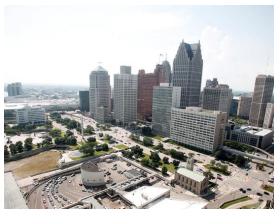


Detroit: How the Motor City went bust

Detroit has become the largest city in U.S. history to file for bankruptcy. State-appointed emergency manager Kevyn Orr on Thursday asked a federal judge permission to place the city into Chapter 9 bankruptcy protection. (July 18)

Nancy Kaffer, Stephen Henderson and Matt Helms , Detroit Free Press 9:58 p.m. EDT July 18, 2013

Kevyn Orr, the city's appointed emergency manager, formally sought federal bankruptcy court protection.



(Photo: Bill Pugliano, Getty Images)

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DETROIT — Detroit, the once-thriving Midwest metropolis that gave birth to the nation's auto industry, is now the largest city in U.S. history to file for bankruptcy.

Kevyn Orr, the city's appointed emergency manager, formally sought federal bankruptcy court protection on Thursday after Michigan Gov. Rick Snyder, a Republican, approved the filing, deeming the decision necessary "as a last resort to return this great city to financial and civic health for its residents and

taxpayers."

"I know many will see this as a low point in the city's history," Snyder wrote in a letter authorizing the bankruptcy filing. "If so, I think it will also be the foundation of the city's future — a statement I cannot make in confidence absent giving the city a chance for a fresh start, without burdens of debt it cannot hope to fully pay."

In the letter, Snyder explained his decision by citing statistics that have hobbled the city's operations:

- The city's unemployment rate has nearly tripled since 2000 and is more than double the national average.
- The homicide rate is at historically high levels, and the city has been named among America's most dangerous for more than 20 years.
- Detroiters wait an average of 58 minutes for police to respond, compared with the national average of 11 minutes.
- An estimated 40% of the city's street lights didn't work in the first quarter of 2013.
- Roughly 78,000 city structures have been abandoned.

The combination of lost auto industry jobs and rising crime rates prompted many middle-class whites and African Americans to flee Detroit over the past few decades. That exodus left behind an overwhelmingly poor and nearly 83% African-American population, making Detroit the nation's largest black-majority city.

STORY: [What's next for Detroit \(http://www.usatoday.com/story/news/nation/2013/07/18/detroit-bankruptcy-what-will-happen-next/2556605/\)](http://www.usatoday.com/story/news/nation/2013/07/18/detroit-bankruptcy-what-will-happen-next/2556605/)

TREASURES: [Will creditors get them? \(http://www.usatoday.com/story/money/cars/2013/07/18/detroit-bankruptcy-historical-society-classic-cars/2562229/\)](http://www.usatoday.com/story/money/cars/2013/07/18/detroit-bankruptcy-historical-society-classic-cars/2562229/)

The U.S. Bankruptcy Court filing represents perhaps the biggest body blow yet to a faded city that's now home to barely 700,000 — down from a peak of 1.8 million during the auto industry boom years of the 1950s — and struggles to cope with the abandoned buildings and decaying municipal services.

The filing listed more than 100,000 creditors and more than \$1 billion in estimated liabilities, but Orr has said Detroit's total financial responsibilities could be as high as \$20 billion.

Because of the stakes involved, and the impact on residents statewide, as well as 30,000 current and retired city workers and Detroit's ability to stay in business, the case could be precedent setting in the federal judiciary. It could also set an important trajectory for the way troubled cities deal with shrinking populations, dwindling tax bases and large debts from municipal pension systems and government services.

"I think you're looking at a very long and protracted bankruptcy," said Brad Coulter, a managing director at O'Keefe LLC, a turnaround consultancy in the Detroit area. "The fight that's taking place in Detroit is the fight that's going to take place around the country as other struggling cities and municipalities come to grips with major financial issues."

The bankruptcy isn't likely to spur many similar filings by other U.S. cities because state and local laws in most cases don't allow localities to turn to the federal court system for protection, said Michael Pagano, dean of the College of Urban Planning and Public Affairs at the University of Illinois-Chicago.

Cleveland defaulted on its debt during the 1970s but didn't go bankrupt. New York City teetered at bankruptcy's edge in 1975 after President Gerald Ford rejected its emergency aid request in a famous "Drop Dead" speech, but a last-minute bailout arrived via a \$150 million investment in municipal securities from the city teacher union's pension fund.

In April, Stockton became California's fourth city to seek bankruptcy protection since the national recession's start five years ago. There have been 36 municipal bankruptcy filings since January 2010, according to *Governing Magazine*. Two proceedings, in Harrisburg, Pa., and Boise County, Idaho, were dismissed.

DETROIT FREE PRESS: [Full coverage](#)

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DETROIT: [Files bankruptcy \(http://www.usatoday.com/story/news/nation/2013/07/18/detroit-prepares-bankruptcy-filing-friday/2552819/\)](http://www.usatoday.com/story/news/nation/2013/07/18/detroit-prepares-bankruptcy-filing-friday/2552819/)



Woodward Avenue runs towards downtown Detroit through Highland Park on Thursday, July 18, 2013, the day that Detroit filed for Chapter 9 bankruptcy. (Photo: Brian Kaufman, Detroit Free Press)

Orr, a turnaround specialist, spent recent months in tense, but unsuccessful negotiations attempting to get Detroit's creditors to settle for a fraction of what they're owed and persuade municipal unions to accept cuts in benefits.

The city's two pension funds, which collectively have claims to \$9.2 billion in unfunded pension and retiree health care liabilities, filed state lawsuits this week in a bid to prevent Orr from slashing retiree benefits as part of a bankruptcy restructuring.

Ambac Assurance Guaranty, which insures some of Detroit's general obligation bonds, has also objected to Orr's plan to treat those bonds as "unsecured," which would mean they're not tied directly to a dedicated city revenue stream and would be worth pennies on the dollar in value. Ambac and other city creditors have threatened to sue.

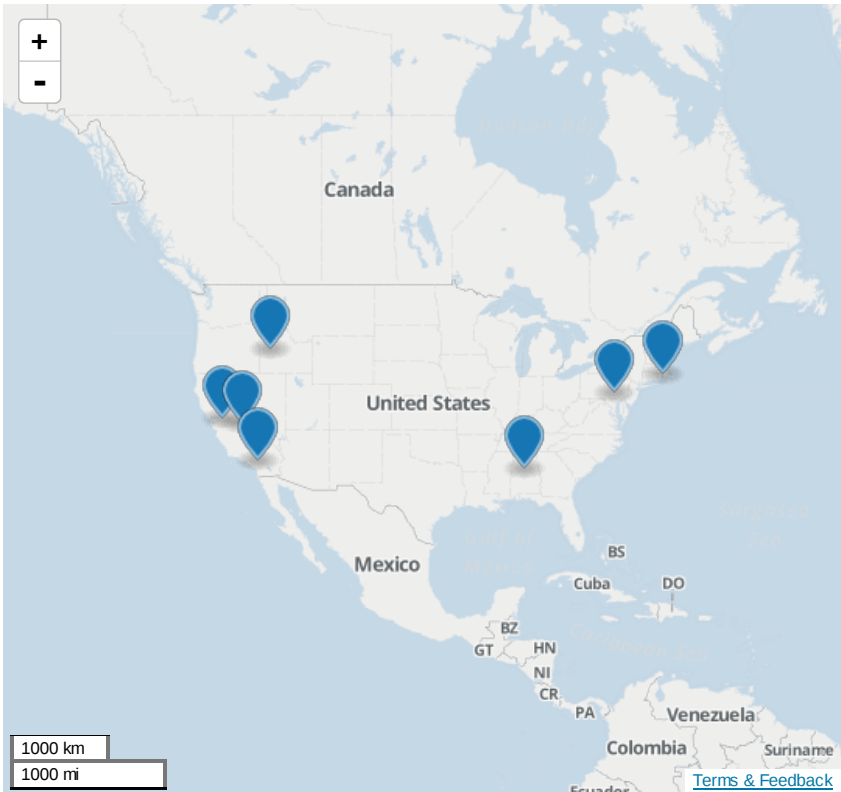
The filing starts a 30- to 90-day period that will determine whether the city is eligible for federal Chapter 9 protection and define how many claimants might compete for Detroit's dwindling settlement resources.

Coulter said city unions and other creditors are likely to argue that Detroit in fact is not insolvent and could pay its bills if forced to sell city resources and further cut services to raise money.

"A lot of issues like this have never been tried before in bankruptcy court," Coulter said.

The Detroit that ultimately emerges from bankruptcy "is going to emerge a very different city than when it went in," said Pagano. "It's going to have to have a tough conversation and decision about what are the core critical services the city has to provide, and at what level."

Contributing: Kevin McCoy, USA TODAY, in New York City



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