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Detroit Pension Deal Inches City Closer to Bankruptcy Exit.

Negotiators for Detroit pension boards agreed late Tuesday to retiree benefit cuts that were dramatically lower than initially proposed, marking a watershed moment that could help resolve Detroit's historic Chapter 9 bankruptcy and position the city to start reinvesting in services, sources familiar with the deal said.

The deal would require civilian retirees to accept 4.5% cuts to their monthly pension checks and the elimination of cost-of-living adjustment (COLA) increases, while police and fire retirees get no cuts to monthly checks but absorb a reduction in COLA increases, sources said.

"I do think with time we're going to be pleased," one pension official close to the talks said.

With the city's two pension funds, two global banks and major bondholders on board with Detroit emergency manager Kevyn Orr's plan, Detroit's massive financial restructuring could now move quickly through court if Judge Steven Rhodes agrees that the roadmap is legal and feasible.

Pension board trustees must still sign off on the deal, and a U.S. government-appointed committee officially appointed to represent Detroit retirees is still weighing whether to support the city's proposal.

But the pension deal - which comes after about 10 months of intense negotiations that included a bitter fight over the city's eligibility for bankruptcy - leaves only a few major opponents of Detroit's bankruptcy restructuring.

The city has about 32,000 retirees, beneficiaries and active employees entitled to pension checks.

The deal - which is not as good for general city retirees because their pension fund was not managed as well as the police and fire fund for years - could expedite Detroit's trip through bankruptcy.

The accord would require pension board trustees and retirees to back a "grand bargain" in which the Detroit Institute of Arts would be allowed to spin off as an independent institution in exchange for \$816 million over 20 years from the state of Michigan, nonprofit foundations and the DIA itself.

Bill Nowling, a spokesman for Orr, declined to comment on the pension fund deal.

It comes hours after Detroit bankruptcy mediator Gerald Rosen revealed that the Retired Detroit Police and Fire Fighters Association had agreed to support Orr's new plan.

In his previous offer, Detroit emergency manager Kevyn Orr had proposed monthly pension cuts of 6% for police and fire retirees and 26% for general retirees with no COLA benefits for either side. If the retirees rejected the grand bargain, those cuts were set to rise to 14% and 34%, respectively.

But that offer is history.

Detroit police retiree Mustafa Abdur-Rahman, 52, of Macomb Township, said he's ready to vote for

the new deal.

"I'd say I'm thrilled about it," said Abdur-Rahman, who receives a monthly check of about \$3,500. "If I know what I'm working with up front, I can adjust what I'm doing. It's like a Social Security check: I've never heard them cutting a Social Security check, but if they're going to cut the cost of living, I can take that."

Preventing monthly pension cuts for the uniformed retirees "is a favorable result, to put it mildly," said Ryan Plecha, a lawyer for the city's retiree associations.

Rhodes, who last week admonished the city and creditors to quickly reach deals, must still approve the city's restructuring plan, which is expected to face stiff opposition from bond insurers that want the city to sell DIA artwork to pay off creditors.

But Rosen has aggressively pursued the grand bargain, soliciting donations from foundations that have been heralded by the city and pension leaders for their effort to help retirees and save the DIA.

"This settlement agreement was reached after intensive negotiating sessions over the past several months in which the parties' interests were fully and vigorously represented by counsel and all issues robustly negotiated," Rosen said of the police and fire deal.

By agreeing to support Orr's deal, Detroit's pension boards are expected to recommend a "yes" vote to retirees, drop their legal battle with the city and give up the right to sue the state over pension cuts.

Still, the state of Michigan must agree to contribute \$350 million over 20 years to the settlement - a proposal that has drawn the support of Republican Gov. Rick Snyder and some Legislative leaders but skepticism from others.

Chesterfield Township resident Frank Rossi, 76, a former fire engine operator, is reserving judgment on the deal.

"I'll believe it when I find out that's the truth," said Rossi, who retired in 1992 after 29 years in the Fire Department and receives a \$1,850-per-month check. "I've got to wait and see what's going on. I just keep my fingers crossed, that's all."

The deal comes after the City of Detroit agreed to a concession with retirees: raising the expected rate of annual investment returns for pension funds to 6.75%, which correspondingly improves their funding outlook. The city also agreed to allow the pension cuts to be reduced over time if the pension funds outperform their expected rate of return.

One source familiar with the deal said the proposed pension cuts are lower than Orr's initial offer in part because the stock market's surge in the last 18 months improved the financial health of the pension funds, while the higher investment rate of return also lowered the unfunded liability.

In his initial proposal, Orr estimated that the city's unfunded pension liabilities totaled \$3.5 billion. But that figure is expected to drop drastically when he delivers his final restructuring documents.

Plecha called the new investment return rate "a big moment in negotiations," while the improvement in the pension funds' market performance has also helped reduce pension cuts.

The police and fire retirees are expected to keep 1% annual COLA increases, down from 2.25%. Civilian retirees would lose COLA, a particularly sore spot for labor supporters.

The two pension fund boards would stay in tact under the deal struck today, but an independent investment advisory committee would be established to vet all the investments the boards would make.

The police and fire retiree association also agreed to support the establishment of a Voluntary Employee Beneficiary Association (VEBA) to manage retiree health care, which is expected to deliver significantly reduced benefits to retirees. A separate VEBA will be set up for general retirees.

The retiree association's board unanimously agreed to back the deal, including a structure under which a separate entity called a Voluntary Employee Beneficiary Association (VEBA) would manage significantly reduced retiree health care benefits.

"This is another significant step forward as we work towards securing Detroit's long-term financial viability," Orr said in a statement earlier Tuesday.

To win approval for the cuts, a majority of retirees representing two-thirds of the city's unfunded pension liabilities must approve the plan, according to bankruptcy law.

Despite the progress toward a resolution of pension cuts — the most contentious issue in Detroit's bankruptcy — the city's restructuring plan is still expected to draw fierce oppositions from bond insurers Syncora and Financial Guaranty Insurance Co.

Last week, FGIC, Syncora and employee union AFSCME Council 25 said in court documents that four outside investors had offered up to \$2 billion for the DIA's assets, or portions of the museum's collection.

Rhodes has signaled that he won't allow a one-time infusion of cash to help resolve Detroit's bankruptcy.

Still, the bond insurers, which would incur steep losses under Orr's plan, are expected to argue that the grand bargain unfairly benefits pensioners.

Wayne State University law professor Laura Beth Bartell said Rhodes is likely to allow better treatment for pensioners than bondholders.

"In fact, Judge Rhodes indicated way back at the beginning of the case that he has a soft place in his heart for pensioners and was not going to allow significant cuts in their pensions in a plan of adjustment, so he knows that the plan would discriminate in favor (of) the pensioners," she said. "That's not an unfair discrimination."

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