

MEMO# 27386

July 18, 2013

ICI Submits Letter to Governor and Treasurer of Michigan Regarding Treatment of Detroit General Obligation Bonds

[27386]

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TO: FIXED-INCOME ADVISORY COMMITTEE No. 16-13
MUNICIPAL SECURITIES ADVISORY COMMITTEE No. 17-13
INVESTMENT ADVISER MEMBERS No. 50-13
SEC RULES MEMBERS No. 69-13 RE: ICI SUBMITS LETTER TO GOVERNOR AND TREASURER OF MICHIGAN REGARDING TREATMENT OF DETROIT GENERAL OBLIGATION BONDS

On July 18, Paul Stevens, ICI's President and CEO, submitted a letter to Rick Snyder, Governor of the State of Michigan, and Andy Dillon, Treasurer of the State of Michigan. The letter, which is attached, expresses concern regarding the proposed treatment of Detroit's outstanding general obligation (GO) bonds under a restructuring plan for the city that was recently proposed by the state-appointed Emergency Manager. According to recent news reports, if restructuring negotiations are unsuccessful, Detroit could file for bankruptcy within days. [*](#)

Under the restructuring proposal, Detroit would cease paying amounts due on all unsecured obligations, including GO debt, pension liabilities, other post-employment benefits (OPEBs), and other claims. All unsecured creditors of Detroit would instead share pro rata in a \$2 billion note on claims totaling approximately \$11.5 billion.

The letter asserts that if Detroit were to fail to honor the terms of the GO bonds, it would set a very dangerous precedent. It explains that funds and other investors bought Detroit's GO bonds on the City's promise that they were backed by the City's full faith and credit, including its taxing power. Breaking that promise would change fundamentally the nature of GO bonds as an investment option – not just for Detroit but for other Michigan issuers as well, irrespective of their credit rating. The letter states that failure to honor the terms of the GO bonds would make these bonds far more risky and costly than ever before perceived by the market. The letter urges Governor Snyder and Mr. Dillon to protect the rights of funds and other investors that purchased Detroit's GO bonds, noting that while the City's restructuring plan may yield short term liquidity benefits to Detroit, these must be

balanced against higher borrowing costs, and a higher risk of downgrades, impacting municipal finance in Michigan far into the future.

Sarah A. Bessin
Senior Counsel

[Attachment](#)

endnotes

*See, e.g., Matthew Dolan, Decision Day Nears for Detroit Bankruptcy: City's Emergency Manager May File Case Within Days, Wall Street Journal, July 18, 2013, at A5.

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