Bond Case Briefs

Municipal Finance Law Since 1971

Detroit's Orr Explains Bondholders' 74% Recovery: Five Questions.

Detroit agreed this week to pay some bondholders about 74 percent of the $388 million they're owed, up from proposals of as little as 15 percent, as part of an effort to resolve the city's record $18 billion bankruptcy.

The deal, negotiated with three bond insurers, covers only unlimited-tax general-obligation debt. Detroit's initial treatment of the securities threatened a $900 billion segment of the $3.7 trillion muni market that investors previously thought was among the most secure.

The following is condensed from an interview on April 9 with Emergency Manager Kevyn Orr at Bloomberg's New York headquarters:

Q: Why do unlimited-tax general-obligation bondholders now get 74 percent instead of the 15 percent offered weeks ago?

A: The reason why they were at 15 percent in the plan was because we were treating them as general unsecured creditors. As you might imagine, we were already in discussions with them about their interests and how they would be treated.

Their revenue stream is UTGO. That's a dedicated revenue stream, a millage that was created solely for them, and there's an argument to be made by some that if we aren't paying on their bonds, we can't collect the millage.

It's not so much that their percentage has changed from 15 to 74, it's that they've agreed to give us the equivalent of 26 percent of what they're owed from a dedicated revenue stream. That's the equivalent of $100 million.

Q: That language is much different than last year. What made you change your view of the bonds' security?

A: There are pros and cons to whether or not the UTGO bond millage can be used by the city if we're not paying the UTGO bondholders. There's an argument that because that millage is a special dedicated revenue, despite us treating them as unsecured all this time, if you're not paying the bondholders, you don't get to collect the revenue. So it could all go away.

Instead, the parties sat down and negotiated. It's better for us to reach an agreement as far as what they're willing to give the city as a percentage of their revenue in a negotiated solution that allows us to continue collecting the millage. We're paying them a portion, but the city also benefits.

Q: This is just one deal with one group. How close are you to reaching agreements with other creditors?

A: We'd like to get everything we can get, including settlements with some of the other actives and retirees, in by this week or early next week.

In the normal course, our deadlines are aggressive, but given that nothing's going to change, this is more than enough time to get done what needs to get done. I hope today's announcement incentivizes everybody to realize we're working very hard to get some deals in. We hope to have additional announcements in the weeks, perhaps days, to come.

Q: Standard & Poor's downgraded bonds from the Detroit Water and Sewerage Department to CCC from BB-, citing a distressed exchange that would equate to a default. Has your plan for them changed?

A: Our plan continues to treat them as secured, as they are. They have a specific security interest.

We understand the ratings because any time we do something beyond the status quo of the existing instrument, it may constitute a technical default — if you try to change the terms, if you ask for a change in terms of the coupon rate.

In a bankruptcy, the principal amount is 100 percent return. We're not dealing with the principal now. We can ask, but they may say no.

Q: How would you characterize your relationship with your neighboring communities?

A: Historically, the level of cooperation, everybody has recognized could be worked on. I was hopeful in this process, perhaps we could achieve that. Some of the counties balked at the DWSD deal for a number of reasons, which I find unfortunate.

I'm more than happy to continue talks. There are communications going back and forth. I still think for DWSD, an authority is the best choice, but we're running out of time.

By Brian Chappatta Apr 10, 2014 9:00 PM PT

To contact the reporter on this story: Brian Chappatta in New York atbchappatta1@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman
at smerelman@bloomberg.netAlan Goldstein

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com