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NYT: Plan to Exit Bankruptcy Is Approved for Detroit.

DETROIT — Less than 16 months after Detroit became the largest city in the United States to file for bankruptcy, a federal judge on Friday approved a plan intended to help it escape years of financial ruin and begin the hard work of becoming viable again.

"What happened in Detroit must never happen again," Judge Steven W. Rhodes of United States Bankruptcy Court in Detroit said as he approved a plan for the city to rid itself of $7 billion in debt and to invest about $1.7 billion into long-neglected city services. "This must never be repeated anywhere in this state."

The decision came with remarkable speed and with far less discord than many had foreseen given the size of the city and the complexity and depth of its financial woes.

Many bankruptcy experts had predicted that the closely watched litigation would take months or even years longer, as it has in smaller cities and counties. Vallejo, Calif., spent nearly three years in bankruptcy. Stockton, Calif., just received permission to emerge after 27 months. And Jefferson County, Ala., which spent a little more than two years in bankruptcy, now faces more litigation a year after its case was supposed to have ended.

After many months of private mediation sessions, Detroit's exit plan was more a deal than a court-imposed solution, largely agreed to by the major groups involved, including the city's retired workers and financial creditors. That significantly quieted the court fight and limited the possibility of years of appeals.

The ruling marks an end to one chapter for Detroit, which, when the case began, had accumulated roughly $18 billion of debt and was wrestling with annual budget deficits, miserable city services and a nonstop exodus of residents and investment dollars. The exit plan sets aside $1.7 billion over a decade to remove blighted buildings, to buy fire trucks and ambulances, and to upgrade the city's antiquated computer systems.

"Getting this resolved is a huge issue in terms of creating a great environment for the city, and not just the city but for the state, to all rally on focusing on growing Detroit," said Gov. Rick Snyder of Michigan, who approved the city's bankruptcy filing on July 18, 2013. "It really takes care of the city government issue and gets a normal context to be a more traditional government structure again."

The plan requires strict oversight of the city's finances in the years ahead by a commission that includes representatives of the state.

Detroit's price tag for lawyers, experts and other costs of the bankruptcy proceedings was $150 million. But the city's departure from bankruptcy does not mean an end to its challenges. While the court plan permits the city to free up additional money to make desperately needed improvements, it does not ensure that the city will not fall into financial distress once more, or that it will attract businesses that create jobs, or that it can lure enough new residents to end a decades-long population decline.

“We are starting this journey, not ending it,” said James E. Spiotto, a bankruptcy lawyer and expert on municipal bankruptcy. “Bankruptcy is just debt adjustment, but that’s not a solution,” he said. “What you really need is the recovery plan. We can’t lose sight of that. We won’t know for five, 10, 15 years whether Detroit has solved its systematic problem.”

To help him evaluate the city’s prospects, Judge Rhodes hired his own fiscal-policy expert to decide whether the plan of adjustment was feasible, part of what is required for an exit plan to be approved. The expert, Martha E. M. Kopacz of Phoenix Management Services, said her research showed that the plan was feasible and that city officials were enthusiastic about making it work. But there were considerable risks, she said, and the speed of the bankruptcy proceedings had left Detroit with little margin for error.

To get one group of creditors to accept a settlement, Detroit’s negotiators sometimes had to reduce what was available to satisfy others. To make pension cuts acceptable to retirees, for example, the city based its exit strategy on an assumption that pension investments would earn average annual returns of 6.75 percent, something Ms. Kopacz said was too aggressive for a fragile city that could not afford investment losses.

“I would make it 5 percent if I ruled the world,” she said at one point during the bankruptcy trial, under questioning by Judge Rhodes.

The assumed rate of return gave the retirees something to hope for — the possibility that even better results from the pension investments than the 6.75 percent assumed by the city would show that cuts were not needed after all and that a new deal could be negotiated with the cuts reversed. But if the pension investments do not produce the returns needed, the city will have to make up the missing money.

Over all, Detroit’s creditors settled on a wide range of losses, but none as far-reaching as the city had proposed in February as it began planning how to leave bankruptcy.

Some financial creditors, like the bond insurer Syncora Guarantee, will get about 14 cents on the dollar for their debts, a low recovery rate but not as low as the city had initially proposed. Syncora and Financial Guaranty Insurance Company had insured a type of debt that was never very secure to begin with, and the city contended that low recoveries were appropriate given the level of risk.

Late in the deal-making phase of the bankruptcy, Syncora and Financial Guaranty both had their recoveries sweetened with possible gains on real estate and infrastructure projects that Detroit promised to help them pursue on prime locations in the city. Bondholders who bought higher-quality bonds have been promised far better recovery rates.

The outcome for retirees was better than first expected in part because of a solution that Judge Rhodes said “borders on miraculous.” A so-called grand bargain, in which foundations, the state and the Detroit Institute of Arts pledged millions of dollars bolstered the pension system and gave the art collection new, bankruptcy-proof ownership.

In the end, retired general municipal workers accepted 4.5 percent cuts to their monthly checks, an end to cost-of-living increases, higher health care costs and a mandatory forfeiture of previous payments that were deemed improper. Retired firefighters and police officers accepted smaller reductions.

Even as Detroit was going through bankruptcy, city officials were racing to improve dismal services in a place where 40 percent of streetlights had been out, the average police response time was almost an hour, and 30 percent of buildings were dilapidated or headed that way. Kevyn D. Orr, the appointed emergency manager here since March 2013, said Detroit had improved “significantly” in a year: 1,000 new streetlights were being installed each week, police response times and clearance rates had improved, and hundreds of blighted buildings were being torn down.

Still, Mr. Orr, who has already returned much of his authority to Mayor Mike Duggan, acknowledged this week, “We’re not even close to being done.”

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