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Wayne County's \$200 Million Debt for Jail Fiasco Audited by IRS.

The U.S. Internal Revenue Service is auditing \$200 million of bonds that built an unfinished jail in Wayne County, Michigan, seeking to determine whether to revoke federal subsidies given to the cash-strapped government.

Wayne County, which includes Detroit, sold the federally taxable debt in December 2010 to build a new jail, only to shut down the project in the middle of construction about three years later because of cost overruns. The U.S. Treasury pays 45 percent of the interest under a program aimed at spurring development in economically distressed areas.

The IRS told the county it is scrutinizing the bonds “because of information we received from external sources or developed internally that causes a concern that the debt issuance may fail one or more provisions” of the tax code, according to a Sept. 9 filing with the Municipal Securities Rulemaking Board.

A move to revoke the subsidies could foist added costs on Wayne County, which is already operating under state oversight to avoid bankruptcy after years of budget deficits. The county has received \$36.9 million in tax credits so far for the ill-fated project, according to the filing, and spends about \$14 million a year on debt service for the securities.

The IRS could put a stop to the credits or seek to recoup subsidies if the county ran afoul of U.S. tax law. That could affect its ability to pay debt service on the jail bonds or other obligations, according to the filing. The county said it can’t determine “at this time” whether this audit will lead to a loss of funds.

Wayne is cooperating with the IRS, said James Canning, a county spokesman. Some of the money raised by the bond issue hasn’t been spent and is held in the project fund, he said.

“Nothing has come to our attention which suggests that bond usage was non-complaint,” Canning said in an e-mail. “Wayne County is cooperating with the IRS and believes that it is in full compliance with all tax requirements.”

The disclosure of the audit hasn’t affected the price of the bonds. A portion of the securities maturing in 2040 traded Wednesday at an average of 87 cents on the dollar to yield 11.6 percent, little changed from Sept. 8, the day before the filing.

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