



TAMPA BAY BANKRUPTCY CENTER, P.A.

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About Local Government Bankruptcies

State governments are often divided over the issue of allowing local town governments to file for bankruptcy. The state of Indiana, for example, does not have legislation that allows for this while most other states in the US do. Indiana governor Mitch Daniels is pressing for statute to be passed for this effect.

Indiana state senator Ed Charbonneau (R-Valparaiso) proposed legislation last month to allow local government an option for bankruptcy. Under Charbonneau's proposal, the Indiana Distressed Unit Appeals Board would be empowered to appoint an emergency manager for a distressed unit who in turn could recommend filing for bankruptcy.

But even though a state does have statute that permits bankruptcy filing, there may still be other obstacles. For instance, the city of Hamtramck has been trying to file for bankruptcy for some time but has not been permitted to do so by outgoing Michigan governor Jennifer Granholm.

According to city manager Bill Cooper, the governor does not want to set a precedent for other cities and towns in Michigan to follow suit. But Hamtramck is adamant in pursuing the matter.

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Many city municipalities are struggling under the heavy weight of debt and depleting revenue. Hamtramck has its own unique situation. The small 2.1 square mile city has a tax-sharing agreement with the city of Detroit for General Motor's Detroit-Hamtramck assembly plant from which it derives much of its \$18 million annual revenue.

But Detroit has been facing its own financial woes and alleged that they have overpaid Hamtramck for the last decade or so. Last year, Detroit withheld \$2 million in its annual payment. As a consequence, Hamtramck sued for the money and Detroit counter-sued. The matter is now in court.

Hamtramck has taken as many cost-cutting measures as possible. After cutting overheads on most city services, the city now intends to cut down on salaries, benefits and pensions for public workers which would force unions to reopen negotiations for contracts.

On its part, the state government offered Hamtramck 3 options to ease its \$3 million deficit. They could take up a loan for the entire amount in deficit repayable over 20 years or take up a tax anticipation loan of up to half of what the city anticipates to collect in terms of property taxes in 2011 or opt for a fiscal stabilization bond which allows the city to borrow 3% of its assessed value.

The state government has left it to the city to decide which option it wants to take up.

If you or your business are struggling financially, you may want to consider filing for bankruptcy protection. If that is the case, call us at (813) 200-4133 for a free consultation.