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Detroit Water Board Approves Buying Back $1.47 Billion Bonds.

The Detroit Board of Water Commissioners unanimously approved a proposed buyback of the city's water and sewer bonds after reaching deals with enough investors to proceed with a planned debt refinancing next week.

Owners of bonds from the Detroit Water and Sewerage Department agreed to sell back $1.47 billion, or about 28 percent, of the system's $5.2 billion in outstanding debt, the board's advisers said today. Refinancing the bonds will save $241 million over 26 years, with about $11 million in annual savings for the first 19 years.

The plan allowed investors to part with their securities at a known price and protects them against losses in federal court. It will also free up cash for the city and potentially speed its emergence from bankruptcy.

The buyback's success means the Michigan Finance Authority is on track to issue bonds next week to replace the old debt. It also plans to issue $150 million in additional bonds to finance improvements to the sewage-disposal system.

The deal must still be approved by Detroit Emergency Manager Kevyn Orr and U.S. Bankruptcy Judge Steven Rhodes.

Exiting Bankruptcy

Should the refinancing move forward as planned, investors and bond insurers would drop their objections to the water and sewer portions of Detroit's debt-cutting plan, according to court records. That may shorten the bankruptcy trial and make it easier for the city to win approval of its proposal.

The water and sewer bondholders are among the final obstacles to the resolution of the bankruptcy after the city reached agreements with general-obligation investors and pensioners during 13 months under court protection.

Bondholders had balked at the city's debt-adjustment plan, which seeks to cut interest rates on some securities or scrap provisions that protect investors from being forced to resell bonds before they mature. The proposal led the three biggest credit raters to lower their grades on the bonds to junk.

Once the refinancing is done, any original debt still outstanding will be unaffected by the proceedings. In contrast, about 43 percent of the water and sewer bonds would be impaired under the bankruptcy debt-cutting plan, Fitch Ratings said in a report yesterday.

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