



This Publication Brought To You Courtesy Of:



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CLIENT BULLETIN

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➤ ***Cost to Move***

The cost to move oil across the US from Canada to refineries on the Gulf of Mexico is \$20 per barrel if it is moved by rail. The cost is \$5 per barrel if it is moved via pipeline.

➤ ***Public Service Isn't What it Used to be***

The average cost of winning a Senate race in 2012 was \$10.35 million while the average cost of winning a House race was \$1.6 million. The largest amount ever spent on a congressional race was the \$63.2 million spent by Jon Corzine during his successful senatorial race in New Jersey in 2000. Corzine, the former CEO of Goldman Sachs, is facing civil charges for illegally using customer funds in the last few days of the collapse of hedge fund MF Global which filed for bankruptcy in 2011.

➤ ***Detroit Blues***

Citing more than \$18 billion in debt, the city of Detroit filed for bankruptcy on July 18th, becoming the largest public sector bankruptcy, far ahead of Jefferson County Alabama in 2011. The filing will unleash a fierce fight among 100,000 creditors over who will get paid and how much. The issues are so complex and important that some of the legal questions could ultimately end up in front of the U.S. Supreme Court years from now.

➤ ***How Did it Come to This?***

While other cities and states face difficult economic circumstances, Detroit is leading the way to fiscal inevitabilities due to a perfect storm of circumstances including:

- Global economic shifts: Detroit's Big Three carmakers were slow in competing with foreign carmakers
- Decades of fiscal mismanagement as leaders perpetuated a borrow-tax-spend cycle
- High taxes and poor services equal a less-appealing place to live. Since 1973 the city's population shrank from 1.8 million people to only 700,000 today. Those 1.1 million people took their taxable incomes and property taxes with them.
- Poor governance: over-promising of pension and retiree health-care benefits

➤ *Who Will Decide?*

Put yourself in the unenviable position of the leaders responsible for guiding Detroit through and out of this mess and you will see how difficult the decisions are. The long list of players in this ongoing drama for now are Detroit mayor Dave Bing, Michigan governor Rick Snyder, Emergency Manager Kevyn Orr, Michigan attorney General Bill Schuette and federal bankruptcy judge Steven Rhodes. Before you help them decide what to do, however, be aware that there are some solutions that are *not* available to you including:

- **Borrow more money to paper over the situation:** Detroit has understandably had its ability to borrow almost completely shut off.
- **Raise taxes to bring in more revenue:** Detroit residents already pay the highest property and income taxes in the state and last year its business tax doubled. Increasing taxes further would probably just chase more businesses and residents out of the city.
- **Sell the Detroit Zoo or a van Gogh painting from the Detroit Institute of the Arts:** Selling these treasures won't come close to solving the problem & will most likely make Detroit less desirable to live in, thus driving even more people out.
- **Ask President Obama and Congress to borrow money *they don't have and give it to you:*** With \$16 trillion of existing *debt* and \$600 billion+ annual *deficits* of their own in addition to not wanting to set a precedent for other state or local governments facing financial problems (hello Chicago?), Uncle Sam swooping in like Superman to save the city isn't likely.

➤ *You be the Judge*

The only option available to you, and the reason for the bankruptcy filing in the first place, is to cut your obligations. Who from the list below do you tell you are going to cut? In parenthesis are likely arguments you will hear from each group if you ask them to take cuts.

- Cut pensions currently being paid to 23,000 **retired city employees:** (I didn't pay into social security; my \$30,000 a year pension is all I have to live on. How will I pay my bills?).
- Cut salary and benefits of **current city employees:** (There are other cities and/or states I can move to that pay more and have better benefits – I'm outta here).
- Cut services to **residents:** (How could you cut them any further? 40% of streetlights are out, 70% of parks have been closed and it takes close to an hour for police to respond to my call (vs. 11 minutes on average nationwide)).
- Pay back pennies on the dollar to Detroit's **bondholders:** (As a retired person I bought that bond as a conservative investment to provide income for my retirement years and now you're telling me I lost 90% of my investment!).

Sadly, the end result of playing kick the fiscal can down the road for so long is that cuts must be shared by **all** of these constituencies in order for Detroit to have a fighting chance. Hopefully the federal government is paying attention to this end-game.

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