NC Bankruptcy Lawyer Harrisburg PA faces possible bankruptcy,Mayor Linda Thompson and Council states

NC Bankruptcy Lawyer reports Harrisburg faces possible bankruptcy, as Mayor Linda Thompson and Council weigh their options. How bad is Harrisburg's financial crisis? Consider this: The city's financial rating has dropped twice since October.

Feb. 14, 2010 - *PRLog* -- How bad is Harrisburg's PA financial crisis? Consider this: The city's financial rating has dropped twice since October, and currently sits at junk bond status, but that's not the worst part. The city may not be able to meet payroll in two weeks and will very likely default on just over $2 million in debt payments due March 1. Even that's not the worst part.

This year, the city owes an additional $66.7 million in debt payments — more than the entire annual city budget. Much of the problem stems from the Harrisburg Authority's $288 million in incinerator debt, which Harrisburg has guaranteed. The crisis has already drawn national attention from CNN, Bloomberg News and The Wall Street Journal.

Mayor Linda Thompson's $65 million budget proposal called for raising property taxes by 20 percent and water bills by 40 percent, but it did not include any concrete plan to deal with the staggering debt payments due this year. That drew sharp criticism from some members of the public, as well as City Controller Dan Miller. Miller is pushing for the city to look into municipal bankruptcy as a possible solution.

Thompson refused to comment for this story. She said at a press conference on Jan. 26 that "bankruptcy is not on my table as an option." But what happens if the city pursues the dreaded "b" word? And what are its other options?

BANKRUPTCY

Since 1981, only four Pennsylvania municipalities have sought Chapter 9, the municipal version of bankruptcy protection, in federal court. It worked for Westfall Twp. in the Poconos. The township of about 2,400 people lost a $20 million lawsuit to a developer. With a $1 million annual budget, the judgment far outstripped Westfall's ability to pay and the town filed for bankruptcy last April. A judge reduced the debt from $20 million to $6 million, and a special tax was placed on Westfall's residents to pay it.

That's why Dan Miller thinks Harrisburg should pursue the idea. "The main thing about this municipal bankruptcy is that it adjusts the ($288 million) debt," Miller said. "If we could reduce that to $100 million through municipal bankruptcy, we don't have to sell any of our assets."

Bankruptcy has two other advantages, Miller argues. First, a federal judge must approve the city's rescue plan. Because of the separation of powers between the federal and state governments, the judge cannot "order or decree in the case" by telling a city what to sell -- for example, "Your plan must include the sale of City Island." Harrisburg, Miller argues, actually retains the greatest control over its own destiny by filing for bankruptcy.

At the same time, under bankruptcy, the burden must be shared equally by everyone, not just the creditors," says Michael Pagano, a municipal finance expert at the University of Illinois-Chicago. The judge's main role in municipal bankruptcy is to ensure that all parties are sacrificing and sharing the pain — from taxpayers to labor unions to creditors.

From Miller’s point of view, the other advantage is that bankruptcy will almost certainly force the incinerator bondholders to the bargaining table. The judge has the ability to “cram down” an agreement on the bondholders, whether they like it or not. Rather than leave their fate in the hands of a judge, the bondholders are likely to try to make their own bargain with the city.

However, at this point, neither Mayor Thompson nor City Council are exploring bankruptcy — at least publicly. “No one has ever brought this to the table,” Miller said. “It’s not in our emergency plan. It’s nowhere to be seen.”

ACT 47

Act 47 is designed to keep cities from filing for bankruptcy. In return for accepting state supervision of its rescue plan, the city may receive state loans to maintain basic services. Those loans must be repaid.

Last September, the city of Reading filed for Act 47 status. Mayor Tom McMahon told the Reading Eagle that while no one wanted the “distressed city” stigma of Act 47, “the stigma of municipal bankruptcy” was far worse.

Still, Reading’s situation is radically different from Harrisburg’s. Reading faced a $13 to $18 million budget shortfall in 2010 due to its basic financial situation. “Quite simply, the gap between the city’s revenues and expenditures has grown significantly based on an unworkable structure,” a study group's report said. “The costs of pensions, health care, labor and general operations keep rising and revenue from taxes and fees can’t cover those costs.”

Under Act 47, municipalities normally attempt to renegotiate with creditors and labor unions. They are not forced to negotiate. But most parties recognize that they’re better off coming to the table voluntarily than under bankruptcy, where a judge can force they to accept an even harsher agreement.

While Harrisburg faces its own financial squeeze due to basic operating expenses, it is the huge looming debt payments that threaten to swamp it. Unlike a bankruptcy judge, the state under Act 47 cannot reduce a city’s debt. But the hope would be that bondholders would voluntarily offer to renegotiate a lower debt, rather than risk the decision of a bankruptcy judge.

Some business leaders favor Act 47 over the “b” word. “Bankruptcy would be an albatross to have hung around the city that could negatively impact the city for decades,” said David Black, president of the Harrisburg Regional Chamber of Commerce. “The stigma attached to Act 47 is not the same.”

TAX, CUT AND SELL

Late last year, the consulting firm Management Partners was hired to find a way out of Harrisburg’s crisis. Midway through its work, the firm issued a warning that the city might not be able to act quickly enough to avoid Act 47. But when Management Partners and Thompson presented the firm’s report on Jan. 26, they did not discuss Act 47 at all.

Instead, they listed 21 actions the city could take in an effort to avoid bankruptcy. Those included selling assets like the parking garages or the incinerator itself. It’s a common remedy. The city of Pittsburgh, arguably the largest bankruptcy scare in Pennsylvania history, sold off its water plant in 1995 in a last-minute deal to avoid bankruptcy.

Other suggestions by Management Partners included furloughing city workers and freezing their wages, doubling the parking tax, and sharply increasing water and sewer rates. Thompson’s budget did include much higher new utility rates.

Critics have said that Management Partner’s ideas would provide more operating cash but not pay off enough of the incinerator debt, and would only create other problems. Harrisburg’s water, sewer and parking garages are the most valuable assets that someone would actually want to buy, said Controller Dan Miller.

“Last year, they generated $18.5 million in revenue for our city’s budget,” Miller said. “That’s more than our real estate taxes generated. My big concern with this plan is: We sell those assets this year to pay off some debt service. What are we going to do next year with an $18.5 million hole in our budget?”

The idea of Dauphin County as a savior also seems unrealistic. County financial adviser Jay Wenger has made it clear that Dauphin County does not intend to swoop in and start paying the city’s debt. The county commissioners have also urged Harrisburg to sell assets. But even if it did, Miller argues that these and other recommendations by Management Partners will take too long to avoid defaulting on the upcoming loan payments.

He may be right. The city of Reading hired Management Partners back in 2006 to help with its financial crisis, and the firm made recommendations similar to those it suggested in Harrisburg. “Recommendations are easier made than implemented,” said Chief of Staff Chris Kanezo.

http://www.debtlawhelp.com
http://www.charlottemarketingfirms.com

# # #

Optimization Advertising, LLC
8440 Rea Road, Suite L
Charlotte, NC 28277

http://www.optimizationadvertising.com

--- End ---

Source	Optimization Advertising
City/Town	Charlotte
State/Province	North Carolina
Zip	28277
Country	United States
Industry	Legal, Banking, Loans
Tags	nc, Bankruptcy, Lawyer, Harrisbug, pa, Financial, Crisis, Mayor, Linda, Thompson, Ratings, Faces, Possible
Link	https://prlog.org/10532118