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Latest in Harrisburg Bankruptcy Saga

US Bankruptcy Judge Mary France has ruled that the bankruptcy petition filed by the majority of the city's council members under Chapter 9 of the Bankruptcy Code is null and void. At a hearing to decide on the petition, Judge France ruled that the council was not authorized to file the petition.

In her judgment, France said, "For Chapter 9 bankruptcy to work, all of the branches of the municipality must be on the same page. Therefore I find that city council was not authorized to file the petition on Oct. 11." Harrisburg Mayor Linda Thompson and Pennsylvania State Governor Tom Corbett had not supported the bankruptcy filing. Other parties that opposed the bankruptcy were Harrisburg's Fraternal Order of Police and the American Federation of State, County and Municipal Employees through their local affiliates.

The council members who filed for Chapter 9 bankruptcy are considering an appeal.

Now things point to Harrisburg being placed under receivership. In October, governor Corbett appointed David Unkovic, lead attorney for the state economic development division, as receiver. Under Pennsylvania law, Unkovic's appointment must be endorsed by a state court.

The material part of the law is Pennsylvania Act 26. In the hearing, Judge France asked lawyers from both sides to present their arguments on whether Act 26 is unconstitutional. Basically, Act 26 states that cities of Harrisburg's size (pop. 49,500) are disallowed from filing for bankruptcy before July 2012. Act 26 was specifically brought up by lawyers representing Mayor Thompson and Governor Corbett as prohibitive to the bankruptcy filing.

Judge France found Act 26 to be constitutional and further added that the city council does not have the authority to unilaterally file for bankruptcy.

Harrisburg's debts stem from improvements made to the city incinerator that is unable to generate sufficient revenue to cover the debts. The state owes \$242 million to bondholders, with \$65 million already overdue.

The bond market's reaction to the judgment could not be immediately determined because of the Thanksgiving holiday weekend. But generally, market analysts believe that the judgment would augur well for the municipal bond market.

Mayor Thompson recently revealed her \$55.5 million budget for the year that begins in January that includes budgeted debt payments on the incinerator. The budget also includes the sale or lease of city assets aimed at raising \$93.6 million to cover the payments.

The city of Harrisburg, Jefferson County in Alabama and Central Falls in Rhode Island are 3 municipalities that have filed for bankruptcy this year. Now that Harrisburg's filing has been thrown out (pending any appeal), it leaves Jefferson and Central Falls as the two municipality bankruptcies in the country. Since September 30, city and county debts have risen to more than \$1.3 billion. This is more than two times the amount of debt from the previous three quarters combined, according to the Distressed Debt Securities Newsletter in Miami Lakes, Florida.