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WSJ: Bankrupt Detroit Sells \$1.8 Billion in New Water-and-Sewer Bonds.

Bonds Received Enough Demand for Bankers to Lower Some Yields Slightly Throughout Day

Detroit sold about \$1.8 billion in bonds tied to its water-and-sewer system on Tuesday, marking a key part of the city's efforts to improve its finances since filing for bankruptcy last year.

Proceeds from the bonds, sold through the Michigan Finance Authority, will be used to buy back existing debt and make improvements to the water-and-sewer system, which also serves surrounding communities. The system is currently operated as a city department, and officials have said the debt deal could save the city millions of dollars, in part, through lower interest rates.

Bankers on Tuesday's debt deal, led by Citigroup Inc., C +0.43% received enough demand for the bonds to lower some yields slightly throughout the day. A 2023 bond offered a yield of 3.24% and a 2037 bond offered a yield of 4.52%. Many of the bonds, to be paid back from water and sewer revenues, carried insurance.

Earlier this month, the Detroit Board of Water Commissioners approved a plan to repurchase up to about \$5.2 billion in outstanding water-and-sewer debt. Investors holding about \$1.5 billion worth of the debt obliged.

Some water-and-sewer bondholders were poised to face reduced returns through Detroit's bankruptcy case, with the city proposing to lower the interest rate on some of the bonds. As part of the repurchase offer, however, the city said it wouldn't impair any of its remaining water-and-sewer debt.

A news release earlier this month said the city launched the buyback plan because "risks related to the department's future cost of borrowing prompted consideration of alternatives."

Detroit's bankruptcy filing, the largest municipal bankruptcy on record, sent tremors through the \$3.7 trillion municipal-bond market as buyers feared they could see losses on their municipal investments, which traditionally have been viewed as safe. Detroit filed for bankruptcy after years of economic decline and a sharp drop in its population.

A hearing to approve the city's plan of debt adjustment, a necessary step before the city can emerge from bankruptcy, is scheduled to start Friday, according to a bond prospectus. Detroit previously reached agreements with other groups of bondholders, who agreed to take some losses.

The rating firms were split on how to grade the new water-and-sewer bonds. The highest rating from Moody's Investors Service was Ba2, two notches into junk territory. But Standard & Poor's Ratings Services gave the deal a triple-B-plus grade, which is investment grade.

Scott Garrigan, a director at S&P, said the system still provides "a needed municipal service to a

wide population base that is much more diverse than just the city of Detroit.”

Some investors sat out the sale. Kathy Bramlage, director at Treasury Partners, which oversees about \$8 billion and is a division of HighTower Advisors, said there is still a lot of uncertainty around the bonds, given discussions to create a new regional water-and-sewer authority that would be independent of the city.

“It’s got the name,” she said, referring to Detroit’s less-than-stellar reputation. “You’re going to have to explain to customers why you’re putting that name into their account.”

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