

# **Bond Case Briefs**

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## **Lessons Learned from Detroit: A Judge's Perspective.**

U.S. District Judge Gerald E. Rosen has more experience than most in resolving thorny cases of municipal distress: He was the mediator in the high profile bankruptcy of Detroit. What lessons did he draw from that experience that might apply to future municipal bankruptcies? We put that question to him at our recent Municipal Finance Conference, and he offered what he calls "The Four C's."

### **Candor**

"As we began talking to the creditors and to the city...they were in denial across the board...We said denial...is not a way to move forward. We had to go through that ventilation process in the beginning."

Judge Rosen said he found that both the creditors and the parties were initially unwilling to be honest, with each other and even with themselves. They did not fully accept the dimensions of the structural debt problems and did not recognize the degree to which the city's ability to fund and deliver essential government services was compromised. Working in a state of denial will not advance the interests of the city, he said. Openness and honesty are integral to resolving financial troubles.

### **Cooperation**

"My job as the mediator [was] to get the parties together and the earlier the better."

After listening to accounts of other cases of municipal distress, Judge Rosen suggested that some crises could have been avoided with earlier "facilitation of discussion between the various credit groups and the municipalities."

### **Creativity**

"Every city has human assets, every city has physical assets, every city has revenue assets, so focus on creative ways to leverage those assets."

Detroit struck a "grand bargain" in which the city essentially sold the Detroit Art Museum to a collection of foundations, nonprofits and other donors to raise money for its underfunded pensions. Judge Rosen said that was just one of several creative elements in Detroit's bankruptcy resolution. Of course, the exact solutions to any particular crisis will depend on the circumstances, but the essential element is that "smart people who can get on the same team and look down the road, not just to get their piece of the pie, but to make the municipality healthy so there will be a bigger...pie at the other end."

### **Courage**

"Detroit is really not [just] a series of deals over sixteen months....it's about people from all different walks of life, backgrounds, strata, coming together to put behind them the mistakes and ghosts of

the past.”

The Detroit bankruptcy, he said, could have resulted in a decade of litigation that went all the way to the U.S. Supreme Court. But if that had occurred, there would have been nothing left of Detroit. Instead, all the interests came together to “take a leap of faith” to find a solution that was in the best, long-term interests of the city, its creditors, its employees and its people.

[Here's a video of Judge Rosen's remarks.](#)

## **The Brookings Institution**

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