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Fitch Ratings: Detroit Debt Adjustment Plan 'Hostile' to Bondholders.

DETROIT, MI - Fitch Ratings said Monday that Detroit's bankruptcy adjustment plan sets a bad precedent for the municipal bond market because it favors certain debts over others as it seeks to alleviate up to \$18 billion in obligations.

Fitch said the plan, filed in bankruptcy court Friday, gives preferential treatment to pension-related creditors

"The plan calls for pension creditors to receive a higher recovery, based upon approximately \$830 million of contributions from private foundations, the Detroit Institute of Art (DIA) and the state," Fitch said in a release. "These contributions are proposed in order to avoid the liquidation of a particular city asset, the DIA art. These payments, however, are restricted for the benefit of only one class of unsecured creditor, the pension creditors, rather than for all creditors, as might have been expected."

Fitch also took issue with the plan's treatment of unlimited tax general obligation bonds as "unsecured." Insurers of those bonds have already sued the city.

The full statement from Fitch is below.

The adjustment plan is a proposed route for addressing Detroit's massive debt. U.S. Bankruptcy Judge Steven Rhodes will have final say over whether the plan goes forward.

Detroit Emergency Manager Kevyn Orr, appointed by the state to take over Detroit government last year, took the city into bankruptcy proceedings in July 2013.

The bulk of the city's debt, according to Orr's estimates, lies in obligations tied to the water department - about \$6 billion, retiree pensions and health care - about \$9.2 billion, and general obligation bonds - about \$2 billion.

Here's the full statement from Fitch Ratings:

"Fitch Ratings believes the recent Detroit plan of adjustment (the plan) filed with the Bankruptcy Court on Friday, Feb. 21, 2013, if confirmed, would set a troubling precedent in the municipal market. The plan not only classifies unlimited tax general obligation (ULTGO) bonds as 'unsecured,' but further degrades ULTGO value by giving other similarly classed 'unsecured' creditors preferential treatment, including unfunded pension and retiree healthcare liabilities. The city's choice to treat ULTGO bonds as unsecured is particularly concerning, as they are backed by a separate property tax approved by the voters for the sole purpose of paying debt service on the bonds.

The judge in the case ruled last month that nothing distinguishes pensions from other debts, but the city and state are taking a different tack. The plan calls for pension creditors to receive a higher

recovery, based upon approximately \$830 million of contributions from private foundations, the Detroit Institute of Art (DIA) and the state. These contributions are proposed in order to avoid the liquidation of a particular city asset, the DIA art. These payments, however, are restricted for the benefit of only one class of unsecured creditor, the pension creditors, rather than for all creditors, as might have been expected.

Fitch also finds troubling the city's legal attempt to invalidate the certificate of participation (COP) debt, which would further skew the equitableness of the plan away from debtholders' interests. The plan includes reducing COPs recovery to zero while remaining silent on whether or not the pension system, which benefited from the sale of the COPs, would return any of the borrowed assets.

Fitch considers Detroit's plan of adjustment to be hostile to GO bondholders. If this priority of creditors is upheld, Fitch expects that this disregard for the rights of bondholders will factor into higher borrowing costs for local issuers, and ultimately for local property taxpayers, in Michigan."

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