WSJ: Detroit's Lawyers and Advisers Defend Billing.

The lawyers and advisers who guided the city of Detroit through the largest municipal bankruptcy in U.S. history are now defending their work's multimillion-dollar price tag.

In court papers, lead law firm Jones Day and others that helped Detroit navigate its historic debt restructuring made a case—at the request of U.S. Bankruptcy Judge Steven Rhodes—for why their hourly billing rates and final tab are reasonable.

Officials at Jones Day, who pointed out they had already cut $17.7 million from their tab, defended the $53.7 million in fees charged for roughly 17 months' work.

"Nothing in the Chapter 9 case suggests that Jones Day's fees and expenses were irrational or overreaching," firm officials said in court papers.

The firm's defense raises a novel issue in a municipal bankruptcy cases: the rules laid out in the U.S. Bankruptcy Code for Chapter 11 cases related to how professionals can bill clients don't apply to Chapter 9—the type of bankruptcy used by struggling cities and counties.

Shortly after Detroit filed for bankruptcy in July 2013, Judge Rhodes made it clear that its lawyers shouldn't be charging the struggling city for first-class flights, alcoholic beverages or movies in hotel rooms. His instructions are the most detailed legal-fee instructions given to a city or county in a modern municipal bankruptcy case.

In Detroit's case, some firms said they refrained from making unnecessary or overly aggressive moves that would have run up the bill for the 680,000-resident city. Lawyers at Dentons U.S. LLP who spoke for the city's 23,500 retirees said that they also cut their bill by $3.4 million. The firm charged $14.6 million for helping explain the claims and voting process to retirees who were unfamiliar and "largely hostile" to the bankruptcy, firm officials said in court papers.

The Clark Hill PLC law firm, which charged $6.3 million for work in representing the city's retirement systems, said its final bill is "eminently reasonable relative to the complexity of the matters addressed, the resources demanded by the case, and the interests at stake." Investment banker Miller Buckfire & Co. LLC which helped the city negotiate bond reductions, reorganize the city's water and sewer department and find $120 million in bankruptcy financing argued that city officials knew early on how much that work would cost.

Bankruptcy judges have less power over the fees charged to cities and counties that file for Chapter 9 protection because federal courts give states and the municipalities more latitude to govern. Specifically, the Code says that "the court may not by any stay, order, or decree, in the case or otherwise, interfere with…any of the property or revenues of the [municipality in bankruptcy]."

Even with taxpayers footing the bill, the watchdog in typical Chapter 11 corporate bankruptcy cases—the U.S. trustee's office—doesn't monitor the financial operations in municipal bankruptcy cases.

Other judges have used a hands-off approach in municipal bankruptcy cases, including Stockton, Calif.'s bankruptcy judge who decided that he doesn't need to approve settlements struck by city officials that, in a Chapter 11 corporate case, would normally need court clearance.

Detroit emerged from bankruptcy in December after cutting $7 billion in debt owed to Wall Street firms, city retirees and others.

Throughout the city's bankruptcy, Detroit leaders fought pressure from some Wall Street creditors and others to sell the city's valuable art collection to repay a greater portion of the city's debt. Federal mediators helped negotiate a deal to use more than $800 million from private foundations and the state of Michigan to avoid that sale and make the cuts to city's worker pensions less severe.

City leaders who blamed tax revenue that fell after the real-estate crash and the city's population decline are now planning to spend $1.7 billion to revitalize the city by removing blighted buildings and boosting police and fire services in the city.

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