

Bankruptcy firms to collect huge fees from Detroit

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In the wake of the Detroit bankruptcy the city is being saddled with tens of millions of dollars in legal fees from corporate law firms. The huge bills further belie the claim that the formal end of bankruptcy will lead to the provision of more money for services and a general revival of the city.

The legal fees add insult to injury to the people of Detroit, who are being robbed of livelihoods and basic services in the interest of handing over huge sums to the bankers, bondholders and speculators.

In an article appearing in the *Detroit News* last week it was revealed that the city of Detroit owes \$28 million in outstanding legal fees alone to investment banking firm Miller Buckfire & Co. for its work in preparing transactions relating to the “monetization” of city assets, including the Detroit Water and Sewerage Department (DWSD), and refinancing of the city’s debt.

However, the Miller Buckfire tab is only one of the legal bills that Detroit must pay out. Jones Day, the old law firm of former Detroit Emergency Manager Kevyn Orr, billed the city \$52.3 million for services as of late October. Accounting firm Ernst & Young billed \$19.9 million and Conway MacKenzie rang up \$17.2 million.

Detroit Mayor Mike Duggan has admitted that total legal fees will be more than \$177 million. As of October, \$130 million had already been paid out by the city.

Judge Steven Rhodes, the US bankruptcy judge who oversaw Detroit’s Chapter 9 filing, gave the Mayor’s office authority to challenge the legal bills, but Duggan claimed not to be able to make a public statement. “We are in mediation and I’m under a gag order,” Duggan said. “I’ve expressed my opinion that I think the bills are too high, that they need to come down. There are huge dollars at stake.”

The \$28 million fee for Miller Buckfire is the result of an “Amended and restated change order” signed by Orr and Kenneth Buckfire in June of this year. The “Services to be Performed” are specified in broad terms, but include the monetization of the DWSD and restructuring of city debt.

Last January Kenneth Buckfire outlined his monetization strategy for the DWSD, declaring, “The only way is to sell it or privatize it. Several private equity firms have expressed interest, but only if they can charge higher rates.”

The first step in the privatization of the water department has already been implemented, with the DWSD put under the control of a regional authority thus side-stepping the municipal legal protections on water rate increases and privatization.

Orr’s spokesman, Bill Nowling defended the huge legal bill: “That’s for the work that they have performed and haven’t been paid for yet. The billings are consistent with the contract and the level of service they have provided,” adding that Miller Buckfire charges were below “market rate for restructuring city services.”

Nowling claimed that the charge would have been more than \$100 million if Detroit were a typical customer, asserting that Miller Buckfire saved Detroit more than \$1 billion in interest payments through restructuring its finances.

It should be pointed out that the law firms pocketing huge payouts from the bankruptcy were the very enterprises involved in the criminal conspiracy to throw the city into Chapter 9 in the first place. As early as 2011 Jones Day attorneys published an article suggesting that federal bankruptcy law could be used to cut constitutionally protected public employee retiree pensions. In 2012 the state of Michigan hired both

Miller Buckfire and the Jones Day law firm in preparation for an eventual bankruptcy filing by Detroit. Jones Day went on to “pitch” the state on how a bankruptcy filing by the city of Detroit could be used to slash pensions.

Meanwhile, the 21,000 active retirees who earn an average of a paltry \$19,000 per year are seeing their pensions reduced by some \$18 million a year and are having cost of living frozen. The so called claw-backs of annuities savings and cuts to retiree health care amount to even greater sacrifices.



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