



# **PAPERS**

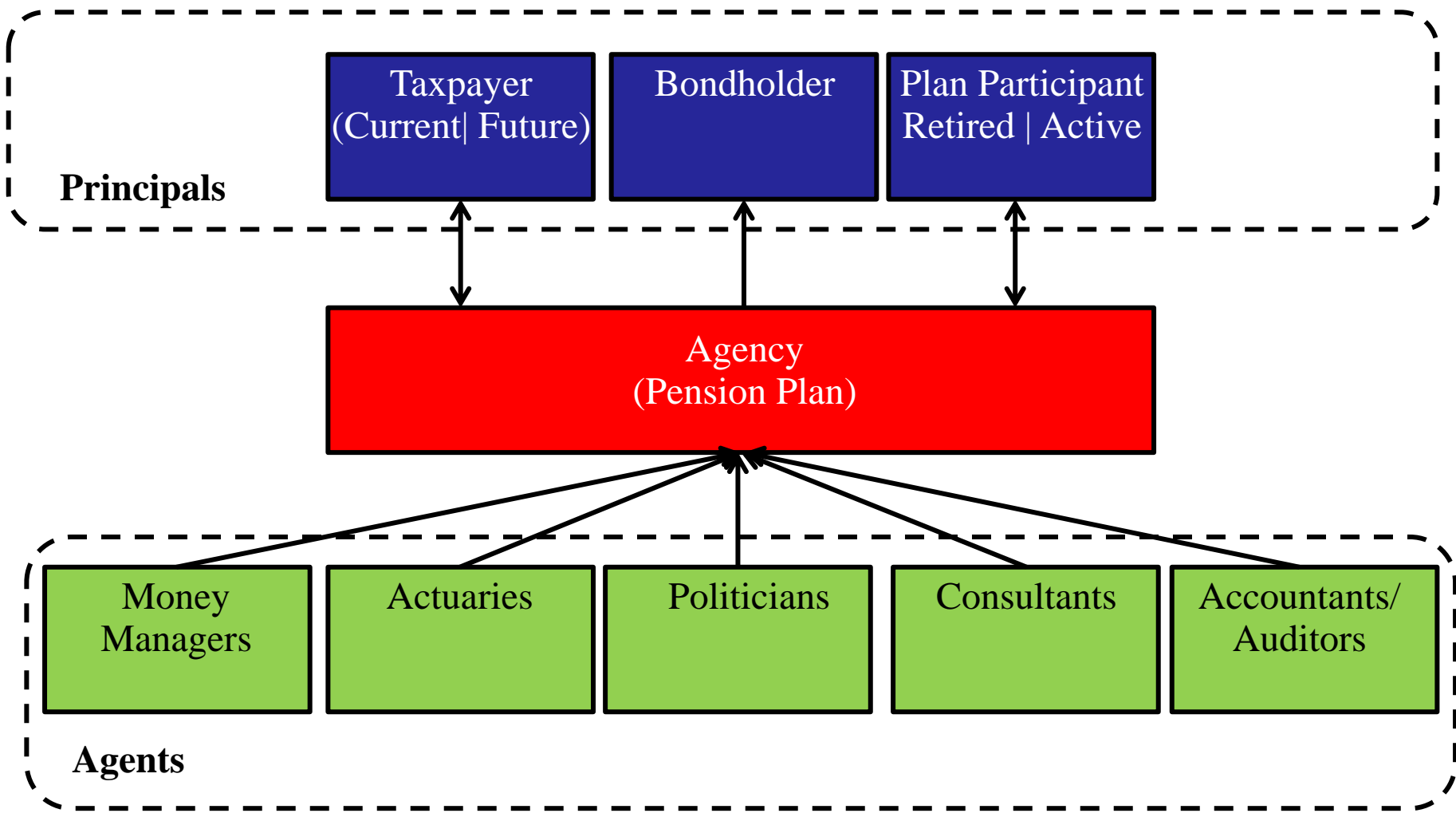


## **Implications of the Detroit Bankruptcy on Public Pension Plans in PA**

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# Pension Obligation Bonds: Principals vs. Agents Tension



Bankruptcy is a very blunt instrument

It is used as a last resort; like operating with a meat cleaver.

It is an extraordinary means for resolving disputes that appear irresolvable under ordinary conditions

Detroit could have accomplished all negotiations outside of Federal Court

Bankruptcy is a legal framework with political influence

Looking to exit Bankruptcy in October 2014

Detroit has roughly 700,000 citizens and 100,000 creditors

Detroit is in solvent and not sustainable

Filed Federal Law Chapter 9 in July 2013

Players: Emergency Manager Kevyn Orr , U.S. Bankruptcy Judge Steven Rhode, Gov. Rick Snyder

Detroit needs to restructure \$18 billion long term obligations

Negotiations have favored pension holders over bondholders

State's Constitution protects pension holders

Bankruptcy rules require equal treatment for creditors

Detroit's pension beneficiaries are receiving cash from the State and private foundations that will not be shared with the bondholders

\$3.7 trillion municipal bond market

AMBAC, MBIA insured Detroit's unsecured general obligation bonds

Insurance exposure is roughly \$500 million

General Obligations will receive 75% on the dollar

Limited Obligations will receive 15% on the dollar

Judge rules that pension benefits could be reduced

20,000 retirees, 10,000 active employees

Retired Police and Fire benefits would remain intact

Municipal retirees expect a 4.5% cut in benefits

COLAs will be reduced moving forward for active

Detroit has a five year collective bargaining agreement in place with 14 unions including the American Federal of State, County and Municipal Employees

\$800 million from State and private foundations

Dollars will support retiree pension plan

Spare the sale of art at the Detroit Art Museum



2005 | 2006 Taxable Pension Obligation Bonds

Issued \$1.4 billion “certificates of participation”

Circumnavigation of the Detroit statutory debt limit

Swaps transaction with counter parties (banks)

Detroit gave banks a lien on casinos revenues

100,000 creditors

Interested parties are watching the Detroit bankruptcy closely

Bankruptcy is a one-time chance to reset the playing field

Key principals are taxpayers, bondholders and pension holders

Detroit needs to rebuild and attract new entrants to the city

Rating agencies will continue to scrutinize the CAFR documents

Municipality will need to defend and protect their credit rating

Risk Management will be a key service for Pensions and OPEB funds

# **Appendix**

**S&P reports a change in March 2012**

Reports Outstanding Debt plus Pension Deficit at 8%

**Fitch reports a change in April 2012**

Reports Outstanding Debt plus Pension Deficit at 8% | 6% | 4%

**Moody's reports a change in July 2012**

a.Reports Outstanding Debt plus Pension Deficit at Corp AA

## Financial Review | Description | Strengths | Negatives

### DESCRIPTION

Most populous city in MI and the seat of Wayne County

Population - 700,000

Current unemployment rate of 16.3% vs national 7.57%

Market value per capita - \$26,400,

Debt 21% of mkt value + need to borrow \$300 for swap termination payment

Revenue Sources: income taxes (21%), property taxes (13%), state-shared revenues (16%), wagering taxes (16%), utility

Liabilities: Pension \$3.5bn, OPEB \$5.7bn, Bonds (GO and Revenue) \$9.2bn

Revenue bonds - \$5.95bn (65%), GO bonds - \$3.26bn (35%); Insured debt - \$6.8bn, Uninsured - \$1.0bn

Secured obligations - \$7.23. Impaired - \$1.98bn. Possibly impaired (OPEB and Pension)- \$9.19bn

Utility system (water & sewer) system -most significant and monetizable asset

Has 2x as many pensioners as employees, more spent on retirees than workers, spend on retirees up 46% since FY'00

Filed CH 9 in Jul'13; Emergency Manager - Kevyn Orr

Strategy: priority to restoring city services over addressing bondholders' complaints; cuts to the value of some bond

Revenue FY'12 \$1.1bn; Fund Balances neg. \$270mm; Total Assets \$247mm

### STRENGTHS

+ Broad and diverse economy

### NEGATIVES

- Very weak economy with very low current and projected per capita buying income

- Ongoing population decline

- Political instability and inability to execute structural reform:

- Uncertain access to liquidity, inability to raise revenue or cut expense:

- 10 yr record of large negative GF reserves

- Dramatic drop in property values--> drop in property taxes:

- Track record of disastrous management esp. starting since mayor Kilpatrick

- Pension is 19% of city's total debt load, Kilpatrick's high finance swap - 20% of debt

- Unfunded OPEB of \$5.7bn, OPEB pmts in FY'12 - \$262mm or 16.5% of gov'tal expenditures

# Detroit Bankruptcy: Financial Review of General Fund

## FINANCIALS - General Fund

\$MM	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
<b>Balance Sheet</b>							
+ Cash & Near Cash	16.1	12.4	1.9	5.2	166.6	58.6	49.8
+ Acct Receivable	14.4	-14.8	-2.9	-10.5	3.6	-6.3	-18.5
<b>Total Assets</b>	<b>246.9</b>	<b>290.2</b>	<b>395.9</b>	<b>418.5</b>	<b>545.3</b>	<b>421.5</b>	<b>391.2</b>
+ Accounts Payable	18.9	23.2	21.1	13.9	16.5	14.9	20.1
<b>Total Liabilities</b>	<b>516.4</b>	<b>438.2</b>	<b>487.0</b>	<b>685.2</b>	<b>687.0</b>	<b>512.9</b>	<b>498.4</b>
+ Unreserved General Fund	-291.4	-169.7	-155.7	-331.9	-219.2	-155.6	-173.7
<b>Total Fund Balances</b>	<b>-269.5</b>	<b>-148.1</b>	<b>-91.1</b>	<b>-266.7</b>	<b>-141.7</b>	<b>-91.4</b>	<b>-107.2</b>
<b>Total Liabilities and Fund Balances</b>	<b>246.9</b>	<b>290.2</b>	<b>395.9</b>	<b>418.5</b>	<b>545.3</b>	<b>421.5</b>	<b>391.2</b>
<b>Statement of Revenues, Expenditures &amp; Changes in Fund Balance</b>							
+ Income Tax Revenues	233.0	228.3	216.5	240.8	276.5	278.3	284.1
+ Property Tax Revenues	147.8	182.7	143.0	163.7	155.2	183.8	185.3
+ Other Tax Revenues	407.6	473.5	502.5	500.5	492.1	519.9	508.7
+ Charges for Services	149.2	154.9	154.1	167.4	193.3	243.5	184.4
+ Federal Grants	61.6	65.4	51.3	45.8	50.2	52.3	9.4
<b>Total Revenue</b>	<b>1,102.3</b>	<b>1,220.3</b>	<b>1,188.0</b>	<b>1,268.4</b>	<b>1,303.4</b>	<b>1,487.4</b>	<b>1,400.9</b>
- Community Development Expenses	176.5	180.4	237.1	305.2	298.2	310.2	233.2
- Health Expenses	73.7	73.0	86.4	81.5	82.0	76.5	96.2
- Public Safety Expenses	629.9	695.5	603.7	619.3	619.5	617.6	638.8
- Interest Debt Service	0.9	2.6	7.5	2.5	3.4	7.1	5.6
<b>Total Operating Expenses</b>	<b>996.4</b>	<b>1,070.2</b>	<b>1,068.9</b>	<b>1,155.9</b>	<b>1,181.4</b>	<b>1,278.1</b>	<b>1,410.1</b>
+ Excess (Deficiency) of Revenues Ov	105.8	150.1	119.0	112.5	122.1	209.3	-9.2

# Detroit Bankruptcy: Financial Review of Government Fund

## FINANCIALS - Government Fund

SMM	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
<i>Statement of Net Assets</i>							
+ Cash & Near Cash	390.2	156.4	136.2	211.7	417.0	257.5	86.1
+ Acct Receivable	431.6	453.6	507.2	481.8	357.2	468.5	429.1
+ Total Capital Assets	6,841.9	6,852.5	7,026.9	6,977.4	6,832.8	6,959.3	6,856.0
Total Assets	10,311.2	10,030.1	10,371.7	10,399.5	10,729.6	10,963.7	10,270.5
+ Accounts Payable	263.4	278.8	185.2	203.1	259.3	249.1	308.1
+ S-T Debt	N/A	N/A	35.5	223.6	129.6	129.4	N/A
+ L-T Debt	9,113.0	8,366.5	163.7	154.6	153.5	146.3	246.9
Total Liabilities	10,683.2	10,059.1	10,106.6	9,499.4	9,465.8	9,223.5	8,569.5
+ Restricted Net Assets	535.8	413.5	378.2	490.0	462.8	424.4	414.9
+ Unrestricted Net Assets	-2,759.0	-1,590.4	-1,612.6	-920.2	-501.3	-426.9	-230.9
Total Net Assets	-372.0	-29.0	265.1	900.1	1,263.7	1,740.2	1,701.1
<i>Statement of Activities</i>							
+ Property Tax Revenues	216.9	235.9	218.0	231.4	225.6	241.4	243.6
+ Income Tax Revenues	233.0	228.3	216.5	240.8	276.5	278.3	284.1
+ Other Tax Revenues	411.2	478.4	482.1	503.9	523.7	522.4	573.8
+ Charges for Services	1,117.7	1,063.8	1,010.1	1,095.0	1,076.4	1,091.1	1,018.6
+ Operating Grants	403.9	448.3	431.7	385.3	385.6	353.9	318.9
Total Revenue	2,302.2	2,462.9	2,470.7	2,545.0	2,525.5	2,727.1	2,674.7
- Health Expenses	142.6	170.2	170.8	158.9	158.8	153.4	177.4
- Public Safety Expenses	800.2	816.9	779.6	789.1	761.9	633.2	681.1
- Utilities Expenses	826.7	862.8	778.2	800.0	789.9	762.8	593.5
Total Operating Expenses	2,645.2	2,757.0	2,737.5	2,908.7	2,842.8	2,688.0	2,599.2
Change In Net Assets	-343.0	-294.1	-266.8	-363.7	-317.3	39.1	75.6



# Detroit Bankruptcy: Financial Review of Pension Fund

## PENSION GENERAL

\$MM	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006
FV of Plan Assets Actuarial	6,885.1	6,885.1	7,357.6	7,957.4	7,893.8	7,361.2	6,980.3
PBO Actuarial	7,528.8	7,528.8	7,910.4	7,680.6	7,526.0	7,243.3	7,127.8
Underfunding	-643.7	-643.8	-552.8	276.8	367.7	117.9	-147.5
Funded Ratio %	91%	91%	93%	104%	105%	102%	98%