By Kevin Reed
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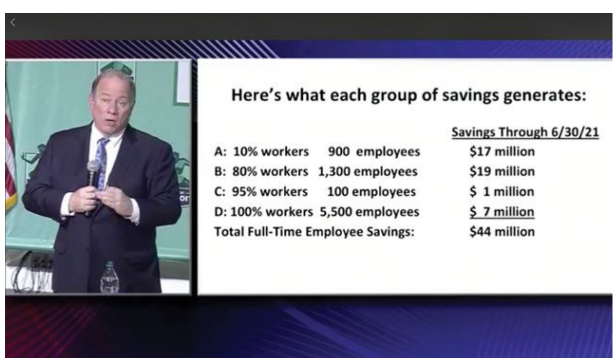
Detroit Democratic Mayor Duggan outlines layoffs, wage and service cuts amid exploding city budget crisis

With the expanding economic impact of the COVID-19 pandemic bearing down on Detroit, Democratic Mayor Mike Duggan outlined an emergency plan on Tuesday that places a $50 million budget shortfall onto the city's employees and working class residents.

Mayor Duggan spoke via a livestream video broadcast for approximately 45 minutes and gave a slide presentation which projected a budget deficit of $348 million by the end of next year due to a decline in revenue caused by the dramatic economic slowdown connected with the pandemic. The annual city budget is approximately $1.1 billion.

Detroit has been the center of the pandemic in the state of Michigan since the beginning of the health crisis. As of Thursday, the city has 7,383 confirmed cases of the coronavirus and 546 deaths, 25 percent and 26 percent of the totals in Michigan, respectively. The city has 680,000 residents or 6.8 percent of the state's 10 million people.



Detroit Mayor Mike Duggan presenting cuts to city employee hours and incomes on April 14 [Photo credit: City of Detroit]

While the mayor reported that the city planned to cover $298 million of the deficit with a combination of accumulated savings, canceling city development programs, cost cutting and federal funding, the rest of it had to come from mass layoffs and wage cuts.

As Duggan explained, "City government is about people delivering services. Every time there is a downturn, it's the city employees who bear the brunt of this because basically, what we spend money on is people. Sixty-five percent of our $1 billion budget is salaries and benefits to our workers."

According to Duggan's plan, the outstanding $50 million will come from the following attacks on city employees:

- Several hundred temporary and part-time employee layoffs
- 900 employees will have their hours cut by 90 percent
- 1,300 employees will have their hours cut by 20 percent
- Cancellation of July 1 pay increases for the entire staff of 8,000

The mayor said that the changes will take effect on April 20, and that the city would maintain the health care benefits of all employees regardless of the number of hours they will be working.

Significantly, there is an elite layer of 100 city employees who make more than $125,000 per year who are taking a mere 5 percent pay reduction that will save the city $1 million. These cuts will have no significant impact on this upper-middle-class layer, who earn an average of $200,000 per year.

Duggan said the deficit for the current year, which ends on June 30, would be $154 million. This is combined with a deficit next year of another $194 million. These losses in revenue are primarily due to a drop in income taxes from the shutdown of businesses, in particular the shutdown of the three Detroit gambling casinos, which have been closed since March 16.

The mayor did not explain how he arrived at the projected deficit for the 2020-21 budget which appears to conclude that the economic crisis will last approximately three or four months beyond July 1.

The loss of revenue from the gambling casinos—$52 million this year and $60 million next year—is particularly significant. That the former automotive manufacturing capital of the world is so deeply dependent upon taxes derived from casino gaming is a symbol of the economic and industrial decline of both Detroit and the United States.

In Duggan's words, "When you look at that, you say, next to Las Vegas, which is getting hit harder than us, we probably got hit harder than any city in the country, because we rely on the casino taxes so heavily. Usually, even in a recession, people play casinos and the casino taxes are a solid source of money.

"This is an oddity that it's a financial downturn where the casino revenues were lost first. That has not been projected in any model that we had. … The casinos have given us zero since March 17 and we don't know when they are going to reopen."

Among the cuts being made to city operations is the transfer of $72 million in blight removal into the general budget which would halt the board-up and demolition of abandoned homes in the city. Other transfers include $33 million that will cancel capital projects such as IT improvements and fleet vehicle purchases.

There will be no cuts to the police department, fire department, first responders or bus service. Duggan also explained that prior to the present crisis, a growing budget surplus had been used to expand the police department.

It was clear from the beginning of his presentation that the financial arrangements of the 2014 Detroit bankruptcy were a motivating element in the mayor's aggressive approach to the developing budget crisis. Duggan explained that the city can maintain its independence from the state-run Detroit Financial Review Commission as long as it does not run a deficit. If there is a deficit, the review commission returns for a minimum of three years.

During the question and answer period after his presentation, Duggan was asked why the city was not planning to finance the deficit with borrowing. He replied, "We can't borrow money to cover deficits. That's what the city of Detroit did for years. The way Detroit got into bankruptcy is it took in a billion dollars a year in revenue, it spent $1.1 billion and it borrowed the difference. We are not going to run into deficit. We can't do it. We are going to live within our means."

The new Detroit budget crisis is being monitored carefully by Wall Street both in terms of the commitments the city made to get out of bankruptcy and as a bellwether for cities across the country that are facing similar catastrophic financial circumstances from the worst economic collapse since the Great Depression. Duggan knows he is being watched and working hard to prove once again that he knows who he really works for.

According to a report in the *Bond Buyer*, “The city’s budgetary and economic recovery is tenuous and its ratings remain three notches away from investment grade. Moody’s Investors Service revised the outlook on its Ba3 rating to positive from stable Feb. 25.”

The report also said, “The city accessed the bond market on its own credit in 2018 with a $135 million junk-rated deal. The new money unlimited tax general obligation bonds were part of $225 million in tax-exempt borrowing the city council authorized. The city has no near-term plans to tap the remainder.”

Howard Cure, director of municipal bond research at Evercore Wealth Management, told *The Bond Buyer*, “They were doing pretty well and that positive outlook was due in part to having a rainy fund and a pretty conservative budget… It’s going to hurt them from a credit point of view,” Cure added. “But the mayor deserves credit for being realistic, conservative, and transparent. There are no gimmicks or debt restructuring.”

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