[Bond Case Briefs]

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[Detroit Seeks Statutory Lien on $275M Barclays Deal.]

CHICAGO – A bill designed to ease Detroit's first appearance in the public debt markets since its bankruptcy sailed through a Michigan legislative committee this week.

Senate Bill 160 passed the Committee on Banking and Financial Institutions by a 7-0 vote on March 3.

The legislation is now on the Senate floor and could be taken up as early as next week, according to Patrick Tiedt, chief of staff for Sen. Darwin Booher, R-Evart, one of the sponsors.

The bill would give a statutory lien to city income tax revenue backing Detroit's financial recovery bonds.

The measure essentially applies to only one of the city's bond deals: a $275 million deal that Detroit privately placed with Barclays on December 10, 2014, the city's final day in bankruptcy.

The borrowing marks the only time the city has tapped its income tax revenue to secure bonds.

The bonds, now in a variable-rate mode, are to be resold on the public market in a fixed-rate mode within 150 days of the Dec. 10 placement date, unless Barclays grants an extension.

The one-day secondary market sale, coming as soon as April, will be similar to a primary offering. Ratings from at least two agencies will be sought, according to the terms of the deal.

Detroit officials hope that the statutory lien might win an investment-grade rating from at least one rating agency.

Supporters believe SB 160 will boost investor confidence in the bonds with a statutory lien that is expected to make the bond revenue fully protected in the event of another bankruptcy or default by Detroit.

"Even though I am from a small town in northern Michigan, I recognize how important the recovery of Detroit is to the entire state of Michigan," Booher, R-Evart, said in an email to The Bond Buyer. "I sponsored SB 160 because I believe this is common sense legislation and we should be encouraging ways to save the taxpayers money."

Detroit, which filed for Chapter 9 bankruptcy in July 2013, floated $1.28 billion of new debt in December as it exited the bankruptcy, but none of that debt was sold in the public debt markets.

Fiscal analyst Elizabeth Pratt with the Senate Fiscal Agency said in a fiscal note that the city could see debt-service savings of $2 million to $3 million a year with the lien. The estimates come from the city's own figures. The city's documents also note that the Legislature passed a similar bill in 2011 to help the city of Ecorse access the bond market, although in that case the enhancement was an intercept feature, not a statutory lien.

“Bond rating agencies have stated that a statutory lien on the income-tax revenue pledged to repay the bonds would improve the bond rating and result in lower interest costs,” Pratt wrote in the fiscal note.

“What it effectively does is make the security a lot more airtight than it would be otherwise because there’s a lien on the revenue,” said Jeff Mann, a legislative analyst with the Senate Fiscal Agency who is following the bill.

The bill would apply only to Michigan cities with a population of more than 600,000, a category that includes only Detroit.

It would apply only to financial recovery bonds with a pledge of income tax revenue and only with the approval of the state treasurer.

The revenue would enjoy the lien and be held in a trust for the benefit of the bondholders regardless of whether the city directly collects the revenue, a third party collects it, or anyone else, according to the legislation.

“The lien would be superior to all other liens and interests of any kind, and would be perfected without delivery, recording or notice,” Mann’s analysis says. “The revenue held in trust would be exempt from being levied upon, taken, sequestered, or applied toward paying the debts or liabilities of the city other than those expressly specified in the agreement.”

Detroit Mayor Mike Duggan testified in favor of the bill before the banking committee. No one spoke against it.

THE BOND BUYER

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