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Detroit Files New Debt Plan.

CHICAGO — Detroit filed an **updated plan** of debt adjustment with the bankruptcy court Monday that incorporates new settlements with retirees and public safety unions.

It's the city's fourth updated debt plan and **disclosure statement**. Detroit has continued to revise its bankruptcy exit plan as it secured a series of settlements with major creditors over the past several weeks.

Bankruptcy Judge Steven Rhodes approved the documents later Monday, allowing Detroit to begin sending out ballots to creditors next week, with a voting deadline of July 12. A trial on the confirmation plan is set to begin July 24.

The bankrupt city has yet to reach deals with its limited-tax general obligation bondholders, despite court-ordered mediation sessions last week, or holders of \$1.4 billion of pension certificates of participation.

A plan to privatize the Detroit Water and Sewer Department, considered crucial to the city's Chapter 9 exit, also remains elusive as does a settlement with holders of the city's \$5.9 billion of water and sewer bonds.

The 406-page debt plan includes a new deal with the Detroit Police Lieutenants and Sergeants Association and the Detroit Police Command Officers Association for new five-year contracts. The city's largest police union has not signed onto the settlement and is reportedly challenging proposals to halt retiree health care benefits to police officers and pay new hires \$14 an hour.

Also new is the city's proposal that if it privatizes the Detroit Water and Sewerage Department within seven years, it would use 50% of the proceeds from the deal to restore pension cuts. All the proceeds previously were to go to the city's general fund. The general employees fund would get priority over the police and fire pensions, according to the disclosure statement.

The plan also says the state of Michigan may give the city \$195 million in a one-time lump sum to go toward its pension debt as part of the so-called grand bargain over pensions and city owned art. The state had originally planned to bond against its tobacco settlement funds to generate \$350 million over 20 years. The smaller lump-sum plan is reportedly more politically palatable for state lawmakers as they prepare to vote on legislation in May or June.

Like the third version of the plan, the new one includes deals reached with the three insurers of the city's unlimited-tax general obligation bonds, a court-appointed committee representing retirees, as well as its public safety and general employee pension systems.

Under current deals, the city's police and fire pensioners would see no pension cuts and roughly 55% cuts to cost-of-living adjustments. General employees would see a 4.5% pension cut and elimination of COLAs. The Detroit Retired City Employees Association, which represents 8,000 retirees, agreed Friday to support the plan and recommend its members vote to approve it.

The city wants to pay retirees \$450 million to cover a \$4.3 billion other post-employment benefit liability, translating into a roughly 10% recovery for that debt, considered among the least secured.

Nearly all the settlements hinge on the grand bargain that has Michigan contributing up to \$350 million over 20 years, or \$194 million in a lump sum, to match private foundation funds and a \$100 million contribution from the Detroit Institute of Arts. The money would be used for the city's pension debt and would protect the city owned art from a sale, by transferring the museum to an independent authority. The bargain requires all retiree and pension creditors approve the plan, that they give up the right to sue the state, and that the plan itself be confirmed by Sept. 30, 2014.

The latest plan strikes a provision that would have required water and sewer bondholders who agree to receive new DWSD bonds to give up any rights to object to the plan on any grounds.

Detroit has not yet reached a settlement with limited-tax GO holders, despite court-ordered mediation held on May 1. The city is negotiating with Ambac Assurance Corp., which insures roughly \$383 million of unsecured LTGOs.

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