

CRAIN'S M&A AWARDS

TITLE SPONSOR

IN PARTNERSHIP WITH

HONIGMAN.

ACG Detroit

What did it take to close the
top M&A deals of 2013?

Find out at *Crain's* M&A Awards.

April 16

Troy Marriott | 5-9 p.m.

[Register Here](#)

CRAIN'S DETROIT BUSINESS

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

December 08, 2013 8:00 AM

Orr's goal: Squeeze money out of Detroit assets without selling

By [Kirk Pinho](#)

There's a four-letter "s" word Kevyn Orr isn't using much anymore — and it's not the one you might be thinking of.

Although Detroit's emergency manager hasn't ruled out the sale of assets like pieces from the **Detroit Institute of Arts** collection, he told *Crain's* last week that the city may be able to exit Chapter 9 bankruptcy court without needing to sell any.

That could be achieved through asset "monetization" — generating or saving revenue from assets without selling them.

Yet turnaround consultants and public policy experts say the use of that phrase is likely a rhetorical shift, not necessarily reflective of a new philosophy on how Orr will handle city assets as he and consultants prepare a plan of adjustment, which will detail what, if any, assets will be sold.

"I think it's just a more sanitary term than, 'We are going to sell the art,' " said Bettie Buss, a recently retired senior research associate for the **Citizens Research Council of Michigan**.

U.S. Bankruptcy Judge Steven Rhodes said from the bench last week that while asset sales may provide one-time cash infusions to a city desperately in need of them, they do little to address Detroit's long-term financial problems, including its estimated \$18 billion in debt and pension and health care obligations.

Orr has said in past interviews with *Crain's* that all options are on the table — including all-out sales — for assets of the city.

"With asset monetization — and I say 'monetization' as opposed to 'sale' — we may not have to sell anything," Orr said Thursday. "We may be able to generate revenue" in other ways.

Some of those ways of doing that emerged last week.

Christie's offers alternatives to art sale

Orr has received a series of alternatives from New York City-based **Christie's Appraisals Inc.** that would spare the DIA collection from all-out sale, one of the more controversial aspects of the bankruptcy case.

Those alternatives are:

- Using the art as collateral for a loan.
- Leasing the art on a long-term basis to a partnership museum or museums. Similar agreements have been negotiated in the past, according to Christie's.
- Creation of a masterpiece trust, which would allow for American museums to rent the works of art. City-owned art would be placed into a trust and minority interests would be sold to other museums; revenue from those sales would be paid to the city. Ownership of the shares would allow the museums to borrow the art for a predetermined amount of time. This option would be "unprecedented in the art world," according to Christie's.
- Traveling exhibitions. However, Christie's said exhibitions are not likely to raise more than \$1 million.
- Allowing a philanthropist, group of philanthropists or foundations to purchase the art and then permanently loan or gift it back to the museum.

The *Detroit Free Press* reported Friday that A. Paul Schaap, a former chemistry professor whose work led to the founding of Southfield-based **Lumigen**, has offered to donate \$5 million toward protecting the art collection and city retirees' pensions.

U.S. Chief District Judge Gerald Rosen, appointed by Rhodes as mediator in Detroit's bankruptcy, has been meeting with local charitable foundations to persuade them to supply \$500 million to spin off the DIA from the city. Schaap told the *Free Press* he hoped his gift would help persuade the foundations to do that.

Jim McTevia, president of Bingham Farms-based turnaround consulting firm **McTevia & Associates**, said that final alternative has serious merit.

"The city gets the money they need to give to the creditors and the DIA gets the artwork," he said. "If I were Kevyn Orr, that's what I'd be doing."

Christie's valued the city-owned portion of the DIA collection (2,781 pieces of 66,000 total) at between \$452 million and \$866 million.

Belle Isle, water department in play

Other examples of monetization already have been approved or are in the works. Those include the 30-year lease of **Belle Isle** to the state and the planned regionalization of the **Detroit Water and Sewerage Department**.

The Belle Isle lease — approved by the three-member state **Local Emergency Financial Assistance Loan Board** last month after the **Detroit City Council** proposed a 10-year lease instead — is expected to save the city at least \$4 million per year and allow the state to invest between \$10 million and \$20 million in the next three years in the island, which remains city property.

Mayor-elect Mike Duggan has criticized the lease because it does not require the state to make the improvements.

Under a DWSD regionalization, the proposed **Metropolitan Area Water and Sewer Authority**, or MAWSA, would operate the DWSD through a concession agreement or via a lease of water department assets.

"With the DWSD transaction, the city will own the pipes, the 52-inch mains, the switches," Orr said last week.

The regionalization is intended to, in part, save money through lower bond interest rates on \$1.2 billion in needed capital improvements because "Detroit" wouldn't be in the name of the

new authority.

Orr estimated in his financial and operations report, presented to the state **Department of Treasury** in May, that DWSD regionalization could save \$50 million to \$70 million annually.

Buss has been skeptical of the proposal, questioning whether it would achieve the intended financial rewards.

A MAWSA lease agreement for DWSD assets would be for no more than 40 years and extended as new MAWSA bonds are issued. DWSD employee pension and benefit costs would not be borne by suburban customers.

The DWSD serves nearly 1,100 square miles and communities in eight Southeast Michigan counties. It has about \$5.8 billion in debt.

Among other assets:

- The city will continue to subsidize the **Coleman A. Young International Airport**. Its budget in fiscal year 2012-13 was \$275,000. Closure of the airport would require the city to repay certain **Federal Aviation Administration** grants and would terminate some other federal grants, according to Orr's report.
- Detroit's parking infrastructure, such as parking meters and garages, is being considered for lease or sale, according to the proposal.
- Orr is evaluating alternative uses for the city-owned **Joe Louis Arena**, the proposal says.

Creditors will press for sales

But it won't be easy for the city to get out of bankruptcy without selling assets.

Creditors should put up a fight in court if a specific monetization proposal is not in their best interest, said Patrick O'Keefe, CEO of the Bloomfield Hills-based turnaround consulting firm **O'Keefe LLC**.

"The creditors should not allow the monetization of those unless it's the highest and best proceeds from the transaction because at the end of the day, they are being asked to take a haircut," O'Keefe said. "Every debtor would love to hold on to his assets, but creditors have a

lot to say about that because they are being impaired. The creditors, especially the retirees, should object vociferously."

The bankruptcy court cannot order the sale of assets because of separation of powers between the federal government and other units of government, but it can rule on how equitable a proposed reorganization plan is, which could lead to voluntary asset sales.

O'Keefe said he expects ideas to emerge on how to make money from assets without selling them.

"There are probably some bigger opportunities more than what have put on the table, and I think those will be forthcoming," he said.

Kirk Pinho: (313) 446-0412, kpinho@crain.com. Twitter: [@kirkpinhoCDB](https://twitter.com/kirkpinhoCDB)