Written by **Bob Adelmann** on November 10, 2014

Judge Approves Detroit's "Grand Bargain" to End Bankruptcy

The party began immediately after bankruptcy Judge Steven Rhodes approved the plan to get Detroit out of bankruptcy last Friday. Rod Meloni, a local journalist who has been following Detroit's woes from the beginning, was there:

> There was nothing short of a party atmosphere around the federal courthouse….
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> Attorneys hugged, shook hands, slapped backs, promised to get together soon and said goodbye.
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> The only thing missing was the signing of yearbooks!

This was evidence of the rule that no matter who takes a haircut in a bankruptcy, the attorneys always get paid first, one hundred cents on the dollar. As of October 2013, those fees had mounted to $23 million, and estimates are that when Detroit emerges from bankruptcy they will total more than double that.

Governor Rick Snyder issued a statement of congratulations to the warring parties that had finally cobbled together the agreement:

> Our state has rallied around its largest and [most] iconic city. It is no longer Detroit v. Michigan, but the embracing of Detroit, Michigan.
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> This day marks the end of the nation's largest municipal bankruptcy, resolved quickly and successfully as a result of cooperation, compromise and a shared vision from many parties.

Snyder is only half right. The 18 months of haggling was the shortest in recent memory for a municipal bankruptcy agreement to be reached. How successful the grand bargain will be remains to be seen.

The deal cuts Detroit government workers' pensions by 4.5 percent, erases $7 billion of the estimated $18 billion owed by the city from its balance sheet, and earmarks $1.7 billion to attack the deferred maintenance for the city's essential services, including police and fire protection. To tide things over, police cruisers and ambulances had been donated to the city until the new deal was completed.

It also reflected a deal whereby wealthy donors and Michigan taxpayers (not a "bailout," claimed the governor) contributed nearly $1 billion to an "art trust" which bought the city's art collection to help complete the agreement. That money is earmarked as part of the funds to erase the city's reputation as being "service insolvent."

Judge Rhodes relied heavily on the expertise of Martha Kopacz, an expert in bankruptcy settlements such as this one. Kopacz was far less sanguine about the prospects of the settlement, linking any success Detroit might have to its ability to overhaul its antiquated computer technology.

It's going to take far more than new computers to cure Detroit. When Kevyn Orr was named interim financial manager for the city back in March 2013, he was astonished to learn just how inefficient the city government really was. In court testimony, Orr said that the city's workforce regularly called in sick, estimating absenteeism at an astonishing 30 percent *every day*. So inefficient was the city that Meloni called it "a jobs program masquerading as a service provider."

Rhodes was right to be concerned that the grand bargain might not be so grand after all. For instance, in setting up the financial review commission to oversee the implementation of the plan, he urged Governor Snyder to name disinterested professionals to it. Instead, two of the nine members happen to be the mayor and the president of the city council, guaranteeing the continuation of the collusion between parties that sank Detroit in the first place.

There is the underlying assumption that future growth resulting from a revived Detroit will be enough to sustain the city into the future. That, along with increased efficiency in collecting real estate taxes, is anticipated to keep Detroit from returning to its old ways. But new residents and their new revenue streams won't happen until the city solves its problems first. Banking on a future based on hope and optimism isn't a plan.

Another example that leads to questions about Detroit's sincerity in repenting and turning from its former extravagances is this: Soon after the city declared bankruptcy, it announced that it would continue building a new $444-million arena for the Detroit Red Wings using bonds funded by taxpayers with a little help from developers. At the time, neither Snyder nor Orr complained. Instead they sang the minstrel melody of "good economic sense" that would result from the new stadium: retail shops, office buildings, hotels, and new residences would magically spring up around the arena. Oh, and the arena would require some 8,000 temporary construction jobs which would, of course, disappear once the project was completed.

As if that wasn't enough, in July the city announced the start of construction on another public boondoggle, this one called the M-1 Rail Line or the Woodward Avenue Streetcar project. A $137-million project, it was already $12 million over budget. Although initially funded with private donations, it was meant to be only a "teaser" — like a "sample" of the latest flavor from Ben and Jerry's — to draw the taxpayers in to funding the real project stretching farther north, east, and west from Woodward Avenue, and costing an estimated $1 billion.

Despite the party atmosphere celebrating the grand bargain on Friday, there's little reason to expect that the culture of corruption and self-dealing and the treating of taxpayer funds as a political punch bowl will suddenly come to an end. Unless it does, Detroit could be back in Judge Rhodes' bankruptcy court very soon.

Photo of Detroit skyline

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