

# CRAIN'S DETROIT BUSINESS

Detroit and Southeast Michigan's premier business news and information website

March 17, 2013 8:00 AM

## EM Orr plans to start with quick fixes

**Biz community's support sought**

By [Kirk Pinho](#) And [Dustin Walsh](#)

It's game time, as newly appointed Detroit Emergency Manager Kevyn Orr said last week during his press conference and media interviews. But he's already been working on his first few plays.

Orr said in a Friday interview with *Crain's* that he will focus both on quick fixes -- like improving police response times and fixing streetlights -- and urgent financial matters -- like restructuring the city's long-term debt and stopping budget deficits.

He said he will be guided by data and will work tactically for fast change. He's also seeking help from the business community.

"You want to bring all the data and information together and start developing a priorities list, or next steps, as far as what you need to do," Orr said. "That process can occur pretty quickly."

Under Public Act 436, Orr will have 45 days to construct a financial plan for the city. Local experts predict he'll move to ease the suspicions of residents early in the process, while restructuring the city's long-term debt obligations.

Eric Nemeth, partner at **Varnum LLP** in Novi, said Orr



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Detroit Mayor Dave Bing listens as Kevyn Orr speaks at Thursday's news conference.

### KEVYN ORR

Age: 54

Title: Detroit emergency manager

Previous jobs: Washington, D.C.-based partner, **Jones Day**; director and deputy director, Executive Office for United States Trustees, **U.S. Department of Justice**; assistant general counsel, complex litigation and bankruptcy section, **Resolution Trust Corp.**; counsel, litigation section, **Federal Deposit Insurance Corp.**

Start date: March 25

Salary: \$275,000

Reports to: The Local Emergency Financial Assistance Loan Board under Public Act 72 of 1990; the governor under PA 436 of 2012.

must operate like an emergency room doctor: Assess the problem, apply a tourniquet to stop the bleeding, and then fix the wound.

"It all sounds very much like housekeeping, but he needs to know who the players are and figure out how to keep the streetlights on and make sure police cars and fire trucks arrive," Nemeth said. "He's in a position where he can't assume anything, including the core competencies of the city's staff."

Sheryl Toby, partner at **Dykema Gossett PLLC** and co-leader of its bankruptcy practice, said the EM role is so politically divisive that simply getting the city services in line will get residents and businesses on board for further action.

"Getting something like waste services working, making sure trash is getting picked up, is low-hanging fruit and it can show progress quickly," Toby said. "Then he can work on the long-term goals of stopping residents from leaving and attracting business, along with restructuring the city's long-term debt."

For Orr, initial low-hanging fruit includes speeding up public safety response times, modernizing city technology and fixing streetlights.

Robert Bobb, president and CEO of the Washington, D.C.-based **Robert Bobb Group LLC** and former emergency financial manager for **Detroit Public Schools**, said Orr first needs to secure early victories -- specifically related to public safety, trash, property tax collections and streetlights -- so city residents can see tangible results.

But there will be no sacred cows.

"Everything should be on the table," Bobb said.

Orr, who resigned as a partner at **Jones Day** in Washington, D.C., to pursue the Detroit post, was officially appointed EM on Thursday. He said in a Thursday press conference he was prepared for the "Olympics of restructuring."

He's already been through tough assignments; he was part of the Jones Day legal team that guided **Chrysler LLC** through its 2009 bankruptcy.

Orr said Friday that it's too soon to tell if this new Olympiad will result in Chapter 9 bankruptcy for Detroit, even though some financial experts consider it a foregone conclusion.

"I'm not of the mind that anything is inevitable," Orr said Friday.

### **Working together**

Louis Schimmel, emergency financial manager for the city of Pontiac, said Orr will have to do significant consolidation of city departments and surround himself with experts willing to tackle the difficult work ahead.

And he is expected to make changes quickly; it's widely expected Orr will serve no longer than 18 months.

He faces political opposition. Jim McTevia, managing member of Bingham Farms-based turnaround consulting firm **McTevia & Associates**, said he believes Orr must end political infighting to accomplish his restructuring goals.

McTevia said Orr should work as closely with Detroit Mayor Dave Bing and the **Detroit City Council** as possible.

"I don't care how good he is. If he is fought at every point, it will be difficult to be successful," McTevia wrote in an email Thursday. "Think of him as a general. Generals don't win battles without supporting troops."

State Rep. Thomas Stallworth III, D-Detroit, and chairman of the Detroit Caucus, said Orr will face an adversarial resident base and that the city has made progress and is on a good trajectory for recovery without an EM.

"I'm concerned that an emergency manager will represent a real setback for our city," he said.

Mike Duggan, a candidate running for Detroit mayor and former Wayne County Prosecutor and former CEO of **Detroit Medical Center**, said Orr made a very good impression during his initial remarks. Duggan was a classmate of Orr at the **University of Michigan** law school. But

Duggan is opposed to the idea of an emergency manager and said, if elected, he would still ask Gov. Rick Snyder to relieve Orr of his duties on Jan. 1.

"I liked what I heard today, but he will be judged on how the finances are managed," he said. "Whatever successes that Mr. Orr has, it will be my job to build on them."

But Detroit City Council member Andre Spivey said in a statement that it's time to move forward with support.

"I recognize there will be some uneasiness at first, but we must begin to turn our opposing opinions into positive actions and erase any thoughts or behaviors that may cause division in our community," Spivey said. "This is newly charted territory for all of us."

Orr said he wants to work with the council.

"It doesn't do anyone any good to have conflict," he said. "What's the end game of that?"

Orr, who categorized himself as a "lifelong Democrat," said he respects protestors' viewpoints and their right to peacefully assemble "as long as it's civil."

"We are a country of laws, not of men, and those laws include the appointment of an emergency financial manager," Orr said.

### **Stopping the financial bleed**

The state's financial review team last month said the city had a \$327 million budget deficit last fiscal year and a cumulative cash deficit expected to swell above \$100 million by June 30, the end of this fiscal year.

In addition, the city has nearly \$15 billion in long-term debt.

Having a viable financial plan in place will make creditors more willing to negotiate with the city, said Bobb.

The emergency manager news has already made an impact; **Standard & Poor's Ratings**

**Services** announced Friday that it had upgraded the city's general obligation bond rating from negative to stable following Orr's appointment.

Orr is expected to immediately reopen the city's more than \$8 billion in pension and retiree health care liabilities for negotiation, said Patrick O'Keefe, founder and CEO of Bloomfield Hills-based turnaround specialists **O'Keefe and Associates Consulting LLC**.

"Everything is on the table, everything's possible," Orr said.

### **The Chapter 9 card**

Terry Conley, partner at **Grant Thornton LLP**'s state and local tax practice in Southfield, said Detroit's tax revenue stream simply isn't enough to cover its debt obligations, and Chapter 9 is inevitable.

"This isn't a cost-cutting exercise, it's a revenue issue, and there's only about 50 percent payment rate on the city's property taxes," Conley said. "Particularly with the politics that are going on, it's going to make it even more difficult for the city to collect."

If obstructionists in city government want to "fight over the deck rows on the Titanic," said O'Keefe, the consequences -- a municipal bankruptcy -- could be dire.

"(Gov. Rick) Snyder is giving them a way out" with the appointment of an EM, O'Keefe said. "If they buck that, the city would be hard-pressed to borrow a nickel ever again."

Orr will use the threat of Chapter 9 municipal bankruptcy as a "hammer" to get everyone in line with his plan, Dykema's Toby said.

The situation is bleak; the city has an annual bond debt service of \$600 million on its \$8 billion bond debt, and if it defaults on a payment, the city may likely not be able to issue more bonds, Conley said.

Conley said if he were the city's EM, he would push the city toward a managed bankruptcy and seek a bailout from the federal government, citing when the federal government guaranteed New York City's bonds in 1978 to keep it from defaulting on its debt.



Sheryl Toby, Dykema Gossett PLLC

"The city needs help to bridge itself out of this," Conley said. "The city of Detroit is critical, and I would hope the powers that be would assist; it's not like they haven't already invested in Detroit with the bailout of **General Motors** and Chrysler."

Toby and Nemeth agree that if the city files for bankruptcy, Orr and his team will have a cohesive plan in place before filing.

"He would not want to just put the city in Chapter 9 in haste or without a clear path to success," Toby said.

### **What can business do?**

Orr said he welcomes private-sector input and support as he works to fix the city's finances.

Referring to Dan Gilbert, **Quicken Loans Inc.** founder and chairman, and the Ilitch and Ford families, Orr said "some of the business community has already taken major steps" to improve Detroit.

And in Bing's State of the City address, the mayor asked for support from the corporate community to buy police and fire department equipment.

Besides any corporate support, Orr also will have the authority to hire staff and consultants. Under the terms of his contract, he must consult with the **Michigan Department of Treasury** at least 24 hours before offering a position that pays \$50,000 or more annually. Several leading turnaround experts and financial attorneys are already assembling to form Orr's support team.

Orr would not elaborate on Friday, but companies with contracts already in place through the state include **Ernst & Young**, Detroit; **Conway Mackenzie Inc.**, Birmingham; **Miller Buckfire and Co. LLC**, New York City (investment banking); and **Plante & Moran PLLC**, Southfield.

Nemeth said the move to an EM will increase the business community's efforts to help revive Detroit. Even his firm, Varnum, is looking to double its presence in Southeast Michigan over the next three years and is now "taking a hard look at Detroit proper" after the efforts to improve the city's financial position, Nemeth said.

"The larger business community, there's going to be people willing to jump in now because they feel there's room for progress," he said.

<http://www.crainsdetroit.com/article/20130317/NEWS/303179970/em-orr-plans-to-start-with-quick-fixes>