

# **Bond Case Briefs**

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## **Michigan to Sell \$604 Million of Debt for Flint Water Settlement.**

Michigan is slated to sell \$604 million of taxable bonds to help finance the state's settlement payments to victims of the lead-contaminated water supply in the majority-Black city of Flint.

### **Why It's Noteworthy**

Flint's water crisis began in 2014, when in an effort to cut costs, officials began sourcing the city's drinking water from the Flint River. The river contained contaminants that leached lead from pipes, polluting the water for thousands of residents, including infants and children. Studies found the contamination may have been the cause of a Legionnaire's disease outbreak and several deaths in the area. As a result, former Governor Rick Snyder was charged with two misdemeanor counts for his role in the crisis and eight others face criminal charges. The charges are "wholly without merit," his lawyer has said.

The state has agreed to pay \$600 million into a compensation fund, which will finance recovery awards for children and adults exposed to contaminated drinking water. The state made an initial payment of \$5 million into the FWC Qualified Settlement Fund in February and will transfer the remaining \$595 million of the bond proceeds. Michigan's state legislature will then appropriate approximately \$35 million of annual payments to pay debt service on the bonds.

Payments made from the settlement fund to the plaintiffs will "essentially extinguish" the state's legal liability, according to a Fitch Ratings report. The bonds are being sold through the Michigan Strategic Fund, a state entity.

The deal is being underwritten by Citigroup and Siebert Williams Shank & Co. and is expected to price on June 22, according to investor roadshow documents.

### **'Highly Essential'**

The bonds are rated Aa2 by Moody's Investors Service and AA- by Fitch, the third and fourth highest grades respectively. The debt service is payable from the state's legislative appropriation and is rated one notch below Michigan's general obligation rating by both companies.

"Although the transaction does not grant bondholders an interest in a physical asset, fulfillment of the state's obligation to make these payments constitutes a highly essential purpose for Michigan's government, given the pivotal role of various state agencies and officials in the catastrophic contamination of Flint's water supply starting in April 2014," wrote Moody's analyst Edward Hampton in a report.

"Completion of the settlement payment is crucial not only to containing future financial claims against the state, but also to restoring and maintaining the government's credibility with a large portion of its citizens," he said.

The fact that the proceeds will ultimately go to residents who were harmed by the water crisis is a “distinct positive,” according to a report published in May by Activest, a racial justice investment research firm. Given the scale of the impact, the judgment “is a start, but it falls short of a fiscally-just investment,” according to the report from Activest co-founder Ryan Bowers and his team.

## **Market View**

Jason Appleson, a portfolio manager at PT Asset Management said that the bonds could come to market at higher yields than other appropriation debt because of the unusual nature of settlement bonds.

“The size mixed together with the non-standard format, the fact that it’s a appropriation for a settlement, I think there will be some concession baked in there,” he said, adding that any price drop is likely to be minimized by the ample demand for municipal bonds.

“It will probably get strong numbers but will likely be a little weaker than an essential project that is normally financed with appropriations,” he said. “It is an ideal time to come to market.”

## **Bloomberg Markets**

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— *With assistance by Fola Akinnibi*