

# **Bond Case Briefs**

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## **As Promised, S&P Lowers Ratings on Tendered Detroit Water and Sewer Bonds.**

In the world of municipal bonds, a promise is supposed to be a promise except, as some Detroit bondholders are finding, when a city goes through the largest municipal bankruptcy in history.

But a promise is a promise when it comes to the Standard & Poor's credit rating agency, which on Thursday made good on a previous announcement that it planned to lower the rating on Detroit water and sewer bonds that were turned in early by investors.

S&P had rated the bonds as "CC," which was already deep into junk status. But Thursday's drop to "D" status moves the bonds down another two notches to the junkiest of junk ratings.

The new rating — which S&P announced it would apply last week — is only on those classes of bonds that were submitted as part of the city's tender offer to redeem old water and sewer bonds for new ones. In some cases, the new bonds will pay less than the full value of the old bonds, and S&P considers it an impairment of the debt.

Since the tender offer was made under the threat that Detroit would lower the rate on the bonds and take the option to pay them off early without paying investors for such a "call provision," S&P considers those bonds to have been tendered in a "distresses exchange."

In general, bonds rated lower than "BBB" by S&P are considered non-investment grade, and many large institutional investors, mutual funds and others won't buy them.

The bonds were exchanged after the city announced a surprise tender offer on Aug. 7 aimed at refinancing \$5.2 billion of outstanding water and sewer bonds. About \$1.5 billion of those bonds were tendered for exchange to new bonds, and the city then dropped its threat to impair the rest of the untendered bonds.

The move is expected to lower the Water Department's cost of borrowing and free up as much as \$50 million in cash from bond reserves. Overall, the water department says the tender offer will save the water department more than \$107 million in today's dollars over the life of the new bonds.

The old, untendered bonds will continue to be paid as scheduled by the city, and won't be considered distressed, S&P said. Those bonds also have been removed from the city's bankruptcy proceedings. The ratings service will grade those bonds "BBB," its lowest investment-grade rating.

Besides refinancing the tendered bonds, the city's new bond issue includes \$190 million in additional bonds to pay for capital improvements to the water system.

The Detroit News  
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