
Moody's: Detroit Emerges from Bankruptcy Stronger, But Economic Hurdles Persist.

New York, March 11, 2015 — While the City of Detroit (B3 stable) has made important strides in its credit fundamentals as it emerges from Chapter 9 bankruptcy, it continues to face a number of fiscal and economic headwinds that limit its future growth, Moody's Investor Service says in a new report, "Detroit Emerges from Bankruptcy Stronger, but Economic Hurdles Persist."

Revitalizing Detroit's economy and improving its city operations are crucial to its long term success, Moody's says. In addition, Detroit's ability to balance budgets amid the ongoing economic challenges burdens the credit in the intermediate term.

"The city achieved three main successes during its Chapter 9 filing, including substantially reducing long-term debt and retirement liabilities, but it also has a robust plan to reinvest in its tax base and services and a strong new management team that will benefit from ongoing state support," says Moody's Vice President — Senior Analyst Genevieve Nolan, and author of the report.

Positively, Detroit is dedicating resources to revitalize and strengthen its tax base through a proposed $1.4 billion reinvestment plan focusing on Detroit Police, Detroit Fire, Finance Department, General Services and blight removal. The projects will be funded with proceeds from a $120 million quality of life note issued during bankruptcy, and as well as some funds from the city's $275 million post-petition financing issued as it exited bankruptcy.

Detroit was also able to significantly reduce its long-term liabilities in bankruptcy, with its net direct debt outstanding dropping to $1.8 billion from $2.5 billion. The city's new management team will also benefit from ongoing state oversight and support.

However, Detroit's economy and tax base continues to suffer amid valuation declines, weak demographic statistics, and a dwindling population. Unemployment is still high 13.0% as of November 2014, and its decline from a peak of 25% in 2009 is partly attributable to a persistently shrinking labor force.

The city also expects assessed valuation declines to persist through 2020 as the State of Michigan and city management reviews its assessment process. While income tax receipts are estimated to rise 2.1% annually, key revenues from property taxes are projected to drop by 1.3% annually through the same period. By the end of 2023, expenses and revenue projections estimate an ending cash balance of $65.8 million, a positive yet still narrow liquidity position. Negative variations from these projections could jeopardize the city's financial plans.

While fixed costs, including annual debt service and retiree benefit contributions, were reduced during bankruptcy, they will grow after 2023 when the city is required to begin making pension contributions again.

"The city's challenges are largely ones that bankruptcy could not immediately fix and may still result in weaker credit quality over the near to medium term," said Nolan.

Moody's research subscribers can access the report here.

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