

Once-Mighty Motor City Files For Bankruptcy

Corey Williams, Ed White, Associated Press

DETROIT (AP) — Detroit on Thursday became the largest city in U.S. history to file for bankruptcy, as the state-appointed emergency manager filed for Chapter 9 protection.

Kevyn Orr, a bankruptcy expert, was hired by the state in March to lead Detroit out of a fiscal free-fall and made the filing Thursday in federal bankruptcy court.

A number of factors — most notably steep population and tax base falls — have been blamed on Detroit's tumble toward insolvency. Detroit lost a quarter-million residents between 2000 and 2010. A population that in the 1950s reached 1.8 million is struggling to stay above 700,000. Much of the middle-class and scores of businesses also have fled Detroit, taking their tax dollars with them.

In recent months, the city has relied on state-backed bond money to meet payroll for its approximately 10,000 employees.

Orr was unable to convince a host of creditors, the city's union and pension boards to take pennies on the dollar to help facilitate the city's massive financial restructuring. If the bankruptcy filing is approved, city assets could be liquidated to satisfy demands for payment.

"Only one feasible path offers a way out," Gov. Rick Snyder said in a letter to Orr and state Treasurer Andy Dillon approving the bankruptcy.

Snyder determined earlier this year that Detroit was in a financial emergency and without a plan to improve things. He made it the largest U.S. city to fall under state oversight when a state loan board hired Orr in March. His letter was attached to Orr's bankruptcy filing.

"The citizens of Detroit need and deserve a clear road out of the cycle of ever-decreasing services," Snyder wrote. "The city's creditors, as well as its many dedicated public servants, deserve to know what promises the city can and will keep. The only way to do those things is to radically restructure the city and allow it to reinvent itself without the burden of impossible obligations."

A turnaround specialist, Orr represented automaker Chrysler LLC during its successful restructuring. He issued a warning early on in his 18-month tenure in Detroit that bankruptcy was a road Detroit and its creditors did not want to tread.

He laid out his plans in June meetings with debt holders, in which his team warned there was a 50-50 chance of a bankruptcy filing. Some creditors were asked to take about 10 cents on the dollar of what the city owed them. Underfunded pension claims would have received less than the 10 cents on the dollar under that plan.

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Orr's team of financial experts put together said that proposal was Detroit's one shot to permanently fix its fiscal problems. The team said Detroit was defaulting on about \$2.5 billion in unsecured debt to "conserve cash" for police, fire and other services.

"Despite Mr. Orr's best efforts, he has been unable to reach a restructuring plan with the city's creditors," the governor wrote. "I therefore agree that the only feasible path to a stable and solid Detroit is to file for bankruptcy protection."

Detroit's budget deficit is believed to be more than \$380 million. Orr has said long-term debt was more than \$14 billion and could be between \$17 billion and \$20 billion.

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