Detroit Emergency Manager offers 78 cents on the dollar to major creditors

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10 April 2014

The city of Detroit announced a deal late Tuesday to pay major creditors 78 cents on the dollar, a huge increase from the levels previously proposed, in exchange for their agreement with the Plan of Adjustment drawn up by Emergency Manager Kevyn Orr.

The deal would pay $287.5 million out of $388 million worth of general obligation bonds owed to Assured Guaranty Ltd, Ambac Assurance Corp, and National Public Finance Guarantee Corp. As of less than two weeks ago, these creditors were set to receive only 15 cents on the dollar.

While the major creditors are paid back nearly 80 percent of what they were originally owed, Detroit's retirees face the sudden reduction of their incomes by more than 50 percent, once the loss of dental, vision, health insurance, and cost of living adjustments are taken into account.

The deal was worked out by Chief US District Judge Gerald Rosen and his team of mediators in behind-the-scenes negotiators conducted over the last several months.

The deal is intended to put additional pressure on workers to accept the draconian cuts to retirement pensions and health benefits. As the *Detroit Free Press* acknowledged, the deal is “structured to lure pensioners to vote in favor of the city’s restructuring plan.”

Orr has been equally forward. “I implore all parties, specifically our labor parties: Please come in and do deals. I do not want to do a cram-down in this case,” Orr said on CNBC Tuesday. “The train is leaving the station. Now they need to get on board,” Orr said.

Bankruptcy Judge Rosen echoed these sentiments, saying, “The Mediators hope that this settlement will encourage all of the remaining parties to the bankruptcy to re-double their mediation efforts to reach meaningful agreements.”

Orr said that $57 million in funds owed by the creditors will be diverted to “an income stabilization fund,” which will supposedly “insure that the most vulnerable retirees remain above the Federal Poverty Line.”

If the retirees vote in favor of the plan, they will see their pensions cut 6 percent for police and fire and 26 percent for general retirees, whereas a no vote will boost the cuts to 14 percent and 34 percent respectively. This is despite the fact that pensions are legally guaranteed, constitutionally secured assets, not risk-based investments like municipal bonds.

Many Detroit retirees have medical costs of thousands of dollars per month. With their health benefits being taken away, these costs (copays, prescription medications, etc.) will dramatically undermine the household budgets of thousands of retirees, condemning them to destitution.

Orr said the fund would be used to keep retiree pensions at 133 percent of the federal poverty line, for a total of $15,500 per person. This is a paltry sum, especially considering that many Detroit pensioners support a network of dependents.

Representatives of the Detroit Retiree Committee have said in public statements that the cuts as currently planned will thrust at least 20 percent of retirees below the poverty line, in addition to the 10 percent already living in poverty according to their estimates. The retiree committee has calculated that Orr’s plan amounts to an 85 percent reduction in city funding for retiree health care.

Orr’s offer of $56 million over 10 years, moreover, is nowhere near sufficient to reliably secure the rights of pensioners, especially when it is taken into account that, as reported by *WDIV Detroit* on Tuesday, the city is seeking to "claw back" $400 million in payments made to city workers under the Annuity Savings Plan.

UBS and Bank of America are also set to receive a hefty payment of $85 million to settle their semi-legal swaps deal with the city, which US Bankruptcy Judge Steven Rhodes is set to rule on this Friday. With major bondholders now signing on, the conditions are being prepared for a forcible imposition by the bankruptcy court on remaining creditors and retirees who refuse to agree to the plan.

In recent days, despite all the talk about equal sacrifices and the "grand bargain" to save pensions and the DIA, the contours are emerging of a wholesale looting operation that includes outright privatization of the Detroit Water and Sewerage Department (DWSD). Far from the Detroit Institute of Arts (DIA) being protected, reports emerging today indicate that there are already bids to take the entire priceless collection out of city hands.

A Detroit creditor announced Wednesday that it received bids from investors seeking to purchase art from the DIA collection. Potential offers from Catalyst Acquisitions / Bell Capital Partners, Art Capital Group, Yuan Management Hong Kong Limited, and Poly International Auction ranged from a $895 million offer for 116 pieces, to a $2 billion offer for the entire 66,000 piece collection.