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Detroit Should Be Able to Borrow After Bankruptcy - Consultant.

(Reuters) – Detroit should be able to access capital markets and borrow at a rate of around 5 percent after it exits bankruptcy, as long as its tax revenue remains stable, a city consultant said on Tuesday.

But even as Kenneth Buckfire, president of restructuring firm Miller Buckfire & Co, testified about the factors that will help Detroit woo investors, he said the city will have to educate the municipal bond market about the "New Detroit," once it exits the largest-ever municipal bankruptcy.

Buckfire, in testimony in U.S. Bankruptcy Court, said that the markets will respond well to Detroit's paring of its liabilities from $10 billion to $3 billion, 10-year cost certainties, and post-bankruptcy oversight.

Judge Steven Rhodes is currently conducting a hearing to determine the fairness and feasibility of Detroit's bankruptcy plan, part of which includes a $325 million exit facility financed through Barclays.

The facility will first be a private placement of variable-rate notes with the bank for 150 days, after which Barclays will sell the debt publicly. That five-month period will give Detroit the opportunity to present its post-bankruptcy conditions to rating agencies and investors, Buckfire said.

According to Buckfire, 5 percent is within a reasonable range for Detroit to expect to pay in interest. That is lower than yields demanded by investors for debt of troubled credits such as Puerto Rico, but still accounts for some risks Detroit could confront, he said.

The bankruptcy plan lays out how Detroit will reduce employee pension and retiree healthcare costs, making the city a better credit than other municipalities that have not addressed those liabilities, Buckfire added.

"The fundamental risk the city is facing" in capital markets is uncertainty over the stability of its tax revenue, he said.

There are few indicators how the $3.7 trillion U.S. municipal bond market will greet borrowing by the city that broke all records on municipal bankruptcy.

Detroit in August sold $1.8 billion of sewer and water revenue bonds offered with mostly 5 percent coupons. The bonds, paid off with revenue from Detroit's regional system and largely insured, were snapped up by investors. Detroit has not issued any general obligation bonds since filing for bankruptcy in July 2013.

"It is too early to tell whether or not Detroit would be able to go back into the market and pay about 5 percent after coming out of bankruptcy," said Municipal Market Data analyst Daniel Berger. "Detroit is also hard to read because not much of its debt trades."

After filing for bankruptcy, the city defaulted on certain limited and unlimited-tax general obligation bonds it considered unsecured.

Buckfire said Barclays drew on the market to make a $120 million loan to Detroit earlier this year, and the deal was four times oversubscribed. He also said that with municipal issuance running low, there is strong buyer demand for bonds. Still, he repeatedly mentioned that reception will depend on how Detroit tells its "credit story."

Berger, of MMD, a Thomson Reuters company, said the 5 percent debt cost was "doubtful under current market conditions, but this market is hungry for tax-exempt, high-yield paper."

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