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Detroit Ends Week With Witness From Stockton Bankruptcy.

Detroit ended the first week of trial on its \$7 billion debt-reduction plan by calling a witness who has previously argued against the kind of cuts the city says it needs to rebuild.

Charles Moore, Detroit's top restructuring adviser, is a favored specialist both of distressed government agencies, who call upon him to justify trimming their obligations, and of bondholders fighting such cuts. In Detroit yesterday, he advocated cuts, saying the city must erase some of its debts to free up money for new investments.

If Detroit's proposal is rejected, "it is unclear to me how the reinvestment initiatives would be funded," Moore told U.S. Bankruptcy Judge Steven Rhodes, who must determine whether the plan is fair and feasible.

Moore, a senior executive with the financial advisory firm Conway MacKenzie Inc., took the opposite position in May in the bankruptcy of Stockton, California. In that case, Moore was hired by affiliates of money manager Franklin Resources Inc.

Back then, he testified that the California city "can afford to pay Franklin a significant percentage, if not all," of its obligations. Both Detroit and Stockton are trying to win court approval to pay their retired workers much more than investors.

Detroit, a city of about 700,000, filed a record \$18 billion municipal bankruptcy last year, saying decades of decline left it unable to provide basic services while still meeting financial obligations.

Unusual Deal

Rhodes is being asked to weigh an unusual deal in which wealthy donors and Michigan lawmakers agreed to shore up the city's public pension system with more than \$800 million. In return, Detroit agreed not to use its art collection, which includes pieces by Pablo Picasso and Vincent van Gogh, to pay creditors.

Moore isn't the only professional hired by Detroit who is also fighting Stockton's debt-cuts. Its main law firm, Jones Day, represents Franklin in the Stockton case.

"Reaching opposite conclusions in two different cases is not inconsistent," said Dale Ginter, a lawyer who represented retirees in Vallejo, California's bankruptcy. "The facts of each case are always different," he said in an e-mail. "Stockton, for all its problems, pales in comparison to Detroit."

Lisa Johnston, a spokeswoman for Birmingham, Michigan-based Conway MacKenzie, didn't return an e-mail seeking comment on Moore's testimony.

10 Cents

Detroit has proposed paying 10 cents on the dollar to investors who hold \$1.4 billion of pension-related debt. Bond insurers Syncora Guarantee Inc. and Financial Guaranty Insurance Co. oppose

the plan, which might force them to cover investor losses.

Stockton, a city of 298,000 about 80 miles (130 kilometers) east of San Francisco, filed for bankruptcy in 2012 after spending too much on downtown improvement projects and seeing its property-tax revenue plunge in the housing crisis. Creditors filed \$1.18 billion in claims.

It has proposed paying Franklin affiliates as little as 1 percent of the \$36 million they are owed. Municipal debt investors are watching both cases.

Moore has also studied Puerto Rico's pension system on behalf of public employee unions and helped bond insurer National Public Finance Guarantee Corp. negotiate a deal with Jefferson County, Alabama, which last year ended the second-biggest U.S. municipal bankruptcy.

Remove Blight

In testimony yesterday, Moore went over Detroit's spending plans for the next 10 years. Using the savings from reducing debt, the city plans to repair its crumbling neighborhoods, beef up police and fire protection, and improve bus service.

Some of the \$87 million the city plans to spend on public transportation will go to hiring more drivers and setting up a security service for drivers and passengers. Bus drivers call 911 for police help 30 times a month, Moore said.

Moore also discussed an employee savings plan that sapped the city's pension system. About 91 percent of eligible employees participated in the plan, which guaranteed a minimum interest rate on accounts and drained about \$450 million from one of the city's two pension funds over 10 years, he said.

The city wants to claw back some of the payments by reducing pensions as much as 15.5 percent, depending on how much interest an employee was paid.

Finance Chief

Earlier in the week, Detroit's chief financial officer, John Hill, told Rhodes the city wouldn't be able to free up the funds for \$1.7 billion in new investment unless it was able to cut some of its current obligations. Hill was the first of about 25 witnesses the city plans to call.

Syncora and other plan opponents have said Detroit is violating the bankruptcy code by failing to put similar claims on equal footing. They said the city could use its art to pay some debts, either by selling it or borrowing against it. Detroit has repeatedly said the collection isn't on the table.

Moore will return to the stand Sept. 8 to face more questions from creditor attorneys. The city is next scheduled to call Beth Niblock, its chief information officer, followed by Caroline Sallee, an adviser with Ernst & Young LLP, and Police Chief James Craig.

Among other witnesses the city may call is Ron Bloom, the Obama administration's former car czar, who helped reorganize Detroit-based General Motors Co.

Bloomberg

By Steven Church

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(Detroit).

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