with the outstanding financial obligations (i.e., the bills). They could renegotiate labor contracts, but they could not abrogate those contracts. They could eliminate positions except of those of elected officials, cut pay and benefits even for elected officials, sell property, review payroll – anything but touch retirement. They could not raise taxes. They also

had the ability to start Chapter 9 bankruptcy if all else had failed.

Michigan's initial muted response to Governor Rick Snyder's move to increase EFM powers derives, IMO, from our familiarity with the concept and the fact so many are at a loss to figure out what to do with cities gutted by globalization. We're the frogs in the boiling water of globalization, I guess, and we didn't notice the heat going up on democracy itself.

The other really important part of Snyder's new empowerment of EFMs has to do with the real target: teachers. Specifically, the teachers in Detroit's public schools.

I believe this is a warm-up for Detroit, and perhaps the 150 other school districts that Snyder's budget cuts are going to put closer to bankruptcy. DPS EMF Robert Bobb has indicated that he "planned to exercise his power as emergency manager to unilaterally modify the district's collective bargaining agreement", and by law the school district has now sent out 5,466 layoff notices to its union employees, and 250 pink slips to their administrators as well. (that is nearly a yearly occurrence anyway lately – but this time it takes on a new urgency.)

Bobb, under order by law to produce a plan to balance the books, came up with closing half of Detroit's schools by 2014, 70 to be exact. He doesn't *want* to do this, as class size is expected to swell to 60 and parents would flee the district costing the schools even more money – but the state has given the order. Some schools may turn to charters, and a GM-style bankruptcy that separates the bad debt has been talked about. Whatever happens, it's going to be seismic.

As far as the city goes, Detroit Mayor Dave Bing is asking for benefit concessions from city employees and a new tax on casinos to help balance a budget that has a \$155 million deficit and could grow to \$1.2 billion by 2015, and his plan is already meeting resistance. Bing claims that, "If we are unable or unwilling to make these changes, an emergency financial manager will be appointed by the state to make them for us" – a bit of leverage, given what is going on with the Detroit Public Schools, and now this takeover in Benton Harbor. The heat is getting turned up fast in Motown, and it should reach a boiling point soon.

One other reason, I think, why we boiling froggies haven't reacted sooner: the UAW. What EFMs have in store for teachers really matches what the auto companies accomplished with UAW's workers even before the 2009 bailout. The UAW willingly accepted a two-tier system of wages (effectively meaning starting UAW workers make less than workers at transplant factories in other states), and took on the costs of retiree health care.

In other words, one of our state's unions has already been gutted in the face of harsh threats. The threat of EFMs will make it easier to do so with the public unions too.

It's all about turning MI from a state with a solid middle class into one with desperate workers willing to make huge sacrifices just to keep their jobs.