
Detroit Reaches Bankruptcy Settlement with Some Bondholders.

DETROIT—The city of Detroit has reached new agreements with its largest municipal union and a separate settlement with a group of bondholders, likely reducing the number of creditors to oppose the city's bankruptcy plan at a trial scheduled for this summer.

Terms of the settlements weren't immediately released.

The tentative labor agreements between the city and the American Federation of State, County and Municipal Employees Council 25 build on earlier agreements and cover almost all employees represented by the union. But the pacts still need to be ratified by the union's membership by June 30, according to a statement from federal mediators Friday.

The union also agreed to support a larger debt-cutting plan by the city to make cuts to pension benefits as part of its plan to exit municipal bankruptcy. Those pension cuts, however, will be softened if the pension holders approve a complex plan relying on more than $800 million in outside funding from donors, foundations and the state of Michigan.

Pension holders "simply cannot risk the further serious reduction in pension, pay and job security if the Plan, and our collective bargaining agreements, are not approved," AFSCME Council 25 President Al Garrett said in a statement, calling on his members to vote for the city's bankruptcy plan.

The separate bondholders deal was worked out between Detroit's emergency manager and two principals that either hold or insure the majority of limited-tax general obligation bonds issued by the city, according to a statement on Friday from the federal mediators in the bankruptcy case.

"The settlement recognizes the unique status and niche of LTGOs in the municipal finance market," the mediators said. "The insurer of the LTGOs has made clear it will honor its insurance commitments on the existing policies."

Several bondholder groups declined to comment. But one confirmed a deal had been reached.

"Given Detroit's unique circumstances, Ambac has accepted a settlement with the City for the limited tax general obligation bonds," the company said Friday. "Ambac's net par exposure related to Detroit's limited tax general obligation bonds was $92.7 million as of March 31, 2014. We expect to continue to pay claims of scheduled principal and interest on the bonds insured by Ambac."

According to the latest version of the city's debt-cutting plan filed in April, the city of Detroit owed about $547 million in principal and interest on these LTGO bonds.

Compared with unlimited-tax general obligations bonds, these limited-tax bonds aren't usually backed by a specific tax-revenue stream, prompting the city to argue that it could offer a much lower payout for those bondholders in bankruptcy. But bondholders opposed the cut as unfair, warning it could roil the municipal-bond market in Michigan and potentially drive up borrowing costs for municipalities.

Detroit's plan to exit bankruptcy—the nation's largest Chapter 9 case with an estimated $18 billion in long-term obligations—originally called for a different treatment for the city's bondholders. Unlimited-tax general obligation bondholders who reached an agreement with the city in April are to receive about 74 cents on the dollar in recovery on their claim under the plan. But limited tax general obligation bondholders who were still at odds with the city would only get between 10 to 13 cents on the dollar.

It was unclear on Friday whether the agreement would boost the recovery for these bondholders and by how much.

The mediation team, led by U.S. District Judge Gerald Rosen, added that "with this settlement, only a few remaining, albeit significant, disputes remain" between the city and its creditors. A trial has been scheduled for mid-August on the merits of the city's debt-cutting plan.

A spokesman for Detroit Emergency Manager Kevyn Orr said he didn't have an immediate comment about the deal, which mediators said was still being completed.

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