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Detroit's New Bankruptcy Plan Proposes Lower Pension, Creditor Payouts.

The City of Detroit on Monday proposed slightly lower payouts for some pensioners and unsecured bondholders as feverish negotiations continue in the largest municipal bankruptcy in U.S. history.

In an amended bankruptcy restructuring plan filed electronically in federal bankruptcy court in Detroit, the city maintained its previous proposal to invest $1.5 billion over 10 years to improve services while delivering steep cuts to unsecured creditors, including retirees and debt holders.

Among the biggest changes in the revised plan of adjustment and accompanying disclosure statement:

— The city said police and fire retirees would get a 14% cut to their monthly pension checks if they reject the city's restructuring plan. The original figure was a 10% cut a month ago.

— The city proposed paying general obligation bondholders 15 cents on the dollar instead of 20 cents on the dollar.

— The revised plan also includes a proposal for the elimination of the current board of trustees for the city's general retiree pension fund and the police and fire retirement fund.

— More information on how the city plans to claw back some of the bonus payments distributed to active workers' retirement annuity accounts — bonuses generally known as the "13th check."

— Fresh details about the city's reinvestment plans — including $78.7 million to hire civilian police employees so that officers can be redeployed, $25 million for a Department of Transportation security force and $90.6 million for software and servers to improve the city's dilapidated IT systems.

"The City continues to make progress with its creditors and retirees and hopes to reach agreement in the near term on a number of outstanding issues," Detroit emergency manager Kevyn Orr said in a statement. "We believe that the Plan we have proposed, and continue to refine, is feasible and allows the City to reduce its staggering $18 billion in debt and live within its means. The Plan puts the focus back on providing essential public services to the City's nearly 700,000 residents."

The city maintained its proposal of 26% cuts to monthly pension checks for general retirees if they vote in favor of the restructuring plan and 34% if they reject it. The city also maintained its proposal of 6% cuts to monthly pensions of police and fire retirees if they accept the restructuring plan.

But the city acknowledged that its proposal to slash annual cost-of-living adjustments to pensions increases the overall benefit cut to retirees. The loss of COLA represents an 18% benefit cut for police and fire retirees and a 13% cut for general retirees.

About 32,000 people are entitled to pension checks from the city, including about 22,000 retirees.

Orr proposed a new structure for the General Retirement System and Police and Fire System pension boards, saying they both are underfunded in part because of alleged mismanagement and poor investment decisions. That move is generally viewed as necessary before Republican state legislators agree to vote in favor of providing $350 million toward the city's restructuring.

Tina Bassett, a spokeswoman for the city's general retirement pension board, said she hadn't reviewed the amended documents and couldn't comment extensively on them.

"We're still negotiating in good faith, and those numbers may not be the same numbers you see at the end of the deal," Bassett said.

Bruce Babiarz, a spokesman for the police and fire pension board, also said the pension fund needed more time to review the amended plan of adjustment, but said the "POA," or plan of adjustment, is still "DOA."

While the police and fire pension plan remains "committed to negotiating in good faith toward a consensual agreement," Babiarz said, "pushing a POA with continued blanks is an affront to good-faith negotiations and the court-ordered mediation process."

He said he was restrained by confidentiality rules from commenting on negotiations, but said the PFRS has proposed options that would reduce or eliminate the need for pension cuts, ideas he said he hopes are addressed in private mediation talks moderated by U.S. District Chief Judge Gerald Rosen.

Orr has argued that significant cuts are necessary to improve public safety and restore basic services for the city.

But creditors, including major financial investors and the city's retirees, have fiercely objected to the plan of adjustment, saying the cuts are too steep.

In the new documents filed today, the city also included a proposed settlement with UBS and Bank of America Merrill Lynch, which would collectively receive $85 million to eliminate a $288-million financial obligation called swaps.

U.S. Bankruptcy Judge Steven Rhodes will determine the fate of Orr's updated proposed restructuring plan. In a hearing currently scheduled for April 14, Rhodes will decide whether the disclosure statement contains enough information about the city's plans.

In a trial starting July 16, Rhodes will hear arguments and weigh evidence about whether the city's restructuring plan is feasible.

Creditors, including retirees, will get a chance to vote on the plan of adjustment. To implement the plan, the city must get a majority of creditors representing two-thirds of the city's debt to vote yes. Alternatively, however, the city could pursue a forcible restructuring plan in a legal process called a "cram down," which would allow Rhodes to implement debt cuts over the objections of creditors.

The city said it plans to file additional amendments to the restructuring plan before April 14.

In the new restructuring documents, the city said bonus payments paid to general employees' annuity accounts between 2003 and 2013 were "imprudent and excessive" and should have been devoted to growing pension assets.

The new restructuring plan does not estimate the amount of money lost to the GRS fund through

these bonus credits, but the Free Press has previously reported that the “13th check” bonuses totaled close to $1 billion over time.

To take back some of those excess interest credits, the annuity accounts of those workers will be recalculated to reflect the actual investment returns enjoyed by the general pension fund during those years, Orr proposed.

Among the new documents filed today is one outlining terms of the “grand bargain,” a deal in which foundations, the State of Michigan and the DIA would collectively provide $816 million to reduce pension cuts and allow the museum to be transferred to an independent nonprofit.

State lawmakers have yet to approve the funding, in part because retirees haven’t agreed to accept the conditional offer.

Orr has said he wants to avoid selling art. But retirees would have to vote for the deal, thus giving up their right to sue the State of Michigan over pension cuts.

While the largest foundation pledges have been previously reported — including $125 million from the Ford Foundation and $100 million from the Kresge Foundation — amounts from all local foundations were listed in the new restructuring documents. They include $25 million from the William Davidson Foundation; $10 million each from the Community Foundation for Southeast Michigan, Hudson-Webber Foundation, Fred A. and Barbara M. Erb Family Foundation and Charles Stewart Mott Foundation; and $6 million from the McGregor Fund.

A combined $7.5 million from the Paul and Carol C. Schaap Foundation ($5 million) and Max M. and Marjorie S. Fisher Foundation ($2.5 million) will be credited against the DIA’s commitment to raise $100 million for the grand bargain, according to the new documents.

The city also revealed today that it has been in contact with 41 companies or investors about the private management and operation of its water and sewer department. Of those, 16 have told the city they intend to respond by the April 7 deadline the city included in a request for information it issued earlier in March.

If the city decides to accept a bid for the private management and operation of the Detroit Water and Sewerage Department it would scuttle plans to create regional authority that involves Oakland, Macomb and Wayne counties.

The possibility of hiring a private company to operate or purchase the water and sewer system was not included in the first version of the documents.

The city plans to review the responses it receives by April 7 and then ask qualified companies for more detailed bids by June 1.

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