

Bond Case Briefs

Municipal Finance Law Since 1971

Detroit Bankruptcy Is Marked by Speed, City's Lawyer Says.

DETROIT—The nation's largest municipal bankruptcy case could well end up as one of its speediest compared with other large communities in financial dire straits.

Detroit is at the tail end of a weekslong trial to evaluate the merits of its proposed restructuring plan to trim \$7 billion from \$18 billion in long-term obligations identified in its Chapter 9 bankruptcy filing on July 18, 2013.

"It's hard to overstate the significance of the fact that that's only 15 months and eight days ago," the city's chief bankruptcy attorney Bruce Bennett told U.S. Bankruptcy Judge Steven Rhodes in a Detroit courtroom Monday during closing arguments.

By contrast, a similar case in Jefferson County, Ala., lasted two years, ending in 2013. Orange County, Calif., spent about 18 months in bankruptcy in the mid-1990s. A much smaller case in Central Falls, R.I., population 19,000, traveled through bankruptcy court in about 13 months.

In Detroit, the financial crisis has served as a kind of red flag for potential residents and businesses to stay away until the city's legal troubles end, Mr. Bennett said. "The end really is in sight," he told Judge Rhodes.

Monday's court hearing was in some ways anticlimactic because the city's major creditors, who once opposed the plan, have agreed to settle. "A consensual plan is remarkable and all of Michigan should be proud," said lawyer Robert Gordon, who represents the pension system supporting a majority of the city's retirees.

Judge Rhodes still must rule on whether the complex debt-cutting plan will help the city fix its balance sheet, as well as be generally equitable to its thousands of creditors, many of whom are likely to take a haircut.

The ruling is expected on Nov. 7, the judge said Monday. City officials hope Detroit could be out of bankruptcy court as soon as Thanksgiving.

The city's restructuring plan calls for a \$7 billion reduction in debt, \$275 million in new borrowing and a \$1.7 billion reinvestment in removing blighted buildings and boosting police and fire services in the city of about 680,000.

Some individuals, however, continue to cry foul, saying Kevyn Orr, the city's emergency manager, acted improperly in cutting benefits to pensioners.

The proposed restructuring plan counts on the city receiving about \$466 million over 20 years from private foundations and the state of Michigan to help protect Detroit's art collection from being sold. The plan also would use the proceeds to make up shortfalls in pension funding.

On Monday, Mr. Bennett argued that evidence presented by Detroit at trial showed that the city wasn't obligated to sell any of its assets, including its art collection, to satisfy the claims of creditors.

But even if the city were, Mr. Bennett said there was no evidence that the value of the collection would exceed the \$466 million provided by foundations and the state of Michigan to cast off the city-owned Detroit Institute of Arts as a separate nonprofit in the municipality.

THE WALL STREET JOURNAL

By MATTHEW DOLAN

Updated Oct. 27, 2014 5:44 p.m. ET

Write to Matthew Dolan at matthew.dolan@wsj.com

Copyright © 2024 Bond Case Briefs | bondcasebriefs.com