
Detroit Sells $135 Million In Bonds With Its Own Credit.

- City sells $135 million in general obligation bonds
- Its the first bond sale solely using the city's credit in more than 20 years
- Bonds to fund land assemblage for economic development, other projects

The city of Detroit completed a sale Tuesday of $135 million in general obligation bonds, the first time in more than 20 years that Michigan's largest city has tapped the municipal bond market on the back of its own credit — and without the need for expensive layers of insurance for bondholders.

The 4.8 percent interest rate Mayor Mike Duggan's administration was able to secure on the bonds allowed city officials to increase the borrowing from $110 million to $135 million, said John Hill, Detroit's outgoing chief financial officer.

"We got back in the markets for the first time in quite a long time on our credit," Hill told Crain's.

In the years leading up to Detroit's July 2013 bankruptcy filing, the city could only borrow money with the backing of the state of Michigan or with costly insurance layered atop of the debt, which proved complicated to untangle in the bankruptcy.

About 30 institutional investors bought Detroit's new debt, Hill said.

"The (bond) market is really good today. But, as you know, it can change tomorrow," Hill said on a day the Dow Jones Industrial Average plunged 799 points, while the S&P 500 and NASDAQ indexes fell sharply.

The bond sale was completed a week short of the four-year anniversary of Detroit's emergence from a Chapter 9 bankruptcy restructuring that left some past bondholders and insurers with as little as 10 cents on the dollar for past debt deals.

Detroit's new unlimited tax general obligation bonds will be used to finance a series of capital improvement projects at the Detroit Department of Transportation Coolidge bus terminal, neighborhood parks, the Charles H. Wright Museum of African American History and Aretha Franklin Park (formerly Chene Park), according to a memo sent Oct. 22 to City Council members.

The Duggan administration also plans to use a portion of the funds for buying out property owners in areas where officials are trying assemble large tracts of land for potential real estate and economic development opportunities, Hill said.

"This has money in it that would allow the city to assemble larger parcels of land," Hill said.

The mayor's office also is budgeting money from the bond proceeds for transportation infrastructure improvements and capital expenses for public safety facilities and vehicles, according to Hill.

In recent years, the city has been restricted to using budget surpluses to pay for capital expenditures.

“These bonds help take pressure off the city’s general fund to support its capital needs,” Hill said.

The city will have immediate access to the proceeds of the tax-exempt bond, but plans to spread out the capital projects over a period of two years, Hill said.

Moody’s Investors Service assigned a Ba3 credit rating to the bonds, which is still deemed noninvestment grade or junk bonds in the eyes of investors.

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