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Alabama County Rejects Debt Settlement, Stalls Bankruptcy

Jefferson County, the largest county in Alabama, voted unanimously to reject a settlement with Wall Street creditors that would wipe out \$3.1 billion in debts the county owes. This has effectively given more time for the commission president and finance chair to personally negotiate a deal. The deadline to do so has been fixed for September 16. The \$3.1 billion debt comprises of money owing for sewerage system services that has been outstanding for several years. The debt has accumulated over the years due to a combination of factors such as old sewerage pipes, the economic recession, court rulings and corruption.

The county has been stalling filing for bankruptcy for the last 3 years. The case has drawn the attention of a host of parties including the governor of Alabama, state officials and the court-appointed receiver. David Perry, the governor's chief of staff said that filing Chapter 9 bankruptcy is still an option but added that, "a general framework for a deal is in place."

The governor's office made a statement that said, "The county and creditors do not have a definitive deal in place yet but they have a conceptual framework that keeps sewer rate increases at a minimum and resolves the problem once and for all for the county."

Perry confirmed that Governor David Bentley and legislators would work to formulate

any laws required if county leaders could work out a deal with the creditors.

The official for county finances, Commissioner Jimmy Stephens said members of the commission felt that a bankruptcy settlement would be more favorable to the county than the settlement offered by the creditors. This was the primary reason the commission unanimously voted to reject the proposed settlement.

If the county files for bankruptcy, it would become the single biggest municipality bankruptcy in the country. The total debt of the bankruptcy would come up to about \$4.1 billion taking into account other debts involving schools and other projects.

The creditors proposal to settle the debt involves sewerage rate increases of almost 25% within 18 months coupled with single-digit increases for as long as 40 years. In return, the creditors would write off more than \$1 billion in debt. \$2.3 billion would be refinanced to pay off old debts, create a \$233 million reserve and pay for more than \$23 million in issuance costs. The county would have to drop its legal case against JP Morgan over deals that contributed to the debt.

But the county commission members disagreed with the prospect of dropping the lawsuit against JP Morgan and felt criminal investigations on the ongoing case should continue.

Jefferson County has been trying to avoid filing for bankruptcy since 2008.