Is Detroit's plan feasible? Leaders must show they're committed to strategy

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While a stain on the city's history, Detroit's bankruptcy also offers residents and city officials an unparalleled chance to reform a broken city government — if a federal judge decides that elected officials are capable and that the city's exit strategy offers a realistic road map to recovery.

Over the next decade, emergency manager Kevyn Orr wants to invest $1.4 billion to transform Detroit into a city with working streetlights, a responsive police force, fewer blighted buildings, reliable buses and efficient methods of assessing and collecting taxes.

But is the plan feasible? Can an insolvent city afford such a costly strategy? Will elected leaders follow through on it?

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Those are questions U.S. Bankruptcy Judge Steven Rhodes must answer during a potentially seven-week trial starting Tuesday on whether he will confirm or deny the city's plan to emerge from its largest-ever Chapter 9 case.

Feasibility is among the requirements in federal bankruptcy code to approve a city's restructuring blueprint, known as a plan of adjustment. Rhodes' feasibility test is expected to home in on the city's spending plan to improve city services and the political commitment of city officials to following its dictates.

If Rhodes concludes Orr's plan is impractical, he could tell the city to redesign its proposal to restructure the city's debts of about $18 billion.

Already Rhodes and others have raised questions.

Martha Kopacz, a restructuring analyst Rhodes appointed to study the city's plan, wrote in a July report that the available funds for the $1.4-billion plan have been mischaracterized. The plan includes expenditures of $420 million in blight remediation, $152 million for technology, and $148 million for new police vehicles, fire engines and ambulances.

"There is no funding source for these investments, including blight removal, other than the exit financing and the projected structural surplus in (plan of adjustment) projections," she wrote.

About $483 million of the $1.4 billion comes from anticipated new revenues the city is expected to raise from higher bus fares over the next decade, steeper parking ticket fees (which already have been implemented) and other initiatives. Additional cost savings of $358 million included in the plan are expected from establishing a more efficient city government.

Expert reports prepared by Detroit's restructuring consultants lay the challenges bare. The city's population is expected to continue to decline by 1.3% a year through 2020, dipping to 610,000 by 2025 before possibly increasing to 641,000 by 2053.

The expert reports also project continuing declines in residential property values, leavened by the city improving its property-tax collection rate to 70% by 2020, up from about 50% now. At the same time, employment in the city is expected to fall 0.5% to 1% a year through 2021, while Detroit's industrial taxable value is projected to decline 12% from 2013 through 2023.

With so much of the plan's funding dependent on reforming city government amid a difficult economic climate, the question becomes: Will elected officials in a city with a poor track record of making hard financial decisions be able to make the tough, fair choices necessary to improve the city's operations and follow Orr's blueprint?

It's a significant question as Detroit's elected leaders prepare to take back control of the city by the time Rhodes rules on the plan. Orr's appointment as emergency manager — a role that gives him the powers of both the mayor and the City Council — is expected to end Sept. 27, although it's possible Orr will stay on in an undefined role as Detroit emerges from bankruptcy.

Anticipating Orr's exit, Rhodes said city leaders must show during the trial that they are committed to the plan.

"We absolutely do not want to get to a place where we have a plan that's confirmed that obligates the city to make certain payments and Mr. Orr is no longer in office and whoever's running the city at that point in time doesn't support the plan," Rhodes said in an April hearing.

Mayor Mike Duggan and City Council President Brenda Jones are expected to testify as a result of Rhodes' concerns. Both were questioned extensively about their support of Orr's plan during depositions involving lawyers for Syncora Guarantee, a bond insurer objecting to the plan.

Although she has voted against some of Orr's initiatives — the lease of Belle Isle to the state, the privatization of trash pickup, and a new Joe Louis Arena lease, to name a few — Jones said she supports the plan.

Duggan, asked during his deposition whether the plan is achievable, said it would "be challenging, but yes."

"There's a, you know, an enormous amount of challenge," he testified, according to transcripts the Free Press obtained. "The city government has not proven an ability to manage things, so there's the obvious ones like national recessions or cuts in state funding that aren't projected now."

One level of protection against misspending or excessive borrowing that landed Detroit in bankruptcy will be a state oversight board that will have significant control over the city's finances and contracts for 13 years, which the Legislature required when it approved chipping in $195 million to the grand bargain that reduces pension cuts to Detroit retirees and spares the Detroit Institute of Arts from having to sell its assets.

Even so, Jim McTevia, a turnaround management adviser at McTevia & Associates in Bingham Farms, said politics — or the inability to set them aside — will be among the biggest obstacles the city faces.

Unlike with corporate turnarounds, where decisions are made strictly on numbers and realistic projections, "the political nature of the city makes it different," McTevia said. "Politics has consistently gotten in the middle of the way of sound fiscal management."

Anthony Minghine, chief operating officer of the Michigan Municipal League, a resource and advocacy group for the state's cities, said he has sensed an understanding among Duggan and the City Council that remaking Detroit will require "a complete change in philosophy and how things have been for a long time."

He also said that, while it will be a challenge for Detroit to meet terms of the city's bankruptcy exit plan, what the city is embarking on isn't something cities elsewhere don't already do.

"They're not reinventing the wheel; they're copying it," he said. "We know it can be done."

But Peter Hammer, a professor at Wayne State University's law school and director of its Damon J. Keith Center for Civil Rights, has been sharply critical of the plan of adjustment, saying it ignores some of the profound historical forces that bankrupted Detroit in the first place: deep economic and racial segregation that left a poor, majority-black city surrounded by wealthier, largely white suburbs.

The risk, Hammer said, is that the effort poured into restructuring Detroit will at best slow the city's spiral and not reverse it. Hammer said Kopacz's report went into detail about Detroit's pension liabilities and the city's lack of modern information technology, but it didn't delve deeply into issues including the city's real estate meltdown and its history of depopulation and corporate disinvestment.

"If you don't diagnose the problem correctly, you're not going to get the right solution," Hammer said. "And bankruptcy does not address the structural problems. It's inherently a balance sheet, and it doesn't capture the complexities of a living or dying city."

Orr spokesman Bill Nowling acknowledged the limitations of the plan, saying its primary purpose is to wipe out debt to give governments a "fighting chance to deal with the economic factors at play."

"We think taking the pressure of the immediate financial burden the city has built up over the decades off of the back of the budget and the elected leaders will give them the room to do that," he said. "But it's going to be ultimately up to the elected officials to come up with strategies and policies that address those issues."

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