

# **Bond Case Briefs**

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## **WSJ: Detroit to Transfer Water Department to Regional Authority.**

DETROIT—The Motor City moved one step closer to settling the details of its historic bankruptcy, sealing a deal Tuesday to put its water and sewer system that falls outside city limits under regional control.

The deal calls for Detroit to maintain its own water and sewer system within the city. A new regional authority with appointees from the suburbs would lease its portion of the system from the city at a cost of \$50 million a year for the next four decades. The authority also would set up a \$4.5 million annual fund to aid residents who have trouble paying their water bills.

Annual rate increases will be capped for all customers at 4.5% over the next 10 years. Members of the new Great Lakes Water Authority will need a supermajority—five of six votes—to make its biggest decisions, including any move to increase customer rates or approve major contracts.

The authority's lease payments to the city could be used to issue as much as \$800 million in new, state-backed bonds. That financing would help the city rebuild its aging infrastructure that saw 2,000 water-main breaks last year alone, according to Detroit officials.

The move to put a large chunk of one of the nation's largest water systems into the hands of an authority in southeast Michigan comes as the city considers unloading other assets to reach deals with outstanding creditors in its debt-cutting plan, according to a person familiar with the talks.

Time could be running short for Detroit Emergency Manager Kevyn Orr, whose term is set to expire at the end of the month. Detroit Mayor Mike Duggan said Tuesday that Mr. Orr could leave his post but remain as a bankruptcy adviser, adding that talks over Mr. Orr's future are active. It is unclear whether Michigan Gov. Rick Snyder, who appointed Mr. Orr, intends to appoint a successor while the city struggles to exit the nation's largest municipal bankruptcy.

After the city filed for Chapter 9 protection in July 2013, Mr. Orr said an outright sale of Detroit's water department, which serves nearly 40% of Michigan's population, was unlikely. His preferred plan called for leasing the water system to a new regional authority, which he said would bring in \$47 million a year to the city for 40 years.

Until now, suburban leaders had balked at their potential share of future costs for system improvements and unpaid water bills, saying they were concerned any future contribution to the system would be used by the city to pay off its large debt owed to Detroit pension holders.

In an interview, Oakland County Executive L. Brooks Patterson said the 1.2 million people he represents had grave concerns about assuming responsibility for the city's water problems. But they also wanted a greater say over the parts of the system stretching through the northern county.

Under pressure from a federal judge, Detroit's mayor and leaders of the city's three suburban counties unveiled the pact at the federal courthouse where the city is defending its debt-cutting plan

at a bankruptcy trial. Presiding Judge Steven Rhodes, who officials feared had the power to force changes to the water department unilaterally, has been encouraging the city and its suburbs to reach a compromise during months of closed-door talks.

Messrs. Snyder and Orr also endorsed the terms of the deal, which must be finalized by Oct. 10 by local legislative approvals.

“The extraordinary bipartisan cooperation is aimed at creating a sustainable, regional water system that also provides necessary and crucial updates to the aging infrastructure, brings relief to residents and taxpayers by capping future rate increases and creates a fund to help customers in need throughout the region,” said Mr. Snyder, a Republican running for re-election this November.

The Detroit Water and Sewerage Department provides about 600 million gallons of water a day to Detroit and 127 suburban communities in seven counties. It has nearly \$1 billion in annual revenue.

But like its city, the department has faced challenges. Until last year, it operated for decades under federal court oversight sparked by alleged violations under the Clean Water Act. A former department director pleaded guilty in 2012 to conspiracy as part of the corruption investigation into convicted ex-mayor Kwame Kilpatrick. Thousands of delinquent customers in Detroit have seen their water shut off in unpaid-bill disputes.

Before Tuesday’s announcement, the system had been planning five-year capital-improvement projects to replace water mains and upgrade treatment plants and pumping stations expected to cost roughly \$1.4 billion. Lawyers for surrounding suburbs challenged Detroit at its bankruptcy trial over how the city planned to finance those improvements without massive rate hikes, but those objections are now expected to be withdrawn, officials said.

Last month, Detroit sold about \$1.8 billion in bonds tied to its water system to buy back existing debt and make system improvements, likely saving money through lower interest rates, according to city officials.

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