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Detroit May Win Investment Grade on First Bonds Since Bankruptcy.

Four months after emerging from the biggest municipal bankruptcy in history, Detroit may return to the bond market with investment-grade ratings.

Michigan Governor Rick Snyder signed legislation Wednesday that gives added security to investors who buy \$275 million of debt Detroit plans to sell, which he said may save as much as \$30 million in interest costs. The law gives bondholders first claim on income taxes that back the securities, on top of an arrangement with a trustee that helps shield the revenue from city officials.

The extra measure is a sign of what it will take to get investors in the \$3.6 trillion municipal market to lend to the city, which collapsed into bankruptcy after a decades-long population slide. The debt sale, which will publicly re-offer securities that were privately placed with Barclays Plc, will be the city's first since exiting court protection in December, state documents show.

Michigan provided the additional safeguards to keep credit-rating companies from giving the bonds a junk rating. Detroit's \$18 billion bankruptcy has increased scrutiny of the legal safeguards on municipal bonds, particularly those sold by financially distressed local governments.

"A statutory lien in general does give us more comfort that it's going to be repaid," said Jane Ridley, an analyst at Standard & Poor's in Chicago, who declined to comment on how the bonds will be ranked. "In most circumstances, it would lead to greater security and potentially a higher rating."

Detroit general-obligation bonds backed by state aid have a comparable security structure, Ridley said. That debt wasn't impaired in bankruptcy and has a AA rating from S&P, the third-highest grade.

David Jacobson, a spokesman at Moody's Investors Service in New York, said it may be too soon to comment on whether the bonds could earn investment grades. Elizabeth Fogerty, a spokeswoman at New York-based Fitch Ratings, didn't have an immediate comment.

John Roach, a Detroit spokesman, didn't have an immediate comment about when the bonds will be sold or the prospect that they will receive investment grades.

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