

# **Bond Case Briefs**

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## **Detroit County's Armageddon Warning Heeded as Jail Bonds Tumble.**

As Detroit emerges from a record bankruptcy, its home county faces a fiscal crisis that's jolting bondholders and leaving officials struggling to avert a state takeover.

Three months after Wayne County Executive Warren Evans warned of possible "financial Armageddon" in the face of a looming budget deficit, he's proposing to reduce wages while ending health-care benefits for future retirees and trimming their pensions.

Bondholders are signaling skepticism that the junk-rated county of 1.8 million residents can solve its fiscal woes, including a stalled jail project that eats up \$14 million a year through bond expenses. Yields on the debt set new highs last week as investors speculated the county will skip payments to conserve cash.

"There's a lot of challenges with this security that are ahead of it," said Adam Buchanan, senior vice president of sales and trading at Ziegler, a Chicago broker-dealer. "Despite the large yield, we haven't found a way to find value in it. There are too many unknowns."

### **Junk Grades**

Moody's Investors Service and Standard & Poor's dropped the municipality to junk after Evans's fiscal warning in February.

Fitch Ratings, which had already given the county a speculative grade, said the jail debt may be "particularly vulnerable," as officials sort out its finances. If there is a bankruptcy, bonds backing an unfinished project would be the most likely to go unpaid, said Buchanan at Ziegler.

The county sold \$200 million of securities in 2010 through a local agency to build a 2,000-bed jail in downtown Detroit. Officials halted construction in 2013 amid cost overruns.

The jail bonds, the most frequently traded Wayne County debt in the past three months, are serving as a proxy for investor bets on the municipality's finances.

Debt backing the jail and maturing in December 2040 traded at an average yield of about 10.7 percent May 6, the highest yet, according to data compiled by Bloomberg. In the latest trading Monday, the yield fell to 10.34 percent, or about 7.5 percentage points above benchmark debt. The federally taxable obligations yielded 7.44 percent Feb. 4, the day before Evans's warning.

### **Recovery Plan**

Evans said in a recovery plan released last month that if his recommendations are implemented, the county can plan a new jail. Whether finishing the partially built facility is the answer remains an "open question," according to his report.

He has proposed changes to cut \$53.4 million from spending. The county has to negotiate wage and benefit reductions with unions. The largest, the American Federation of State, County and Municipal Employees Council 25, is pushing back, saying its members have already taken pay cuts.

The county, home to the headquarters of Ford Motor Co. and General Motors Co., says debt payments are safe. There is “no chance” of vendors or bonds not being paid, Gary Woronchak, chairman of the County Commission, said in an interview.

State intervention is “increasingly likely,” Fitch said in March, when it dropped the county to B, five steps below investment grade. If that does occur, the likely outcome is a consent agreement, in which county officials and the state agree on measures to resolve the crisis, according to Woronchak. Three Michigan communities and two school districts operate under that arrangement.

While the governor could appoint an emergency manager, that step won’t be needed because the financial challenges are manageable and bankruptcy “is not in the realm of what’s going to happen,” Woronchak said.

## **Detroit Echo**

Wayne County faces many of the same stresses that plagued Detroit, which emerged from bankruptcy in December after 17 months.

Plummeting property taxes are putting its deficit on track to swell to \$200 million by 2019, from \$159.5 million in 2013, according to Fitch. The county’s pension assets are \$910 million less than promised payouts, and retiree health care is underfunded by \$1.3 billion.

“When we look at Wayne County’s tax base, its budget, its balance sheet, it looks eerily similar to the city of Detroit’s problems,” said Ty Schoback, a senior analyst in Minneapolis at Columbia Threadneedle Investments, which manages about \$30 billion in munis. The company hasn’t owned Wayne debt for about a year.

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