## Detroit Bankruptcy Plan Approval Opens Way for Revival.

Detroit won approval of a debt-cutting plan that backers say will allow the hub of the U.S. auto industry to exit its record $18 billion municipal bankruptcy and rebuild after decades of population decline and industrial decay.

The plan to eliminate $7 billion in debt is the only way to remedy the city's failure to provide adequate services like police and fire protection, U.S. Bankruptcy Judge Steven Rhodes said in court yesterday in granting approval.

"A large number of people in this city are suffering real hardships," Rhodes said. "It is inhumane and intolerable."

**Don't Call It Motor City Anymore**

With a $1.7 billion revitalization plan that taps into savings from newly eliminated debt, Detroit has enlisted charities, creditors and billionaires such as Quicken Loans Inc. founder Dan Gilbert to help rebuild, eliminate blight and prop up a beleaguered pension system. To succeed, the city must address deeper roots of its decline, said Erik Gordon, a professor at the University of Michigan Ross School of Business.

"Detroit has a new start in terms of debt relief that can quickly go sour if it doesn't fix the underlying causes of the debt pile-up," Gordon said before yesterday's hearing. "A thousand young people moving into center-city apartments won't support the cost of serving 500,000 other Detroiters."

The city, once the nation's fifth largest, filed for protection from creditors in July 2013 after years of decline. Since the 1950s, it has lost more than half its population amid racial strife and as the automobile industry moved jobs overseas.

**Pension Hole**

Long-term slippage in Detroit's finances gathered speed after 2006, when the city borrowed about $1.4 billion to fill a hole in its pension system. That debt and a drop in tax revenue eventually pushed the city into insolvency.

Last year, Michigan Governor Rick Snyder, a Republican, announced the appointment of Kevyn Orr as emergency financial manager to take over Detroit and solve its financial woes. His task was to find ways to finance everything from streetlights to ambulances, while cleaning up dilapidated neighborhoods.

Orr, a bankruptcy attorney who had once been a Democratic political appointee in the U.S. Justice Department, led a team of advisers from his former law firm, Jones Day, and financial consultants including Kenneth Buckfire, co-president of Miller Buckfire & Co. Amid public protests, Orr shepherded Detroit into court protection, where he negotiated cuts with pension systems, labor unions, hedge funds and bond insurers.

### Creditor Groups

All major creditor groups eventually agreed to accept less than they were owed, in some cases just pennies on the dollar.

"I know we would not be standing here today" without Orr's work, Snyder said at a press conference yesterday after Rhodes ruled.

The ruling followed a two-month trial on the fairness and feasibility of Orr's plan, during which Rhodes heard from investment bankers, a court-appointed financial expert, the mayor and city workers. Yesterday, he called the plan an "ideal model" for other distressed municipalities.

Key to the plan is the so-called Grand Bargain, which will bring in as much as $816 million from charitable foundations and the state to prop up pension systems for retirees including police and firefighters.

In exchange, the city has agreed not to use its art collection to pay debts owed to unsecured creditors, including bond investors. Some investors and insurers bridled at the accord, saying it unfairly put the interests of public workers and civic boosters ahead of their claims.

### Preserves Pensions

"The cornerstone of the plan is the Grand Bargain," Rhodes said. The deal, which preserves all or most of city workers' pensions, "borders on the miraculous," he added.

Detroit will use newly available money to fund about $1.7 billion in restructuring programs. In 10 years, it plans to spend $440 million on blight remediation and $439 million on police and fire protection.

Detroit has proposed borrowing as much as $325 million in exit financing to bankroll its emergence from bankruptcy.

Martha Kopacz, of Phoenix Management Services, told Rhodes that the plan was likely to succeed. Rhodes hired Kopacz to review the proposal and offer an opinion on whether it was feasible, a requirement of the U.S. Bankruptcy Code.

### Detroit Mayor

Much of the rebuilding burden will fall on Mayor Mike Duggan, who took office in the middle of the case. The 56-year-old Democrat told Rhodes during the trial that Detroit has recruited top municipal and corporate executives to help carry out the changes.

Among those partnering with Duggan will be some of the bond investors and insurers who fought the city in court before settling during confidential mediation.

Financial Guaranty Insurance Co. will indirectly own and pay to redevelop the riverfront site of Joe Louis Arena, which will be demolished in 2017 when a new arena opens a mile away. FGIC will also get a share of $141.4 million in new notes.

A group of creditors including Aurelius Capital Management LP and BlueMountain Capital Management LLC, owed about $1.1 billion, will be in charge of building a hotel and retail space in a downtown that civic leaders view as a linchpin of economic recovery.

Rhodes said the deals were vital because they eliminated potential lawsuits that could disrupt the revitalization effort.

“For the city, the stakes in any of the creditor litigation were high,” Rhodes said. “Even a single loss to any creditor would compromise its goals in this case.”

**Gilbert, Penske**

Gilbert and fellow billionaire Roger Penske, both of whom have invested in the city, testified in favor of the plan.

Gilbert headed a task force on blight, which studied ways to clean up some of the most run-down neighborhoods. Gilbert-affiliated ventures own more than 60 buildings in downtown Detroit with more than 9 million square feet of space.

Penske, a former auto racer, compared the city to General Motors Co. (GM) — the automotive giant that went through a government bailout and reorganization in 2009 — saying bankruptcy has a “cleansing effect.”

The bankruptcy case cost taxpayers more than $132 million in fees for legal, financial and restructuring advisers, according to a September report from the city.

**Jefferson County**

That’s more than the second-biggest U.S. municipal bankruptcy, involving Jefferson County, Alabama, which listed more than $4.2 billion in debt when it filed in 2011. That case ended last year.

Ken Klee, the lead bankruptcy attorney for Jefferson County, called confirmation of Detroit’s plan “an historic event.” Still, he said, questions remain about whether the city’s “underlying economic challenges have been addressed.”

“The benefits to Detroit of confirming its plan are enormous, but the cost of the case was quite high,” he said in an interview.

Rhodes had a simpler message for city officials as the case concluded.

“Please make me right,” he said.

The case is In re City of Detroit, 13-bk-53846, U.S. Bankruptcy Court, Eastern District of Michigan (Detroit).

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Nov 7, 2014 9:01 PM PT

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