Creditors File Objections to Detroit Bankruptcy

by Joel R. Glucksman on August 30, 2013

More than 100 objections have been filed by creditors, opposing the eligibility of Detroit to file Chapter 9 municipal bankruptcy of U.S. bankruptcy law. This is a development that may add significant complexity to the question of whether the struggling city will be permitted to move forward with its bankruptcy reorganization proceedings.

Creditors, unions, and retiree groups have all moved before U.S. Bankruptcy Judge Steven Rhodes in opposition to Detroit's right to be in bankruptcy court under Chapter 9 of the Bankruptcy Code. In addition to large banks and bondholders who are fighting the bankruptcy, individual creditors who are afraid of losing their pensions also appeared at the courthouse on Monday to announce their objections.

The American Federation of State, County & Municipal Employees Michigan Council 25, along with city retirees, argued that the city law which gives emergency managers the authority to make bankruptcy decisions violates the state constitution, which favors pension rights above all else. In addition, the groups claim that Emergency Manager Kevyn Orr failed to prove that the city is insolvent or make a "good faith" effort to resolve issues with creditors - two criteria that must be met before a city can qualify for municipal bankruptcy under Chapter 9.

Retirees were particularly vocal about the proceedings, noting that if Detroit is permitted to proceed with bankruptcy and slash pension rights, it will give other ailing cities more fuel to take the same course of action.

"The city of Detroit has too many assets to be bankrupt," wrote Detroit retiree and pension holder Olivia Gillon in her objection, according to the Detroit Free Press. "Detroit is no different than hundreds of other American cities that are cash strapped and want to get their hands on retiree pension funds. If the federal court allows our pension fund to be raided, it will open a flood gate for hundreds of other cities."