Bond Case Briefs

Municipal Finance Law Since 1971

This ‘Insanity’ May Be the Muni-Bond Market's Next Big Thing.

- **City bets investment profits from bonds will fund health care**
- **Tactic has been used widely for pensions, with mixed results**

It’s a “considerable risk,” a “bad idea,” or, as one expert put it, “insanity.” And it may be the next big pitch Wall Street bond underwriters make to states and cities desperate to cover ballooning health-care costs.

Dearborn, Michigan, the 94,000-resident city that’s home to Ford Motor Co., tested the waters this week by selling $35 million of bonds to chip away at the $161 million it needs to cover the medical bills of workers who will retire in the years ahead. The city is betting that by investing the proceeds it will earn more than it will pay in interest, with the profits helping to cover health-care expenses.

Many states and cities have used the same strategy for their pensions, and Chicago Mayor Rahm Emanuel Wednesday proposed a $10 billion debt sale for the city’s ailing retirement system. Some have came out ahead. Others were burned by stock market losses or because the temporary boost allowed governments to cut their annual pension payments. Illinois, New Jersey and Puerto Rico borrowed billions only to see the large shortfalls reappear.

Continue reading.

Bloomberg Markets

By Amanda Albright

December 13, 2018