

# **Bond Case Briefs**

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## **Bad Things Can Happen When U.S. Towns Rely on One Taxpayer.**

- **DTE Energy filed tax appeal on aging power plant in Michigan**
- **City of Monroe could see a quarter of its budget wiped out**

American cities routinely dole out tax breaks and other subsidies to lure big companies to set up shop. But one small town in Michigan is discovering the risk that comes with relying too heavily on corporate taxpayers.

Monroe, a 20,000-resident city 40 miles (64 kilometers) south of Detroit, could see a quarter of its revenue wiped out if DTE Energy Co. wins a challenge to its property-tax bill for a coal-fired power plant. That could jeopardize funding for crucial services from public safety to special education, Monroe County's chief financial officer, Michael Bosanac, wrote in an email.

An overdependence on one industry has proven a pitfall for other U.S. municipalities. Detroit collapsed into bankruptcy after decades of seeing its population dwindle as auto-industry jobs disappeared. Atlantic City had to be rescued by New Jersey as some casinos shuttered and others appealed their tax bills. Wayne, New Jersey, could be in trouble now that its third-largest taxpayer, Toys 'R' Us, is out of business.

"A concentrated tax base is a principal credit risk in a small government," said Matt Fabian, managing director and senior analyst at Municipal Market Analytics Inc. "Their reliance on a single industry or company creates potential volatility and that could be hard for a small government to manage."

That's been true for cities that draw a lot of tax money from aging power plants. Energy producers across the U.S. have pushed to wrest concessions from local, state, regional and federal policymakers to keep nuclear and coal power plants afloat in the era of cheap natural gas and the rise of wind and solar power. DTE also filed a tax appeal on its nuclear power plant Fermi 2, located in Monroe County.

### **First Priority**

The company says the appeals are "merely protective," and it intends to negotiate with city and county officials.

"DTE Energy's appeals with the Michigan Tax Tribunal regarding the taxable value of the Monroe and Fermi plants were merely protective appeals that needed to be logged by a set deadline because agreements with the local taxing jurisdictions were not completed," the company said in an emailed statement. "DTE's goal is to reach a reasonable agreement regarding the amount and timing of any reductions before the tribunal makes its decision."

Still, Monroe is set to see the amount of money it gets to fund government services slashed, even as it must continue to make payments on \$45.4 million in outstanding general-obligation bonds. The

city recently warned investors about the tax appeal in a filing with the Municipal Securities Rulemaking Board. Repaying investors is the city's first priority, said City Manager Vincent Pastue. The bonds are rated AA- by S&P Global Ratings.

"Your first obligation is to make your debt payments, Pastue said in a telephone interview. "You don't really have a choice."

Even in cases where tax revenue disappears, bond defaults by cities remain extremely rare. While Toys "R" Us disclosed that it plans to lay off 1,159 employees in Wayne in March, the city still has an Aaa rating from Moody's Investors Service. Atlantic City, which once had a monopoly on gambling in the East Coast, continued paying investors even as its property-tax base has shrunk, though the price of the bonds slipped as its credit rating dropped to junk.

## **Bloomberg Markets**

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July 3, 2018, 5:41 AM PDT

— *With assistance by Tim Loh*