
S&P Upgrades Detroit's Credit Rating One Notch Closer to Investment Grade.

- **S&P upgrades Detroit's credit rating from B+ to BB-**
- **City's credit rating remains three notches below investment grade**
- **Rating upgrade follows $135 million bond sale solely using Detroit's credit**

Detroit's credit rating is one step closer to exiting the Wall Street doldrums of junk bond status that has hampered the city's ability to borrow for years.

S&P Global Ratings on Thursday upgraded Detroit's credit rating on unsecured debt from B+ to BB-, which is still three notches below the highly coveted status of investment grade for municipal bonds.

"The rating improvement reflects our view of the city's stabilizing financial position, whereby we feel it is well situated to absorb increasing pension commitments and scheduled increases in debt service in the coming years, as well as possible revenue setbacks, while still sustaining year-to-year budget balance and very strong reserves," S&P analysts wrote in a note to investors published Thursday.

S&P analysts cited several economic and budgetary factors that continue to restrain Detroit's credit rating, including a looming increase in pension payments set to escalate in 2024 after a 10-year post-bankruptcy pension holiday ends.

"We feel that stabilizing these neighborhoods will be key to long-term stability," S&P analysts wrote. "A major factor still holding back this progress continues to be the struggling state of the Detroit public school system."

At the end of June, the Detroit Police and Fire Retirement System was 77 percent funded, while the larger General Retirement System for city civil servants was 70 percent funded, according to the S&P report.

Detroit has set up a trust fund to cushion the blow of increased pension payments in 2024 when the city has to resume making full payments to the retirement systems after getting a 10-year reprieve in its 2013-2014 bankruptcy.

"In our view, despite the longer-term planning involved, there remains a pension funding gap that constitutes a structural imbalance, resulting in a management score of weak under our local (general obligation) criteria, which caps the rating," S&P analysts wrote.

The improved credit rating was issued for $135 million in unlimited-tax general obligation (UTGO) bonds Detroit sold in December — first bond sale solely using the city's credit in more than 20 years. S&P's new credit rating applies all city bonds that aren't secured by a specific revenue source.

The S&P upgrade — the second in 14 months — follows credit-rating upgrades by Moody's Investors Service in October 2017 and May 2018.

“We believe an improved credit rating is a strong reflection that our strategies to improve the quality of life in Detroit are working,” Detroit Mayor Mike Duggan said in a statement.

S&P also issued rating downgrades for two separate Detroit-related bonds issued by the state of Michigan.

Michigan Finance Authority’s financial recovery bonds issued in 2014 for the city were downgraded from an A rating to S&P’s BB+ rating.

The rating agency also downgraded the credit rating for the Michigan Finance Authority’s Local Government Loan Program bonds for the Detroit Public Lighting Authority from A to BB+.

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