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Detroit's Orr visits Goldman Sachs as bankruptcy court runs out of cash
October 4, 2013

Detroit Emergency Manager Kevyn Orr visited Goldman Sachs on Tuesday to speak in front of municipal bond investors and restructuring professionals, said Bill Nowling, spokesperson for the emergency manager. Orr thought it important for the city to continue to meet with the municipal finance community, Nowling said.

The city needs to work to maintain ties with the market because it is seeking debtor-in-possession (DIP) financing, and, eventually, a new bond for its water and sewer system, said Nowling. The city's request for DIP proposals was due on 30 September, the day before Orr visited Goldman Sachs. Nowling declined to comment on the proposals the city received.

Maintaining an open dialogue with the market is critical considering how disturbed the market has been by Orr's proposal to impair unlimited tax general obligation bondholders.

"Even if the federal court affirms that the unlimited general obligation is secured, I don't think I would approve a future Detroit issuance," said an attendee. The city hasn't shown a willingness to pay and the state has endorsed its behavior.

This meeting comes a few weeks before objections to bankruptcy will be heard in the Eastern District Court of Michigan. Legal or constitutional objections will be heard 15 and 16 October, while factual objections to eligibility are scheduled for 23 and 24 October, according to court documents.

The shutdown of the federal government could put a crimp in the city's bankruptcy proceeding. The Bankruptcy Court in the Eastern District of Michigan will run out of money on 14 October, Nowling said. The court clerk did not respond to requests for comment. The city does not have a "plan b" in the event bankruptcy proceedings grind to a halt, Nowling said.

During his meeting at Goldman Sachs, Orr expressed some concerns about whether the city met the requirement for negotiating in good faith, said one of the attendees. He used a basketball analogy, stating, 'It's not a slam dunk, but I think we have a pretty good layup position,' the attendee said.

A spokesperson for Goldman Sachs declined to comment.

The eligibility hearings are the city's next hurdles, but in order to secure DIP financing it will also need to resolve a dispute tied to its casino revenues, Nowling said. Syncora is alleging that as the insurer to a swap agreement between the city and swap counterparties Merrill Lynch and UBS, it would need to approve any forbearance of the agreement.

The agreement would have the city pay its counterparties anywhere from 75% to 82% -- depending on when the termination event occurs -- of the swap's USD 343m fair market value, as previously reported. Terminating the swap pursuant to the agreement would unencumber roughly USD 180m in annual wagering revenue that the city could use to bond out more debt.

Orr confirmed that he is not interested in a second round as emergency manager, meaning his term will end in September 2014, said one of the attendees. Orr hopes to be done with the bankruptcy by then, the attendee and Nowling said.

The city has a 1 March 2014 deadline plan of debt adjustment, according to court documents. It plans on filing it by the end of the calendar year, Nowling said.

"A good portion of the work has already been done," Nowling said, referencing the 14 June proposal for creditors. "It's not going to look too different from that."

A USD 3.6m tranche of Series 2008A general obligation unlimited tax bonds which mature in 2020 last traded 27 August at 95.5, yielding 5.9%, according to Electronic Municipal Market Access. The bonds are insured by **Assured Guaranty**. The underlying debt was last rated D by Standard & Poor's on 2 October, D by Fitch Ratings on 30 September, and Caa3 by Moody's Investor Service on 17 June.

by Maryellen Tighe