

The issue of blight removal is critical because it has emerged as a key strategy in the city's efforts to improve its image in the eyes of the world. After decades of decline, Detroit now has tens of thousands of abandoned buildings, most of which will need to come down. Even if Detroit has used federal money to demolish about 4,000 structures, at least 90% of the task lies ahead.

On the upside, even with a funding bottleneck looming, Detroit remains well ahead of the pace of blight removal compared to just a year ago. Until Duggan became mayor, Detroit was demolishing about 1,000 to 2,000 derelict structures a year. In 2014, it razed about 3,500, thanks to increased funding from the federal "Hardest Hit" fund and a dramatically ramped up effort involving the Detroit Land Bank Authority, the Detroit Building Authority, private demolition contractors, and more.

The most optimistic projections now are that the city could demolish about 200 houses a week, or around 10,000 a year, but that pace is possible only when everything lines up right, including the weather and the availability of trained crews and equipment. Generally demolitions proceed at a more modest pace, such as during the winter.

Shortages of trained workers, trucks, bulldozers, and even enough clean dirt to fill the basements left behind after a house is demolished have challenged the city's efforts over the past year.

Last summer, demolition crews planned to use dirt scoured off the I-96 reconstruction project to fill up basement holes. But road salt deposited on the freeway over the years contaminated the dirt too much to meet legal standards for residential neighborhoods. Demolition crews have had to buy sand and other fill from quarries at increased cost and inconvenience.

Even something as simple as putting up fences around demolition sites can present challenges. One contractor complained last year that Detroit's notorious scrappers were stealing the metal stakes used to hold up the fences around work sites, slowing progress.

Duggan said later Thursday that while early versions of Detroit's bankruptcy plan of adjustment included specific funding for home demolition, those numbers were dropped in later amendments, and the final version relied on the city running surpluses of \$30 million to \$40 million a year to pay for blight removal.

He said there's no specific funding from the city budget in the early years for home demolition, which is why he's worked closely with the Obama administration to find additional federal money.

"We are working at this every day, but it's always going to be hard," Duggan said, given tight city budgets for the foreseeable future.

He said the city will continue to tear down 100-200 houses a week through August, and he's not fretting about what might happen if additional money doesn't come through.

"We're not focused on that right now," he said. "And if we don't get more, we will make the appropriate decisions."

By August, the city is expected to have torn down about 8,000 houses, still a fraction of the number that will have to be removed. Duggan said he expects the city will ultimately need to spend another \$400 million and about the same amount on blighted commercial and industrial properties. The city's bankruptcy plan never set aside money for demolition of non-residential buildings.

Duggan said the situation with funding for blight removal isn't likely to impact spending on other reinvestment initiatives in the bankruptcy plan, including upgraded citywide computers and information technology. Each of those investments is tied to expected revenue generated from improvements the investments will bring about, including cheaper operating costs and other efficiencies.

On Thursday, Duggan also responded to remarks this week by businessman Bill Pulte whose so-called Detroit Blight Authority has been demolishing houses in Pontiac. Pulte had demolished some houses and cleared vacant lots in Detroit last year before Duggan's administration asked him to stop.

Duggan told reporters Thursday that Pulte was demolishing a mere handful of houses a week in Detroit, far fewer than is needed and fewer than Duggan's own efforts have accomplished. And Duggan has said in the past it is important to coordinate all blight efforts under a central authority rather than having free-lance operators doing their own thing.

Pulte brought his blight removal activities to Pontiac, which has embraced him. He told the Free Press on Wednesday that he would return to Detroit, if invited back by Duggan. Pulte said he harbored "no ill will at all" toward Duggan.

"I wish him continued success on their blight program, (but) once he got into office he wanted control over it, and I understand that."



DETROIT FREE PRESS

EXHIBIT 6

Income Stabilization Benefit, which will be calculated in the first year following the Effective Date and will not increase thereafter, will be provided by the applicable Retirement System to each Eligible Pensioner. In addition, to the extent that an Eligible Pensioner's estimated adjusted annual household income (as determined by the applicable Retirement System) in any calendar year after the first year of the income stabilization program is less than 105% of the Federal Poverty Level for such year, the applicable Retirement System will distribute the Income Stabilization Benefit Plus to such Eligible Pensioner.

In the event that, in 2022 (provided that the State has not issued a certificate of default under the State Contribution Agreement with respect to GRS or PFRS, as applicable, at any time prior to 2022), it is the opinion of at least 75% of the independent members of the Investment Committee of GRS or PFRS, as applicable, that the Income Stabilization Fund of the applicable Retirement System is credited with Excess Assets, the respective Investment Committee may recommend that the Excess Assets, in an amount not to exceed \$35 million, be used to fund the Adjusted Pension Amounts payable by the applicable Retirement System. In the event that any funds remain in the Income Stabilization Fund of each or either of GRS or PFRS on the date upon which no Eligible Pensioners under the applicable Retirement System are living, such funds shall be used to fund the Adjusted Pension Amounts payable by the applicable Retirement System.

3. Conditions to State's Participation.

The payment of the State Contribution by the State or the State's authorized agent is conditioned upon satisfaction of the conditions precedent set forth in the State Contribution Agreement, including, among other things, the following: (a) the Confirmation Order becoming a Final Order no later than December 31, 2014, which Confirmation Order must contain certain provisions as set forth in the State Contribution Agreement, including a requirement that the governing documents of GRS and PFRS be amended to include (i) the governance terms and conditions set forth in the State Contribution Agreement and (ii) the Income Stabilization Funds and Income Stabilization Payments; (b) the occurrence of the Effective Date no later than April 1, 2015; (c) acceptance of the Plan by Classes 10 and 11, which Plan must be in form and substance reasonably acceptable to the State and contain certain release provisions; (d) the Retiree Committee's endorsement of the Plan, including a letter from the Retiree Committee recommending that Classes 10 and 11 vote in favor of the Plan, or equivalent assurances from member organizations representing a majority of retirees in Classes 10 and 11; (e) active support of the Plan by, a release of and covenant not to sue the State from, and an agreement not to support in any way the litigation described in subsection (f) of this Section by, the City, the Retiree Committee, the Retirement Systems and certain unions and retiree associations, or equivalent assurances of litigation finality; (f) cessation of all litigation, or equivalent assurances of finality of such litigation, including the cessation of funding of any litigation initiated by any other party, as it relates to the City, (i) challenging PA 436 or any actions taken pursuant to PA 436 or (ii) seeking to enforce Article IX, Section 24 of the Michigan Constitution; (g) evidence satisfactory to the State of an irrevocable commitment by the Foundations (excluding the Special Foundation Funders, as that term is defined in the DIA Settlement Documents) to fund \$366 million (or the net present value thereof) as part of the DIA Settlement, as provided in Section IV.E.1; and (h) evidence satisfactory to the State of an irrevocable commitment by DIA Corp. to fund \$100 million (or the net present value thereof) as part of the DIA Settlement, as provided in Section IV.E.1.

The State shall File and serve via the Court's electronic case filing and noticing system a notice that the conditions precedent to the State's payment of the State Contribution have been satisfied or otherwise addressed pursuant to the procedures outlined in the State Contribution Agreement no later than ten days after all such conditions have been satisfied or otherwise addressed.

4. Release of Claims Against the State and State Related Entities.

The State Contribution Agreement requires that the Plan provide for the release of the State and the State Related Entities by each holder of a Pension Claim from all Liabilities arising from or related to the City, the Chapter 9 Case, the Plan, all Exhibits, the Disclosure Statement, PA 436 and its predecessor or replacement statutes, and Article IX, Section 24 of the Michigan Constitution, as more particularly described in the State Contribution Agreement and as set forth at Section III.D.7.b.

E. The DIA Settlement.

On the Effective Date, the City and the DIA Corp. will enter into the DIA Settlement, pursuant to which (1) the DIA Funding Parties that are such as of the Effective Date have committed to assist in the funding of the City's restructured legacy pension obligations and (2) the City has agreed to enter into certain transactions that will cause the DIA to remain in the City in perpetuity, as described in and subject to the terms and conditions of the DIA Settlement Documents, and to otherwise make the DIA Assets available for the benefit of the residents of the City and the Counties and the citizens of the State. The DIA Settlement Documents attached hereto as Exhibit I.A.127 will qualify the description of the DIA Settlement in the Plan, Disclosure Statement and Exhibit I.A.126. The Plan shall be construed as a motion for approval of, and the Confirmation Order shall constitute an order approving, the DIA Settlement pursuant to Bankruptcy Rule 9019.

1. Funding Contributions.

The DIA Settlement will be funded as follows: (a) irrevocable commitments in an aggregate amount of at least \$366 million by the Foundations (excluding the Special Foundation Funders, as that term is defined in the DIA Settlement Documents); and (b) in addition to its continuing commitments outside of the DIA Settlement, irrevocable commitments in an aggregate amount of \$100 million from the DIA Direct Funders (including the commitment of the Special Foundation Funders, as that term is defined in the DIA Settlement Documents, and subject to certain adjustments as set forth in the DIA Settlement Documents), the payment of which \$100 million will be guaranteed by DIA Corp., subject to the terms of the DIA Settlement Documents. The foregoing commitments shall be funded over the course of the 20 year period immediately following the Effective Date (subject to the annual confirmation of the City's continuing compliance with the terms of the DIA Settlement) according to the "Agreed Required Minimum Schedule" and subject to the option at any time for the "Present Value Discount," as set forth in the DIA Settlement Documents. Amounts committed by the Foundations and the DIA Direct Funders will be paid to the CFSEM Supporting Organization, which will (a) transfer such amounts for the purpose of funding the Retirement Systems upon the City's satisfaction of certain conditions and (b) not be subject to claims of creditors of the Community Foundation for Southeast Michigan.

2. Transfer of DIA Assets.

On the Effective Date, the City shall irrevocably transfer all of its right, title and interest in and to the DIA Assets to DIA Corp., as trustee, to be held in perpetual charitable trust, and within the City limits, for the primary benefit of the residents of the City and the Counties and the citizens of the State.

3. Conditions to the DIA Funding Parties' Participation.

The DIA Funding Parties' participation in the DIA Settlement is conditioned upon, among other things, the following: (a) execution of the DIA Settlement Documents by each Foundation; (b) the irrevocable commitment from the DIA Corp. described in Section IV.E.1; (c) the acceptance of the Plan by Classes 10 and 11; (d) the irrevocable transfer by the City of the DIA Assets described in Section IV.E.2; (e) approval by the DIA's Board of Directors and the taking effect of the recommendation of the governance committee as described in Exhibit I.A.126; (f) the earmarking of all funds provided by the DIA Funding Parties towards the recoveries upon Pension Claims under the Plan for Holders of Claims in Classes 10 and 11; (g) the adoption of prospective governance and financial oversight mechanisms for the Retirement Systems that are reasonably satisfactory to the DIA Funding Parties; (h) the amendment by DIA Corp. and the art institute authority for each of Macomb County, Oakland County and Wayne County, Michigan of each art institute authority's respective service agreement so that the termination of the 1997 Operating Agreement between the City and DIA Corp. will not affect the art institute authorities' obligations under such agreements to pay millage proceeds to DIA Corp.; (i) the approval of the DIA Settlement by the Attorney General for the State; (j) the agreement of the State to provide the State Contribution; and (k) the City's agreement to indemnify and hold harmless the DIA Funding Parties and the CFSEM Supporting Organization and their Related Entities pursuant to, and in accordance with, the terms of the DIA Settlement Documents.

EXHIBIT 7

By MARY WILLIAMS WALSH, New York Times

February 25, 2015

First in Detroit, then in Stockton, Calif., and now in New Jersey, judges and other top officials are challenging the widespread belief that public pensions are untouchable.

Gov. Chris Christie of New Jersey delivered the latest blow on Tuesday, when he proposed to freeze that state's public pension plans and move workers into new ones intended not to overwhelm future budgets or impose open-ended demands on taxpayers.

The first crack came in Detroit, where a judge ruled that public pensions could, in fact, be reduced, at least in bankruptcy. Then, just a few weeks ago, an opinion by the bankruptcy judge for Stockton, which emerged from Chapter 9 on Wednesday, called California's mighty public pension system, Calpers, a bully for insisting in court that pension cuts were wholly out of the question.

Such dogma "encourages dysfunctional strategies," wrote the judge, Christopher Klein, chief judge of the United States Bankruptcy Court for the Eastern District of California. He said Calpers's legal arguments were invalid, and he concluded that it lacked standing to dominate the courtroom discussion the way it had. Stockton did not even seek permission to freeze its pension plans, but the judge nevertheless wrote that it was entitled to do so and went on to cite steps that struggling cities in general should take to trim their pension costs legally.

For starters, he recommended negotiating with their unions.

It may be sheer coincidence, but New Jersey seems have taken Judge Klein's instructions to heart, even though states cannot file for bankruptcy and thus lack that particular leverage. For months, a pension commission formed by Governor Christie has been working quietly with the New Jersey Education Association, normally one of the state's most litigious pension adversaries. By talking to each other instead of battling in court again, the two groups managed to find enough common ground to issue what they called a "road map" toward solving New Jersey's daunting pension problems.

Many details remain in flux, and the union took pains on Tuesday to say it was not endorsing Mr. Christie's full proposal and might never do so. But the road map identifies certain issues that are so important to New Jersey's teachers that the union is willing to consider a pension freeze if that is what it takes to fully protect its members from the state's looming pension collapse.

To appreciate how unusual it is for a state to propose a pension freeze, it helps to understand the "vested rights doctrine," the legal argument that public pension plans cannot be frozen or reduced. Most states uphold some form of this doctrine, though in some it is a matter of statute, in others it is enshrined in the constitution and in still others it stems from court precedent. Often, the provisions have been in place for decades and attracted little notice until recently, when baby boomers began to retire in large numbers, placing unexpected pressure on public pension funds and the state and local budgets that support them.

People have sometimes suggested freezing public pension plans to keep the hole from getting deeper. But officials usually say that is impossible, and few want to mount a costly test of the doctrine, especially because the judges who would decide such a case usually participate in public pension systems themselves.

Companies, by contrast, can legally freeze their pension plans and have been doing so for years. Since 1974, companies with pension plans have been governed by a single federal law, the Employee Retirement Income Security Act, or Erisa, which details how freezes must take place to pass legal muster. One basic requirement is that workers midway through their careers are entitled to keep whatever portion of a pension they managed to earn until the date of the freeze.

The states have long argued that because they are legal sovereigns, federal pension law does not apply to them. When states, cities and other local governments try to rein in pension costs, they often create new "tiers" of much smaller benefits for workers they expect to hire in the future, and call it a reform. But there is no freeze for existing workers, who keep accruing the same benefits as before.

In some places, it is increasingly clear that reducing benefits only for future hires does not save enough money to preserve overstretched pension plans, especially in places where retirees outnumber current workers.

The clearest solution is to curb benefit accruals, but that runs directly into the vested rights doctrine. Seeing no other way out, officials often resort to issuing bonds to obtain cash for their pension funds, a risky strategy that has failed in Detroit, Stockton and other places.

Detroit issued such debt in 2005, responding to what seemed a particularly strong rule against tampering with public pension plans: an explicit constitutional provision to that effect.

But Detroit's bankruptcy judge, Steven W. Rhodes, ruled that the state constitutional protection was not in force while the city sought a fresh start under Chapter 9 of the bankruptcy code. In addition to cutting part of the retirees' pensions, Detroit froze its existing pension plan and shifted its workers into a new plan that is supposed to have limited ability to tap taxpayers for any investment losses.

Judge Rhodes's ruling was groundbreaking and so unnerved Calpers over 2,000 miles away that it immediately issued a statement that it had no bearing in California. Unlike Detroit, which operated its own pension fund, many cities and other local governments in California participate in big pooled pension systems, the largest of which is Calpers. Once they join, Calpers makes it extremely difficult to withdraw, demanding a huge termination payment. It also claims to have an enforceable lien it would use to seize the assets of any city that tried to leave without paying.

In his legal analysis in the Stockton case, Judge Klein dissected Calpers's lien and found that it was flawed and unenforceable in any municipal bankruptcy.

"The bully may have an iron fist, but it also turns out to have a glass jaw," he wrote.

His opinion seems likely to play a role in other fiscal hot spots. Already, two creditors have referred to it in the continuing bankruptcy case of San Bernardino, Calif. The creditors, a European bank known as E.E.P.K. and the bond insurer Ambac Assurance, are arguing that the city is playing favorites, something not allowed in bankruptcy, where sacrifices are supposed to be roughly equal. Specifically, San Bernardino has been paying its bills to Calpers while leaving E.E.P.K. and Ambac in the lurch.

And while bankruptcy is limited to cities, the ruling may also inform a pension battle in Illinois, where in November a county judge found that a state-led effort to restructure its ailing pension system was illegal because of a constitutional provision that says: "Membership in any pension or retirement system of the state" or its instrumentalities "shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

The state's attorney general, Lisa Madigan, is appealing that decision, arguing in essence that public pensions can in fact be reduced in Illinois, despite what the constitution says, if that is what it takes "to protect the general public welfare."

"This is one of those things where there's a learning curve," said Karol K. Denniston, a bankruptcy lawyer with Squire Patton Boggs in San Francisco who represented a local taxpayer group in Stockton's case. "People will try things that don't work quite right at first, then build on them. We've added to the municipalities' tool kit."

EXHIBIT 8

EXHIBIT 8

No. 118585

IN THE
SUPREME COURT OF ILLINOIS

IN RE:	)	Appeal from the Circuit Court for the
	)	Seventh Judicial Circuit, Sangamon
PENSION REFORM LITIGATION	)	County, Illinois,
	)	Sangamon County Case Nos. 2014
	)	MR 1, 2014 CH 3, and 2014 CH 48;
	)	Cook County Case No. 2013 CH
	)	28406; and Champaign County Case
	)	No. 2014 MR 207 (consolidated
	)	pursuant to Supreme Court Rule 384)
)	
	)	The Honorable
	)	JOHN W. BELZ,
)	Judge Presiding

(Full caption on following pages)

BRIEF FOR DEFENDANTS-APPELLANTS

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ORAL ARGUMENT REQUESTED

No. 118585

IN THE
SUPREME COURT OF ILLINOIS

IN RE: PENSION REFORM LITIGATION)	No. 2014 MR 1
	)	Honorable
	)	JOHN W. BELZ

DORIS HEATON, PAMELA KELLER, KENNETH LEE, HATTIE DOYLE, JOHN SAWYER III, LANCE LANDECK, KYLE THOMPSON, and MICHAEL SCHIFFMAN, on behalf of themselves and a class of similarly situated persons,)	
Plaintiffs-Appellees,	)	Originally Filed as
v.	)	Cook County Case
PAT QUINN, in his capacity as Governor of the State of Illinois, JUDY BAAR TOPINKA, in her capacity as Comptroller of the State of Illinois, and THE BOARD OF TRUSTEES OF THE TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS,	)	No. 2013 CH 28406
Defendants-Appellants.)	

RETIRED STATE EMPLOYEES ASS'N RETIREES, Lawrence Wort, Gladys Hajek, Linda Gueldener, and Mureen Richter, for themselves and on behalf of a class of persons similarly situated,)	
Plaintiffs-Appellees,	)	Originally Filed as
v.	)	Sangamon County
PATRICK QUINN, in his capacity as Governor of the State of Illinois, JUDY BAAR TOPINKA, Comptroller of the State of Illinois, DAN RUTHERFORD, Treasurer of State of Illinois, and THE BOARD OF TRUSTEES OF THE STATE EMPLOYEES RETIREMENT SYSTEM,	)	Case No. 2014 MR 1
Defendants-Appellants.)	

inconsistent with the plain meaning of the Clause.

First, Plaintiffs' argument depends upon a misreading of the Pension Clause. The Clause says that membership in a public pension system is a contractual relationship, "the benefits of which shall not be diminished or impaired." Ill. Const. art. XIII, § 5 (emphasis added). The latter phrase is part of a dependent clause that relates back to the "contractual relationship" the Pension Clause establishes. In other words, the benefits that may not be "diminished or impaired" are the benefits of the "contractual relationship" — a relationship that, as a matter of settled law, is inherently limited by the State's police powers. Just as clearly, the Clause does not say that the benefits of membership *themselves* shall not be diminished or impaired. Plaintiffs' effort to elide the distinction that the Clause makes is nothing less than a refusal to acknowledge its plain and unambiguous meaning.

Second, Plaintiffs below claimed that their reading is necessary to avoid surplusage. C2287. But under Plaintiffs' reading, the Clause's crucial mention of "enforceable contractual relationships" itself becomes surplusage. If the benefits of membership in a public pension system cannot be diminished or impaired in the absolute way Plaintiffs suggest, there is no need to describe them as part of an "enforceable contractual relationship." In fact, calling those benefits absolute is actually *inconsistent* with calling it an "enforceable contractual relationship" and indeed raises more questions than it answers. For example, a contractual relationship can be renegotiated. But if that renegotiation involved the reduction of future pension benefits, even if in exchange for valuable consideration, Plaintiffs would apparently treat the new arrangement as unconstitutional. After all, the new agreement would "diminish or impair" the

pension benefits. So for the Pension Clause to truly give effect to its promise of “enforceable contractual relationships,” Plaintiffs’ reading of it cannot stand.

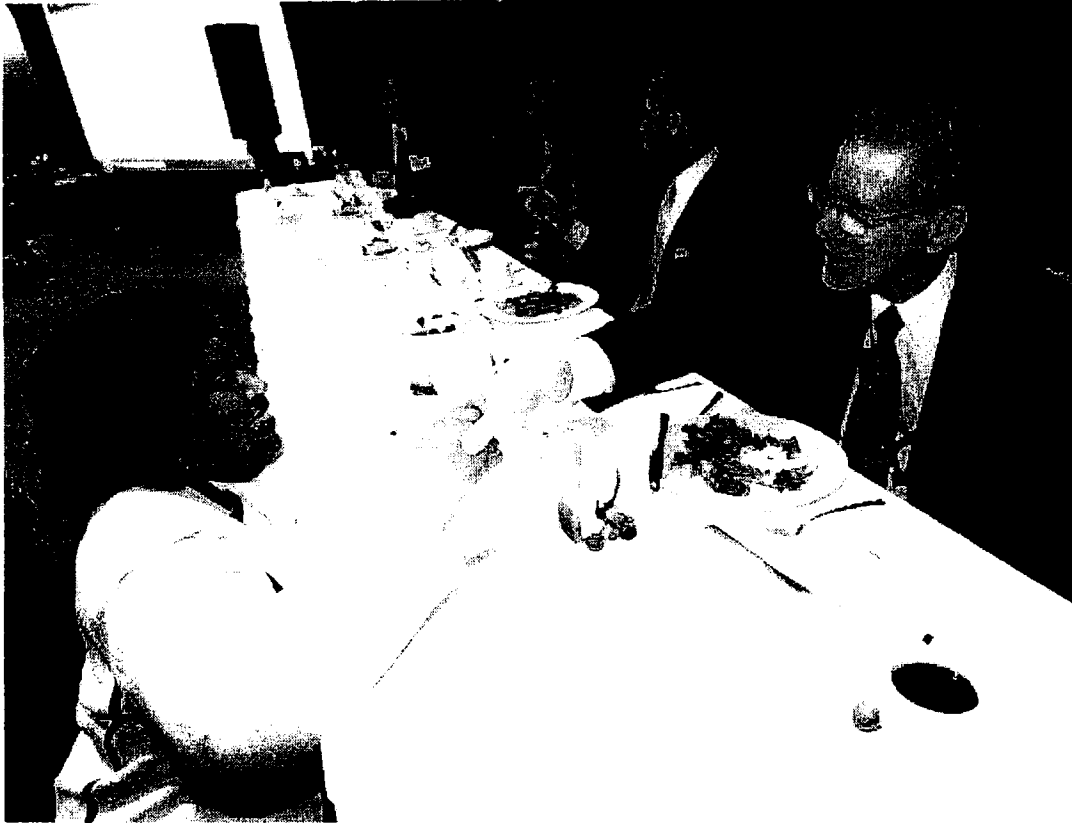
Third, Plaintiffs below also separately claimed that the word “diminished” must be given a meaning that is distinct from the word “impaired,” and that the word “diminished” must be understood to establish an absolute protection. C2236. Besides having the same surplusage problem as the prior argument, this argument also fails because, in fact, the phrase “diminished and impaired” does *not* refer to two different things, and as already explained, *supra* Part II.A.1., “impaired” in reference to contracts unquestionably allows for the exercise of police powers. For this reason, the court in *In re City of Detroit*, rejected a virtually indistinguishable claim. 504 B.R. 97 (Bankr. E.D. Mich. 2013). There, pension plans for the City of Detroit sought to avoid the bankruptcy court’s power to modify obligations to system members by “asserting that under the Michigan Constitution, pension debt has greater protection than ordinary contract debt.” *Id.* at 150. The plans linked their view to a distinction in the Michigan Constitution between a constitutional provision stating that “pension rights may not be ‘impaired or diminished,’” and a provision stating that contractual rights were protected only from laws “impairing” them. *Id.* at 151. Rejecting that argument, the court held that the purpose and effect of the Michigan Constitution was to give the status of a “contractual right” to public pensions that, as in Illinois, *see infra*, were formerly treated as “gratuitous allowances that could be revoked at will.” *Id.* at 151-53. As a result, the court held, there was, “linguistically, . . . no functional difference in meaning between ‘impair’ and ‘impair or diminish.’” *Id.* at 152. The same reasoning applies here.

Indeed, the law, including cases from both this Court and the United States Supreme Court often uses “diminish” and “impair” interchangeably. For example, in *Allied Structural Steel Company*, the United States Supreme Court treated the terms as interchangeable by rejecting the view that the Contracts Clause, which prohibits *impairing* the obligations of contracts, “forbids only state laws that *diminish* the duties of a contractual obligor and not laws that increase them.” 438 U.S. at 244 n.16 (emphasis added). As the Court explained an increase on one side of the contract would necessarily be a diminishment on the other, thus impairing the contract. *Id.* Similarly, a pre-1970 Illinois Supreme Court decision held that a law violated the constitutional protection against the impairment of contractual obligations because it “diminishe[d]” the obligor’s performance. *Geweke v. Vill. of Niles*, 368 Ill. 463, 466 (1938). *See also Black’s Law Dictionary* (9th ed., 2009) (defining “impair” as “to *diminish* the value of (property or property right)” and noting that “impair is commonly used in reference to *diminishing* the value of” contract rights) (emphasis added). Moreover, Illinois’ provision was borrowed from New York, which had added a virtually identical Clause to its Constitution in 1938. And before 1938, the expression “diminish or impair” was used in New York law to convey a unitary meaning (like the expressions “cease and desist,” “aid and abet,” or “free and clear”), not two separate meanings. *See, e.g., Metro. Trust Co. v. Tonawanda Valley & C.R. Co.*, 8 N.E. 488, 489 (N.Y. 1886); *Eddy v. London Assur. Corp.*, 38 N.E. 307, 311 (N.Y. 1894). Thus, the Illinois Pension Clause neither requires nor allows the construction Plaintiffs advocate.

EXHIBIT 9

Rhodes: Pension plans too costly for cities

Christine Ferretti and Chad Livengood, The Detroit News 7:29 p.m. EST February 25, 2015



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Detroit City Council President Brenda Jones shakes hands with retired U.S. Bankruptcy Judge Steven Rhodes during the luncheon "2014 Newsmakers of the Year," luncheon hosted Wednesday by Crain's Detroit Business at MotorCity Casino hotel. (Photo: Todd McInturf / The Detroit News) Buy Photo

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Detroit -- The bankruptcy judge who green-lighted reductions in pensions and health insurance for more than 32,000 Detroit retirees said Wednesday he's "deeply concerned" about the unfunded liabilities other cities are saddled with.

Retired U.S. Bankruptcy Judge Steven Rhodes said Detroit and other cities need to consider moving away from costly pension plans and transition employees on to 401(k)-style defined contribution retirement plans.

Rhodes cited publicized estimates that American municipalities have unfunded pension liabilities ranging between \$1 trillion and \$4 trillion.

"It flies largely under the radar and it doesn't get a lot of attention and it doesn't get a lot of management and I'm deeply concerned about that." Rhodes said. "Because that's money cities don't have that they have promised to their retirees and I think that solution across the country, and including in Detroit, has to be at some point defined contribution (plans)."

Rhodes made the comments Wednesday during the annual Crain's Detroit Business "Newsmakers of the Year" luncheon at MotorCity Casino that honored his work in Detroit's historic bankruptcy, as well as that of former Emergency Manager Kevyn Orr.

Detroit's bankruptcy restructuring plan cut pensions for non-uniform retirees by a minimum of 4.5 percent and reduced inflationary cost-of-living increases for retired police officers and firefighters. The reduced benefits will begin showing up in retirees' pension checks in March. But the plan keeps in place a hybrid pension plan that requires new employees to contribute more to their retirement.

Rhodes suggested Detroit missed a chance to get out of the pension business altogether during the bankruptcy, which officially ended in December after the judge approved Orr's restructuring plan in November.



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Several retired City of Detroit workers protest outside the MotorCity Casino Hotel where retired U.S. Bankruptcy Judge Steven Rhodes and former Detroit Emergency Manager Kevyn Orr were honored Wednesday as "2014 Newsmakers of the Year," by Crain's Detroit Business (Photo: Todd McInturf / The Detroit News)

Orr shared the stage with Rhodes and the bankruptcy's chief mediator, Chief U.S. District Court Judge Gerald Rosen and defended his decision not to pursue a 401K plan for city workers.

"Was it a missed opportunity? I don't think so," Orr said. "Our general services pensions are modest, \$19,400 (per person) on average."

Police and firefighters get pensions that average about \$25,000 a year, but they also are not eligible to collect Social Security like other retirees.

With Rhodes' permission, Detroit was able to reduce its \$3.13 billion unfunded pension liability by 54 percent to \$1.45 billion through reduced benefits and the 20-year "grand bargain" infusion of \$816 million in contributions from state taxpayers, private foundations and Detroit Institute of Arts donors. The city used the bankruptcy process to slash its promised retiree health insurance benefits from \$4.3 billion to \$450 million.

Rosen, the architect of the "grand bargain," noted bankruptcy negotiations produced more conservative assumptions for investment returns from the city's two pension plans. The restructuring plan assumes 6.75 percent in investment returns, down from the previous assumption of 8 percent.

"We did make progress," Rosen said. "It's a bit inaccurate to say we didn't take advantage of it."

The three men, who were central figures in shepherding Detroit through an expeditious Chapter 9 bankruptcy, reflected on the case and its implications for the city, state and country during the Crain's event, which drew about 450 people, including city and creditor attorneys who were involved in the 17-month-long case.

Before the luncheon, Orr joked that he feels like a "parolee" after stepping out of the spotlight from his role guiding the city through the bankruptcy.

"The pressures that I was feeling in doing my job was nothing (compared) to the uncertainty of folks that depended upon their retirement income, health care," said Orr, who is now consulting for an emergency manager in Atlantic City, N.J.

Challenged by the impact of the bankruptcy on the lives of Detroit's 680,000 residents, Rhodes invited members of the public to air their views in court on Orr's debt-cutting plan.

"It was as much a political case as a legal case," Rhodes said. "... The residents of the city had a great stake in outcome of the case, a personal stake, each and every one of them. ... This is something that we in the bankruptcy court are totally unfamiliar with."

Rosen revealed that at the outset of the bankruptcy, he set a goal of forging to get Detroit out of bankruptcy by July 18, 2014 — one year after the city filed for Chapter 9 protection.

"I thought that would have a nice symmetry to it because of the one-year anniversary," Rosen said.

At Rhodes' urging, Detroit's bankruptcy reorganization spurred a deal between city and suburban leaders to regionalize the governance of Detroit's water and sewerage department — one component that remains unfinished.

"We have to find a way to build upon the momentum for regional cooperation ...," Rhodes said. "I think that is essential to the ultimate success of the city, and the region and the state."

Rhodes added that he's "very optimistic and enthusiastic about the city's future."

"All of the ingredients for success are there," Rhodes said. "The balance sheet has been fixed."

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