

# **Bond Case Briefs**

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## **Detroit Comeback Hangs on Repairing Rickety Municipal Government.**

Detroit's recovery from bankruptcy and a half-century of decay depends on whether it can squeeze out \$840 million in savings and new revenue by making government more efficient.

Of the \$1.7 billion allocated by Emergency Manager Kevyn Orr's court-approved plan, almost half must come from improving operations in a community where police lack computers, commuters lack buses and 80,000 buildings lack residents.

The ability to make the investment and achieve the savings during the next nine years is "the key to Detroit's future viability," said Charles Moore, an adviser to Orr, who helped draft the recovery program.

Orr's plan will test whether the biggest U.S. municipal bankruptcy can transform Michigan's most populous city into place where families and businesses move instead of flee. The money it provides may change the fate of a place once synonymous with American industrial might, and chart a path for other distressed cities.

Thirty-eight U.S. municipal bankruptcies were filed since 2010, mostly for special purpose and public-benefit corporations, according to Governing magazine. Eight were entire cities or counties, including California's Stockton and San Bernardino, and Jefferson County, Alabama.

### **Emptied Out**

Stephen Eide, a senior fellow at New York's Manhattan Institute for Policy Research, which advocates less government spending, said Detroit will spur debate about the wisdom of using bankruptcy to heal a community.

"What will Detroit look like in two or three years?" he said. "If it's a smashing success, other cities are going to look at this and say, 'If Detroit got through this, maybe we can, too.'"

"This better come to something. What else can you try?"

Detroit, a former capital of auto-building and magnet for Southern blacks seeking a more dignified life, once had almost 2 million residents. Its 139 square miles (360 square kilometers) hold fewer than 700,000 now, according to the U.S. census.

The desolation has created ghostly neighborhoods, with rare occupied houses surrounded by ranks of hulks and nature making an inexorable return. Still, vibrant areas remain, and a new hockey arena and entertainment district are planned.

"We can transform the city and you can see clear progress in the restoration of downtown, the entrepreneurs who are flocking here, the massive building projects getting underway," Mary Barra, chief executive officer of Detroit-based General Motors Co. (GM), said in a news release.

## **First Things**

Yet unless the city can increase and stabilize revenue, a new insolvency lies ahead, said Peter Hammer, a Wayne State University law professor. He said bankruptcy couldn't address the roots of the situation, such as racial divisions that left the city with a poorer population that's 83 percent black and isolated from wealthier suburbs.

"There was never anything in the process that would lead to anything other than ratcheting down city services," Hammer said of the bankruptcy exit plan. "Nothing in here gets you a tax base."

Swift approval became a paramount goal, rather than planning for revitalization, Eide said.

"Detroit tried to launch a pre-emptive strike and put a time limit on the process," he said. "It was more motivated to do so because of its size and the level of contentiousness. There were huge risks that it could take forever."

## **Duggan's Challenge**

Orr, appointed by Republican Governor Rick Snyder in March 2013 with sweeping power for municipal affairs, worked under an 18-month deadline before the city council could remove him. That occurred in September, when the council and Mayor Mike Duggan made Orr responsible for management only of the bankruptcy.

Duggan, now in charge of making Detroit run, must implement the restructuring.

Orr's plan calls for spending \$420 million on blight removal, an additional \$252 million for police and \$158 million more for the fire department.

It also requires \$358 million in savings, \$148 million to be squeezed from the police and fire departments. The plan also assumes \$483 million in additional revenue from such sources as court and parking fees, fire-inspection payments, improved tax collections and federal grants.

Without that money, Detroit's recovery will be fragile because it must pay its remaining debts first, consultant Moore said in an interview.

## **Helping Hands**

He said Detroit must overcome a legacy of dysfunction that culminated in the 2013 conviction of former Mayor Kwame Kilpatrick on federal corruption charges. Kilpatrick's administration borrowed \$1.4 billion to bolster pensions, which backfired when an interest-swaps agreement went sour and added to a crushing \$18 billion debt.

Moore said he was stunned to discover how degraded municipal functions had become and how many employees were untrained for their jobs.

"The city's ability to improve services will be determined by the caliber of people that report to the mayor," Moore said.

Last year, the city received \$8 million from businesses to buy 100 patrol cars and 23 ambulances. The city is due to receive 50 new buses, paid for with a federal grant.

## **Leaner Force**

Orr's plan will nonetheless leave Detroit with second-class services, said Hammer, the Wayne State

professor.

“What you have here is the stripping away of any notion that a city the size of Detroit should provide any social services,” he said. “The city will have a zoning and planning function, a police department, a fire department, and they will take out exit financing and spend a half-billion dollars on a bulldozer department to knock down abandoned buildings.”

Under Orr’s plan, the city will hire about 800 people to bump its work force to around 10,000, Moore said. That’s fewer than the 12,000 of a few years ago, though they will have better technology and training, Moore said.

“The services the city provides will be substantially improved,” Moore said.

Such an overhaul wouldn’t be possible without an emergency manager and the state law that empowered him, Moore said.

“Often, politicians don’t want to solve tomorrow’s problem today, since they tend not to be rewarded for it,” he said. “Having an emergency law, where a nonpolitician gets put in place and can make the right decisions, really helps.”

BLOOMBERG

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