

Judge Allows Detroit to Keep Casino Tax Revenue

by Joel R. Glucksman on October 8, 2013

Detroit will be allowed to continue accessing casino tax revenue during its bankruptcy proceedings while negotiations with creditors relating to these revenues take place, a bankruptcy court has ruled.

U.S. Bankruptcy Judge Steven Rhodes authorized the struggling city to take in the casino tax revenue - which amounts to roughly \$11 million each month - despite objections from bond insurer Syncora Guarantee Inc., which tried to block Detroit from using the funds. Detroit collects roughly \$180 million annually from three of its casinos, Reuters reports. Of these funds, nearly \$15 million is deposited each month into accounts managed by U.S. Bank to meet collateral requirements. The financial institution also sets aside \$4 million each month for quarterly payments to swap counterparties, which leaves Detroit with the remaining \$11 million.

However, Syncora insured the swaps as well as a portion of the Detroit pension debt associated with these transactions, and lobbied to block the city from gaining access to the casino revenue. Rhodes ruled that Syncora does not have a lien on the funds and could therefore not inhibit the city from using them, Reuters reports.

The ruling comes as good news for Detroit, which has been heavily reliant on the casino revenue to stay afloat, both before and after filing its unprecedented \$18 billion bankruptcy case. Emergency manager Kevyn Orr recently spoke at a deposition, where he noted that the casino revenue has been critical in helping the city meet its most basic obligations, the Detroit Free Press reports. Orr said that the city's finances had dwindled so low that the paychecks of some city employees were bouncing. However, the casino revenue has been a consistent and steady source of income for the ailing municipality.

Although the court's decision was a win for Detroit, it can expect to see several other legal challenges brought against it in the coming months. Many legal analysts are watching the case closely, as investors, creditors, and insurers are expected to challenge some of the more complicated provisions of bankruptcy law.