



Privatization Brought Ecorse, Michigan, Back from Bankruptcy

by Michael D. LaFaive

Summary

Michigan's first-ever bankrupt city government was a tragic example of mismanagement and lack of accountability. Privatization of city services returned Ecorse, Michigan, to financial solvency, made possible a tax cut, and gives it a chance to meet its pension and other obligations.

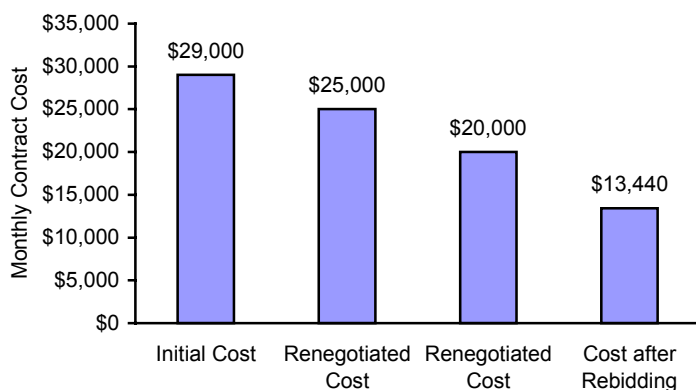
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On August 1, 1999, an important chapter in the history of Michigan came to an end. Nearly 13 years ago, in December 1986, the Wayne County Circuit Court issued a court order appointing Louis (Bud) Schimmel receiver for the bankrupt City of Ecorse, two square miles just south of Detroit that 12,000 people called home. Schimmel's additional role as official "monitor" ends this month.

Ecorse was the first instance of a Michigan city going bankrupt. Schimmel was then (and still is today) executive director of the Municipal Advisory Council of Michigan, a private municipal bond research and statistical company, providing information to municipal bond underwriters and banks throughout the United States. His appointment received major newspaper and television coverage not only in Michigan but in other parts of the country as well.

Before bankruptcy, "business as usual" in Ecorse had meant reckless spending and cronyism. All that would change with Schimmel's appointment. He was given extraordinary authority to replace the elected mayor and city council members and set right the city's finances. He did so.

Rubbish Collection Costs



Privatization helps municipal officials avoid getting locked into high contract costs. If contractors' costs are high or quality is low, properly written contracts can be renegotiated and even re-bid, as was done in this example in Ecorse in the late 1980s.

During the four tumultuous years of the receivership, Schimmel privatized nearly all of the city's services. He took Ecorse out of the business of operating an ice-skating rink. He negotiated unique union contracts with the police and fire fighters unions that saved money and made those departments more efficient. He also settled numerous law suits outstanding against the city, sold city buildings, and imposed stringent financial policies and management practices that made Ecorse run more like a competitive business and less like a political fiefdom. His accomplishments as Ecorse's receiver earned him national acclaim as a man of action who took the tough measures necessary to eliminate a \$6 million deficit and save a city in the process.

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One of Schimmel's most remarkable achievements was the privatization of the Department of Public Works (DPW) in 1988, including the sale of the building in which the department was housed plus all its equipment. Schimmel got the department's 25 employees to agree to terminate their services in exchange for a negotiated financial settlement. In private hands, the former public works building is now on Ecorse's property tax rolls and is providing additional income to the city.

Thanks to privatization of public works, Ecorse no longer has to purchase and maintain expensive equipment such as street sweepers, snow plows, trucks, and various other machinery and supplies. The city contracts with a private firm whose workers now provide the services once performed by city employees. The private contractor knows that if its services are not what they ought to be, the contract may not be renewed. The city can take bids and award the contract to a new company. Schimmel estimates that since contracting out for services previously performed by DPW, Ecorse has saved well over \$1 million each year.

In 1986, before Schimmel took charge, the bloated payroll of Ecorse boasted 200 employees. This year, that number is just 82.

Schimmel's four-year tenure as receiver ended in 1990, but he retained the role of official "monitor" until August 1 of this year, when all court-ordered judgment bonds issued by the City of Ecorse were successfully retired. In addition, Ecorse also repaid an Emergency Loan made by the State of Michigan to the city during the time of the receivership. With these actions, Wayne County Circuit Court's management supervision of the City of Ecorse—and Schimmel's monitorship—formally came to an end.

In recent years, Schimmel says, Ecorse has maintained a positive general fund balance and, for the most part, adhered to the financial practices that Schimmel put in place. Now that its debt is gone, Ecorse citizens are about to get a tax cut. If the city keeps its financial house in order and does not return to the mismanagement that put it into receivership in 1986, Schimmel thinks it has a bright future. It may even be able to meet longstanding infrastructure and pension fund needs.

City governments can indeed go belly up. Ecorse proved that. But Bud Schimmel also proved that tough fiscal management and privatization can save the day.

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(Michael D. LaFaive is managing editor of *Michigan Privatization Report*, a quarterly publication of the Mackinac Center for Public Policy in Midland, Michigan. More information on privatization is available at www.mackinac.org. Permission to reprint in whole or in part is hereby granted, provided the author and his affiliation are cited.)

Ecorse now saves more than \$1 million annually by contracting with a private firm whose workers provide the services once performed by city Department of Public Works employees. The private contractor knows that if its services are not what they ought to be, the contract may not be renewed.

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