

JUNE 9, 2013

## FIXING DETROIT'S FISCAL CRISIS

# A CITY IN THE BALANCE

## Bill has come due for our bad decisions



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A few weeks ago, at the height of the imbroglio over whether the Detroit Institute of Arts might have to sell art to help the city dig out of its financial hole, someone close to the restructuring negotiations described what was happening in terms we all ought to get used to.

"Nobody's wanting to sell art out of the museum," this person said. "But Detroit pawned all of that, and everything else it owns, decades ago. And it has pawned it several times over since then. Kevyn (Orr, the emergency manager) is just the guy holding the ticket."

In other words, the events that will take shape to recast Detroit's financial fortunes were set in motion long ago.

This is what happens when you systematically disinvest from a region's core city over half a century, while the suburbs grow and regional leaders cheer the economic and social divide that opens up and swallows the area's vitality.

This is what happens when those left behind in the city borrow 33 times what the whole place is worth, and continue to make promises - to employees and residents - that are the most irresponsible form of economic fantasy.

And this is what happens when the bill for all that irrationality comes due.

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PULITZER PRIZE ENTRY: COMMENTARY | STEPHEN HENDERSON

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Stuff gets sold. People get hurt. Pledges and promises shatter on the hard, cold floor of reality. And everyone who lives in southeast Michigan - indeed, everyone who helped make this mess - will be affected.

Orr's plans to offer the city's creditors just pennies on the dollar (we owe billions) is just the first of many stunners that will be revealed over the next few weeks.

The city's retirees will be told of their expected sacrifice at the same time. (I'm still hopeful the city can find a way to keep at least most of its promises to retirees intact; these are people who planned their later lives around those pledges, and in most cases have no opportunity to earn more on their own.)

Soon after, a broad reorganization of city services - one I'm told will include department eliminations, privatizations and the creation of authorities to offload responsibility - will start to be unveiled.

This is what Orr has been doing for the past two months, for those who have been wondering. His plan, nearly complete and almost ready to go to all the stakeholders, touches on all of the city's financial dysfunction and managerial chaos.

The goal is simple: restructure the debt so more of the money that comes in can be spent directly on services; and restructure the way the city provides those services to ensure they're done efficiently and effectively. It won't get done without tremendous sacrifice - and perhaps precious losses - but those are the fruits of our own sour plantings, not Orr's.

The plan is a blueprint in a couple of ways: It's what he will ask creditors and the unions to agree to, but also will serve as the starting point for a municipal bankruptcy, which will be unavoidable if anyone refuses to go along with Orr's requests.

My bet is that bankruptcy is where we're headed - no way will all the creditors and all the unions agree to the terms. They're too stark, and the number of parties at the table is too many and their interests are too disparate.

But it's still key that Orr has developed the plan, because it will give the city a stronger bargaining chip in bankruptcy. Chapter 9, which governs municipal court-supervised reorganizations, already gives the city the upper hand by preventing creditors from submitting their own restructuring plans and prohibiting the courts from ordering asset sales.

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Orr's work to put together a plan that makes the city solvent while preserving assets and improving services will be hard to beat - even by "the banks," which some folks feared would have their way with the city and its assets through this process. It's pretty clear from Orr's plan that those who took a risk on lending to Detroit will get more than their share of a haircut if he has his way.

The auto company investors howled over bankruptcy payouts that were a few dimes on the dollar. No one will be happy with pennies.

The next few weeks will be tough for Detroit, for southeast Michigan and especially for Detroiters, whose suffering predates this climax by decades. We all laid the groundwork for it, though, and should be prepared to accept that the consequences are necessary for the city to move forward, and, someday, to thrive again.

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