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‘Detroit Resurrected,’ by Nathan Bomey

Nathan Bomey’s “Detroit Resurrected” is the most thoroughly reported account of the largest municipal bankruptcy in American history. It also stands as a valuable work of urban policy. The overarching theme of the book is how Detroit turned to bankruptcy to restore the social contract.

Detroit was not only broke, but also in “service delivery insolvency,” in the phrase of Judge Steven Rhodes. About half of all property owners had stopped paying their tax bills, and similarly, nearly half of the city’s water accounts were delinquent. These figures reflected the sense of abandonment many residents felt when Detroit ceased to be able to deliver a quality of life that is taken for granted in other cities.

Detroit shed $7 billion in debt during bankruptcy, freeing up hundreds of millions to reinvest in blight removal, public safety, infrastructure and other core services. How the city brought its creditors to heel takes up the bulk of Bomey’s narrative, though he also makes a number of useful points about why it went broke.

Bomey, who was the lead reporter on Detroit’s bankruptcy for The Detroit Free Press, sees the city’s struggles with race and the collapse of the auto industry as having rendered it impoverished, but it was fiscal mismanagement that drove it into insolvency. As he writes: “A cascading series of ineffective politicians — who lacked the will, foresight or ability to make drastic changes — turned to Wall Street to foot the bill for their fiscal recklessness, choosing debt over the hard choices necessary to protect the people of Detroit and ensure the financial security of the city’s retirees.”

The debt negotiations were far more complicated than a straightforward Main Street versus Wall Street affair. For one thing, there were two “Main Street” cohorts: Detroit’s service-deprived citizens and its retired city workers, who were owed over $9 billion in pensions and health care benefits. Retirees and some Wall Street creditors seriously considered developing a joint plan to call for liquidating certain assets, most notably “the most valuable works” at the city-owned Detroit Institute of Arts. Instead, the exit plan that emerged centered on a so-called grand bargain. The Republican-controlled state government, the Detroit Institute of Arts and several foundations, including Ford, agreed to contribute $816 million over 20 years to fill the depleted pension funds. In exchange, retirees agreed to pension reductions, and the city relinquished its claims to the art.

Detroit’s Wall Street creditors didn’t see this as a bargain, arguing that it wasn’t fair to devote the funds exclusively to pensions, and that selling art made more sense. But Detroit stuck with the grand bargain because of the uncertain legal and financial prospects of an art sale. In addition, the offer of nearly a billion in “free money” was simply impossible to turn down. In the end, all major creditors settled, allowing the city to leave bankruptcy much earlier than many initially expected.

Has Detroit been resurrected? The question is profoundly important in light of the continuing fiscal challenges faced by localities like Atlantic City and municipal institutions like the Chicago public schools. Bomey limits himself to arguing that bankruptcy at least gave Detroit hope, noting that one late 2014 poll found 85 percent of city voters believed “that the city would be better off after the bankruptcy.” The exceptional features of the Detroit bankruptcy included ownership of a world-class art museum and the almost unbelievable harmony that prevailed among all public officials involved in the process: local Democrats, the Republican governor and State Legislature, members of the judiciary and the state-appointed emergency manager. After six decades of uninterrupted decline, Detroit, for once, seemed to catch all the breaks. Other cities confronting bankruptcy may not be so lucky.

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By STEPHEN EIDE

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To Bankruptcy and Back
By Nathan Bomey
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