
Moody's Lauds Detroit's Move to Set Aside Cash for Pensions.

(Reuters) – The Detroit City Council's approval this month of a special fund to cover pension payments is a positive credit move, although concerns remain over the availability of money to cover retirement benefits, Moody's Investors Service said on Monday.

The council on March 10 approved Mayor Mike Duggan's proposal to deposit $377 million into a trust fund by the end of fiscal 2023 to help Detroit cover higher-than-expected pension payments starting in fiscal 2024.

"This credit positive action will improve the city's capacity to meet the upcoming pension contribution hike," Moody's said in a report.

Detroit, which has a junk rating of B2 from Moody's, exited the biggest-ever municipal bankruptcy in December 2014 with the assistance of money from a so-called grand bargain that included donations from foundations and others to help cover pension costs.

Moody's said Detroit could become financially stressed once money from the trust fund and from the grand bargain is depleted in the 2030s. The credit rating agency also said planned deposits into the pension trust fund could be hampered by lower-than-expected revenue growth.

"Because future (trust fund) deposits are not legally mandated, they could be an attractive cost-cutting target to close potential budget gaps," Moody's added.

Detroit's court-approved bankruptcy exit plan had projected city pension payments to spike to $111 million beginning in fiscal 2024 after years of minimal or no payments by the city. But a subsequent actuarial analysis pegged the payment spike at $200 million or more.

The bankruptcy allowed the city to shed about $7 billion of its $18 billion of debt and obligations. Since its bankruptcy exit, Detroit's finances have been subject to a state oversight commission.

By REUTERS

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