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Finding $816 Million, and Fast, to Save Detroit.

DETROIT — Late one afternoon last November, leaders of some of the nation's top foundations were invited into a private meeting in a courthouse conference room here as Judge Gerald E. Rosen, the appointed mediator in this city's federal bankruptcy case, made an unheard-of request.

He wanted the philanthropic groups, some with ties to the city, to help rescue Detroit from bankruptcy by donating hundreds of millions of dollars to spare retirees from deeper pension cuts and protect the city's famed art collection.

The pitch went on for about three hours.

"My initial reaction was, this is a crazy idea," Darren Walker, the president of the Ford Foundation, remembered thinking as he listened that afternoon. "Eight hundred million dollars from a group of foundations? I thought it was rather over the top in its boldness," Mr. Walker said, adding of the mood in the room: "I think there was a collective gulp."

At the center of Detroit's swift exit on Friday from the nation's largest-ever municipal bankruptcy is a $816 million deal that has come to be known as "the grand bargain," an improbable arrangement hashed out in many months of behind-the-scenes negotiations with foundations, the State of Michigan and the Detroit Institute of Arts.

Mediation in the bankruptcy case was private, with participants bound to court-ordered confidentiality rules, but new details give a glimpse at how the bargain came together despite early uncertainty from foundations, headwinds in the state's Legislature, and vehement objections from some financial creditors who initially argued that the deal was unfair and improper.

The significance of the deal became clear on Friday as Judge Steven W. Rhodes of the United States Bankruptcy Court for the Eastern District of Michigan accepted Detroit's plan to leave bankruptcy after less than 16 months, allowing the city to shed $7 billion in debt and to invest about $1.7 billion into long-neglected services and repairs.

To reach this moment, retired general municipal workers had to agree to 4.5 percent cuts to their monthly pension checks, an end to cost-of-living increases, higher health care costs and a mandatory forfeiture of previous payments from the pension system that were deemed improper. Retired police officers and firefighters accepted smaller reductions. And, in an exit plan that was more a stack of negotiated and interconnected settlements than a court-ordered antidote, other creditors agreed to accept pennies on the dollar for their loans to the city.

But at the base of all those settlements was the grand bargain, which, in addition to preserving the museum's vaunted collection, allowed Detroit to grant all of its retirees a better deal than first expected. The arrangement moves the art collection into a private trust that is bankruptcy-proof, while the money from foundations, museum donors and the state goes to the pension plans over the next two decades.

“This is really different,” said Joel L. Fleishman, a professor of law and public policy at Duke University and an expert on nonprofit groups. “In terms of foundation giving, there is nothing comparable to the scale or purpose of this. There are plenty of examples to point to of foundations getting together on an issue, but I don’t know of a single example of an effort to come in and save a city from bankruptcy.”

While the bargain was widely praised among leaders here, including Judge Rhodes, it has also raised questions for some critics. With top foundations sending such large grants to Detroit, will there be less to give to other, smaller programs? And will other financially troubled cities now turn to foundations for answers to their problems, too?

The idea began with Judge Rosen, who is also the chief United States judge for the Eastern District of Michigan and who was appointed by Judge Rhodes, the federal bankruptcy judge in the case, to lead a team of mediators seeking settlements between the city and its many creditors.

The city’s problems were enormous — $18 billion in debts, miserable services and annual deficits. But two problems were among the most sensitive. City retirees, many of them barely getting by, were looking at significant cuts. And creditors seemed to be circling around the Detroit Institute of Arts, founded in 1885, with its widely respected collection of treasures by van Gogh, Matisse and others that some creditors argued should be sold to help pay off the city’s debts.

So for the mediators, the thought of solving both problems in a single swoop was tantalizing.

Not long after the city filed for bankruptcy in July 2013, Judge Rosen had jotted a note to himself — one some involved now point to as a historic document — with the words “state,” “art” and “pensions” and arrows between them.

Along the way, leaders of the museum agreed to raise $100 million from its donors. Those involved in talks said a smaller sum had been discussed until museum leaders got a personal request from Gov. Rick Snyder.

The state, too, was asked to provide $350 million over 20 years — a prospect that initially was met with skepticism from a Republican-held State Legislature, resistant to suggestions of a bailout for troubled Detroit.

In weeks of private conversations, though, one provision helped. As part of the deal, the state would be ensured oversight of Detroit’s finances even after bankruptcy by a commission including state appointees. Another factor also helped convince lawmakers: By the time the Legislature approved giving state money in June, the foundations had already pledged $366 million — surprising many, even themselves.

In the fall of 2013, Mariam Noland, the president of the Detroit-based Community Foundation for Southeast Michigan, ran into Judge Rosen in a deli near the courthouse. She said she had heard that he was working on the city’s bankruptcy case, and offered, somewhat offhandedly, her help. Not long after, Judge Rosen called. He asked her to call foundation leaders and invite them to Detroit for a meeting.

At first, Ms. Noland had doubts. “They needed a lot — and fast,” she recalled, referring to Detroit. “And those two things together don’t normally happen with foundations.”

In truth, when more than a dozen foundation leaders met with the mediators in the courthouse conference room, most seemed to have doubts.

But after the insistent pleas from Judge Rosen, the mood began to change. And after a dinner that followed with a smaller group at Ms. Noland's home, some came away convinced that Detroit needed their help.

Alberto Ibargüen, the president and chief executive officer of the John S. and James L. Knight Foundation, remembered driving Mr. Walker, who had been named president of the Ford Foundation only months earlier, back to his hotel that night.

For this to work, he remembered Mr. Walker saying, the Ford Foundation would need to "come in big."

"I said if you do $100 million, we should give $20 million," Mr. Ibargüen remembered telling Mr. Walker. "He said, 'I think we have a beginning of a deal.' "

To the boards of most of the foundations, the concept was peculiar. There was no program for a bankrupt city. And for Ford, based in New York, and Knight, based in Miami, Detroit's problems were remote. Yet, the Ford Foundation had its roots in Michigan, established in 1936 by the family that founded the Ford Motor Company.

And the Knight Foundation had ties to Detroit, too, one of the cities where family members had owned newspapers.

In a matter of months, Ford had pledged $125 million, the Knight Foundation $30 million, and the Kresge Foundation, which is based in Michigan, $100 million. And nine other foundations have pledged other sums.

"There are often skeptics who have given up on American cities," Mr. Walker said not long ago. "And this is a big mistake. We can't give up on our cities."

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By MONICA DAVEY

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