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WSJ: Detroit Debt Proposal Favors Pension Funds.

Rate to Resolve Obligations Would Be Roughly Double That of Bondholders

DETROIT—This bankrupt city is proposing to favor pension funds at roughly double the rate of bondholders to resolve an estimated $18 billion in long-term obligations, according to a draft of a debt-cutting plan reviewed by The Wall Street Journal.

The plan's balance-sheet projections show the base scenario designed by the city calls for $4.2 billion to be divvied up among the city's unsecured creditors, including some bondholders and the city's pension funds. The pot of money would be divided to allow Detroit's two municipal pension funds to recover more than 40% of the money the city says they are owed. In contrast, less than 20% of the money owed to unsecured bondholders would be paid.

If the city completes a deal to lease its water and sewerage department to a new regional authority with its suburbs, the recovery for pension funds and bondholders would grow slightly. Leasing the water department would bring about $339 million to the city, according to the plan.

In its July municipal bankruptcy filing, the largest such case in the nation's history,, the city reported about $11 billion in unsecured debt, including $6 billion in health and other benefits for retirees; $3.5 billion for retiree pensions; and about $530 million in general-obligation bonds. City officials said at the time it would have about $2 billion to resolve those obligations.

It was unclear from the plan reviewed by the Journal whether the city is using all of the same estimates for the money owed to unsecured creditors in its draft plan. A person familiar with the draft plan said the recovery rate for the pension funds could end lower than the balance sheet shows.

Details of the plan sent to creditors on Wednesday have been kept under wraps as the city and its debtholders continue to talk in closed-door mediation. The city sent its working draft to creditors in the hopes that the plan with a richer payout might spur some of them to settle with the city individually or, in the least, offer their own suggestions toward modifying the overall proposal, according to another person familiar with the matter.

So far, the plan which is considered to be a rough draft,doesn't include any major settlements with the city's creditors. But it could be more welcome news for unions and pension funds if they agree to settle.

The proposal appears to bake in pledges from the state and private groups for more than $800 million to save Detroit's art collection and help pay off the city's pension obligations. The city, however, is still speaking with debtholders, unions and pension funds, seeking their agreement, which is required by the state and foundations. Detroit's suburbs are also balking over paying to move the city-owned water system into a regional authority they would help control.

The formal plan is expected to be filed in federal court in Detroit within two weeks, officials said.

Creditors will vote on the plan, but the final decision rests with the court.

“The proposed plan provides the road map for all parties to resolve all outstanding issues and facilitate the city’s efforts to achieve long-term financial health,” Detroit Emergency Manager Kevyn Orr said in a statement Wednesday. Mr. Orr’s spokesman declined Thursday to comment on the plan’s details. Several creditors, who were opposed to the city’s early plans to offer creditors, including bondholders and pension funds, less than 20 cents on the dollars owed to them, also declined to comment.

The plan could be key for more than 20,000 on city pensions after U.S. Bankruptcy Judge Steven Rhodes ruled pensions aren’t entitled to special protection from potential cuts, despite a Michigan state constitutional provision aimed at shielding pensions. Unions and pension funds argued the pensions essentially were untouchable and have appealed the judge’s ruling.

By MATTHEW DOLAN