Detroit's Home County Steps Back From Abyss as Finances Improve.

Wayne County has cut retiree health-care bills, reduced pension benefits and lowered labor costs, turning once chronic deficits into surpluses. The improvements have caught the eye of rating companies, with Fitch Ratings last month raising it four levels to BB+ — one step below investment grade — and Moody's Investors Service and S&P Global Ratings improving their outlooks.

"There's some sun shining in Wayne County," said Matt Dalton, chief executive officer of Rye Brook, New York-based Belle Haven Investments, which oversees $5 billion of municipal bonds, including some Wayne County general obligations. "But they still have a long way to go to keep the momentum going."

The nascent financial recovery shows the county of about 1.8 million residents is finding a way to adjust to the population declines and debt that pushed Detroit, its largest city, into bankruptcy three years ago.

When the fiscal year ends in September, the government expects to have $67.6 million on hand, compared with a deficit of $146 million in 2013.

"We had to agree on the size of the problem before we could agree on how to fix it," County Executive Warren Evans said in a phone interview. "We did a good job assessing our debt and making stakeholders aware of the situation."

Officials are still grappling with long-standing financial pressures, including the need to put more money aside for pensions, and it has a junk-level grade from all three major rating companies. The economy in the county, where Ford Motor Co. is the largest employer, remains challenged by a shrinking population and an unemployment rate in May that was 5.7 percent, a full percentage point more than the overall U.S.

Jail Fiasco

The county also faces new costs as it initiates a plan to sell debt for its jail. It's already paying debt service on $200 million of bonds sold in 2010 for a new facility that was halted midway through construction because of cost overruns. Some of that debt service is supported by a federal interest subsidy, which is under review by the Internal Revenue Service. Meanwhile a local judge has ordered improvements at its existing jail after finding the county neglected maintenance.

Even with the uncertainty of the unresolved audit, Wayne County may benefit from the lowest municipal-market yields in more than half a century, spurred in part by the flood of money into the safest assets after the U.K.'s vote last month to leave the European Union. The Bond Buyer's index of 20-year general obligation yields held at 3.18 percent last week, the lowest since 1965.

Yields Tumble

Wayne County general obligations due in 2039 last traded for an average of $1.07 on the dollar on June 29 to yield 4.5 percent, according to data compiled by Bloomberg. That yield, which moves in the opposite direction as the price, is down from about 7 percent in early November.

“With demand in the muni market it’s a good time for weaker credits to issue,” said Belle Haven’s Dalton. “Anyone that has been thinking about coming to market should do it because this is the right time.”

The county is in a better situation than it was a year ago, when it faced having a state manager appointed to oversee its operations or collapsing into bankruptcy.

Evans, a former sheriff who took office in early 2015, released a recovery plan — which included cutting future pension and health-care benefits for retirees and 5 percent across-the-board wage cuts — designed to save $230 million over four years. In August, the county entered a consent agreement with the state that left it in charge of its own destiny but required officials to work together to turn around the county’s finances.

That agreement made it possible for Evans to reach deals with 11 employee unions that cut its unfunded liabilities for retiree health-care benefits, Evans said.

The county still faces challenges including what S&P called a “weak tax base” in its recent rating report. But if the county keeps up its improvements it may work its way back to investment grade.

“They’re in much better shape but the question is whether they can keep up and stay there,” said John Sauter, credit analyst with S&P, in a phone interview.

Bloomberg Business

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July 6, 2016 — 2:00 AM PDT