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Things You Didn't Know About Detroit's Historic Bankruptcy.

Nathan Bomey, author of a new book on the largest Chapter 9 filing in U.S. history, reveals the unsung heroes and true timeline of the event.

Nearly three years ago, Detroit's $18 billion bankruptcy — the largest municipal Chapter 9 filing in American history — captured the nation's attention. Detroit, like so many other Rust Belt cities, had suffered from decades of economic decline, as well as shrinking economic support from the state; mismanagement from city leaders that hurt the public trust and shattered finances; and the exodus of more affluent and generally white residents to the suburbs.

These effects and more are captured in the new book *Detroit Resurrected*. It's the first book to extensively chronicle the city's story into and out of bankruptcy, and it's written by journalist Nathan Bomey, who was the Detroit Free Press' lead reporter on the city's bankruptcy and is currently a writer at USA Today. Bomey, who spoke with Governing about the book, based it not only on his extensive reporting at the time but also on revealing and frank post-bankruptcy interviews with key players.

The following interview is edited for length and clarity.

I didn't know until reading your book that bankruptcy was being talked about in Detroit several years before 2013.

It was. In Detroit, the promises to retirees were actually broken many years before the bankruptcy process. I think the problem was [that by the time bankruptcy was considered], political leaders didn't really have the political will to make the tough decisions to avoid this type of process. So they put it off. And one factor in Detroit's bankruptcy that has been widely misunderstood is that the emergency manager law was uniquely tailored to make a bankruptcy go fast. Kevyn Orr got the job about four months before the city ultimately filed for bankruptcy. I think looking back on it, most people would agree that by the time he was installed, bankruptcy was probably inevitable.

You say that Detroit's approach to securing money to restore services is an unusual approach in bankruptcy. Please explain.

Creditors are used to getting their best interests put before the interests of the debtor. But Judge Steven Rhodes put the people of Detroit before the creditors of Detroit because he realized that Chapter 9 bankruptcy does not have to be about who gets paid the highest percentage of their claims. It can also be about, how do we restore a city to serve its people and make public safety come first? So Rhodes allowed Detroit to structure its debt-cutting plan in a way that preserved money for services before it actually carved out the money for creditors.

Explain the so-called Rhodes Test that emerged from this case.

If you look at fairness purely on legal terms and assessing debt, then [restructuring] might be a

matter of just following the rule book on who gets paid back what. But if you introduce the idea that certain creditors are more vulnerable than other creditors, all of a sudden it's up to the judge's discretion whether equal treatment is fair treatment. In the end, Rhodes ruled that his own conscience could dictate whether it was fair for the pensioners to get a higher percentage on their claim back than the Wall Street creditors — and he decided it was fair. If future judges are allowed to apply their conscience to decisions about what's fair and not fair, we could see some very divisive rulings.

Were there any unsung heroes who emerged in your reporting?

Very few people know about two retirees who were extremely important to the resolution of the case: Shirley Lightsey and Don Taylor. They helped negotiate the decision to accept the [roughly 10 percent] cuts in pensions and [90 percent cut] in health care. They had to convince their constituents to vote in favor of it. And I think what they did was remarkable because it was a triumph of pragmatism and it was an example of a sacrifice that we just don't see in politics.

Did any villains emerge?

One of the messages I really wanted to send with this book is that I think the heroes and villains are not always who you think they are. The villains most people cite were the bond insurers Syncora and Financial Guaranty Insurance Company, [whom Detroit proposed paying back 10 cents on the dollar]. But when I look at the case, they were simply fighting to protect their rights. And I'm not sure we should expect anyone to do anything differently. You can quibble with the aggressiveness of their position and the fact that they attacked the Detroit Institute of Arts and tried to liquidate that. But that's more a matter of opinion whether the museum was something that should have been liquidated to pay off creditors.

Detroit taught us a lot about how pensioners and bondholders can be treated in bankruptcy. Are there any other lessons for cities here?

I think that one of the key lessons is someday the bill will come due. The promises you make will eventually be paid for by somebody. In Detroit, it was the retirees and Wall Street who sacrificed. So think about that when you set the budget.

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