
Detroit Sells First Municipal Bonds Since Emerging From Bankruptcy.

Detroit returned to the municipal-bond market for the first time since the city emerged from bankruptcy, selling $245 million of bonds Wednesday to investors demanding a premium for the securities despite extra protections for bondholders.

The tax-exempt bonds, maturing in 2029, sold through the Michigan Finance Authority, yielded 4.5%, more than a percentage point higher than other single-A rated debt, according to Thomson Reuters Municipal Market Data. The bonds' safeguards include a first claim on city income taxes, earning an investment-grade rating from Standard & Poor's Ratings Services, despite the city's credit rating, which is in junk territory.

The yield premium highlights the challenges Detroit faces with borrowing in the wake of a bankruptcy that left some investors concerned about the financial health of U.S. municipalities and questioning the safety of bonds backed by their full faith and credit.

"The positive is they do have market access; the negative is that they're paying for it," said Daniel Solender, head of the municipal bond group at Lord Abbett & Co., which manages about $17 billion in tax-exempt bonds. "There's demand for yield, and a decent enough portion of the market is willing to focus on the yield and structure of this deal, as opposed to the history."

The sale included about $135 million of tax-exempt bonds maturing between 2020 and 2029, with yields between 3.4% and 4.5%, and $110 million in taxable debt maturing between 2018 and 2022, yielding 4.6%, according to MMD. The money from the bonds will pay for city services and projects and repay underwriter Barclays PLC for lending which helped Detroit out of bankruptcy.

The income tax provides more than enough money to cover the debt payments, despite the city's still-weak economy and limited budgetary flexibility, S&P said in a July report. The need for investor protections and premiums shows the city's access to borrowing remains weaker than for most other issuers.

"We feel Detroit will continue to be challenged to deliver the services residents need and address the backlog of capital and other needs a large city has," S&P said.

Even with the additional assurances, there is enough uncertainty surrounding Detroit's recovery to unnerve investors, who remember losses on the city's debt, said Steven Shachat, who helps manage more than $1 billion of municipal bonds at Alpine Woods Capital Investors.

"When a municipality goes through bankruptcy, it's hard to jump right back in the pool," he said.

THE WALL STREET JOURNAL

By AARON KURILOFF

Aug. 19, 2015 2:24 p.m. ET

Write to Aaron Kuriloff at AARON.KURILOFF@wsj.com