Bond Case Briefs

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Bloomberg: Detroit Files Plan to Resolve $18 Billion Bankruptcy.

Detroit's latest plan to reduce its $18 billion debt load and exit bankruptcy guarantees police and firefighters at least 90 percent of their pensions, while giving bondholders only about 20 percent of what they are owed.

The city's debt-adjustment plan, filed today in U.S. Bankruptcy Court in Detroit, provides more details for creditors, who saw an early draft of the proposal last month.

With the filing, Detroit begins a new, potentially more litigious phase of the biggest U.S. municipal bankruptcy. Unless confidential mediation sessions produce settlements, U.S. Bankruptcy Judge Steven Rhodes will be asked to approve the plan over creditor objections, including those from unions that lashed out at the city today.

"The proposed plan of adjustment is a gut punch to Detroit city workers and retirees," the American Federation of State, County and Municipal Employees said in a statement. "Retirees cannot survive these huge cuts to the pensions they earned. The plan is unfair and unacceptable."

Under the plan, the city's retired general employees, represented by AFSCME, wouldn't get as much as police and firefighters. If Rhodes approves the plan as-is, the general workers would be forced to take 66 percent of their current pensions. If the workers voluntarily accept the proposal, they would get 74 percent, and police and firefighters 96 percent, according to the filing.

Retiree Committee

A committee approved by Rhodes to represent more than 23,500 retired city workers in the case also condemned the plan, claiming in a statement that the proposal would force 20 percent of current city retirees into poverty in the next 10 years.

The new plan reduces what the city said last month it would pay investors who hold two types of general obligation bonds. The limited and unlimited versions of the bonds would be paid only 20 percent of about $539 million outstanding, down from a maximum of 31 percent and 48 percent respectively.

Bond insurers, who would be expected to pay any losses on the bonds they back, have sued the city, arguing that the debt is guaranteed by property taxes and should have a higher repayment priority than other creditors, such as retired city workers.

The proposal doesn't include any cash for creditors from a potential new source of money, the creation of a Great Lakes Water and Sewer Authority, which would take over those responsibilities from the city. Detroit has said it wants to create the authority and then lease its water and sewer operations to it to boost creditor recoveries.

Water Bonds

Under the plan the city would fully repay water and sewer bonds, as well as other debt that is backed by collateral.

Detroit water bonds maturing in July 2034 traded today at 94.5 cents on the dollar, the highest since July 17, the day before the city's bankruptcy filing, according to data compiled by Bloomberg. Yesterday the debt exchanged hands 20 times, the most since July 23, the data show. The securities are insured by Assured Guaranty Municipal Corp.

Detroit filed for bankruptcy on July 18 after decades of decline, saying it couldn't pay creditors while also providing basic services. The city's emergency manager, Kevyn Orr, set an aggressive timetable for the case, seeking to finish by September 2014, when he can be removed from his post by the City Council.

Auto Center

Once the center of the U.S. auto industry, Detroit has seen factory jobs dwindle in recent decades. During the financial crisis, General Motors Co. and Chrysler Group LLC went through bankruptcies of their own. Both companies have since reorganized and are thriving again, while the city continues to cope with broken streetlights, blighted neighborhoods and overstretched emergency services.

The plan is meant to both cut debt and reinvest in the city, Orr said in a statement. Under the proposal, Detroit would spend $1.5 billion over 10 years on capital improvements and equipment and technology upgrades. As much as $500 million of that would be spent in the next five years on blight removal in a city with tens of thousands of abandoned properties.

Rhodes initially must decide whether the proposal contains enough information for creditors to vote on it. In court on Feb. 19, the judge said he expected the city to keep talking to creditors even after a plan was filed.

More Talks

"Mediation won't be over until every last single issue has been settled or decided by me," Rhodes warned the parties this week during a court hearing. "Maybe even it will continue until the case is on appeal."

Rhodes encouraged the city to reach an agreement over what priority to assign some bond debt. If the judge is forced to rule on the matter, he may choose to lump the bondholders in with other unsecured creditors, such as pension funds and suppliers, a precedent that could make it costlier for other municipalities to raise money.

In December, Rhodes found the city eligible for bankruptcy protection, overruling the unions that want the case dismissed. Earlier today, the unions and retired public workers won permission to take their challenge to the city's eligibility directly to a federal appeals court, bypassing the district court, possibly speeding up a resolution.

Orr and Michigan Governor Rick Snyder, the Republican who appointed him, both said after July's bankruptcy filing that the September deadline would be hard to meet. Should they succeed, Detroit, whose case involves more than twice the debt of all four of the largest municipal bankruptcies since 2008 combined, would also be the fastest to complete the process.

Cram-Down

After a vote, creditors can raise further objections at a confirmation hearing. Rhodes will take the votes and the objections into account before deciding whether to confirm the plan. Bankruptcy law permits him to override a “no” vote through a process known as a cram-down.

The city of Vallejo, California, needed more than three years to win court approval of its debt-adjustment plan and end the active part of its bankruptcy. Jefferson County, Alabama, took more than two years to complete its $4 billion case, while the California cities of Stockton and San Bernardino have been under court supervision since mid-2012.

San Bernardino hasn’t yet filed its debt-adjustment plan, while the earliest Stockton could win approval of its plan is May, according to court records.

The case is In re City of Detroit, 13-bk-53846, U.S. Bankruptcy Court, Eastern District of Michigan (Detroit).

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