Detroit Public Schools to close on state aid note refinancing as technical default looms
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The **Michigan** Treasury is in the process of refinancing **Detroit Public Schools**' (DPS) roughly USD 214m in outstanding Series 2011 and Series 2012 state aid notes, said a spokesperson for the department. The notes were knocked deep into junk territory in early August.

Treasury expects to close the deal by 30 September, the spokesperson said. The bond refunding will be under the Michigan Finance Authority's (MFA) Local Government Loan Program. Authorizing resolutions for the Local Government Loan Program and State Revolving Fund are both on the MFA's agenda for a meeting scheduled for tomorrow at 10 am.

Debt service on the Series 2011 and Series 2012 notes is due on 1 June and 1 December of each year, according to the offering documents. If the state aid backing the bonds is diverted to the "new" district on 1 October and the bonds aren't refinanced by then, that would constitute an event of default, said Joseph Urban of law firm Clark Hill. The Michigan-based attorney focuses on education law.

"More information will be posted to [*Electronic Municipal Market Access (EMMA)*] after the MFA authorizations are approved," the spokesperson said.

After the distressed district was split in two, its state aid notes remained in limbo, leading bond prices on chunks of the state aid notes to reach all-time lows, as reported. A USD 19.7m tranche of Series 2012 state aid notes last traded on 16 September at 98.79 yielding 5.42%, down from 109.76 at the start of the summer, according to EMMA.

The bonds are backed by state aid revenues from Michigan, which are supposed to be diverted to the Detroit Public Schools Community District, the new entity created by the state to educate the city's students, leaving debt behind with DPS.

An 18-mill non-homestead tax levy will likely back the new notes, since the state aid backing the notes will be diverted to the "new" district, Urban said. Historically, districts that have repurposed the 18-mill non-homestead tax levy have had access to emergency loans from Michigan, said Craig Thiel of the Citizens Research Council.

For example, **Buena Vista School District** was dissolved as its students enrolled in neighboring districts, leaving the district as solely a debt-paying entity. However, DPS will not have access to such emergency loans for its restructuring, Thiel said.

The Series 2011 and Series 2011 bonds are rated B and on CreditWatch Negative by S&P Global Ratings. Moody's grades the underlying school district Caa1, with a developing outlook.