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October 13, 2011

Harrisburg Bankruptcy Under Contention

The City Council of Harrisburg, Pennsylvania's filed for bankruptcy on Wednesday, immediately triggering a response from Governor Tom Corbett, who argued that the filing was illegal under state law. The city was plunged into financial debt mainly due to a failed rubbish incinerator deal resulting in total debts of more than \$400 million, according to bankruptcy papers. At first, a spokesman for Mayor Linda Thompson said the filing had not been made but subsequently, Mayor Thompson held a press conference denouncing the filing and labeling it "a sneak attack".

The tussle began when the city council made its decision last Tuesday night in a 4-to-3 vote to file for bankruptcy. A lawyer for the council then faxed a petition for Chapter 9 bankruptcy to the US Bankruptcy Court and followed up with filing it in person on Wednesday morning.

The filing was opposed almost as soon as it was filed when a spokesman for Governor Corbett, Kelli Roberts, said the filing violated the state's fiscal code, which was amended this year to prevent cities like Harrisburg from filing for Chapter 9 bankruptcy. Roberts said, "For us, this filing is illegal."

But council members who voted for the filing contended that the filing is legal, although acknowledged that it was an extraordinary move. They also insisted that the filing was even necessary because the council had rejected the mayor's state-backed plan for financial overhaul. The disagreement between the council and Mayor Thompson has been going on for months. The council rejected her plan largely because it demanded too little from creditors.

But Mayor Thompson stressed that the Council had no better plan and appeared only to obstruct the path to solving the city's financial problems. The bankruptcy petition states that the city is "in imminent jeopardy through six pending legal actions by creditors", all linked with the city's failed rubbish incinerator project, resulting in debts that are more than four times its annual budget. The petition said that meeting those legal demands would "substantially interrupt the city's ability to provide health or safety services to its citizens," and concluded that the debt "is vastly beyond the ability of the city to pay."

Chapter 9 is the part of the bankruptcy code that allows municipalities to seek bankruptcy protection while they restructure their debts. It is not common for municipalities to go the route of Chapter 9, but lately a number of cities have been toying with the possibility and one has already done so. Central Falls, Rhode Island filed for Chapter 9 this summer, and Jefferson County in Alabama, has managed to avoid it recently by agreeing with bondholders on a reduction of \$3 billion in sewer debt. Bankruptcy experts say Chapter 9 is onerous and most cities would try to avoid it if they can. As far as Harrison is concerned, it is not clear if the city would go down that path.

But supporters for the filing insist that bankruptcy would give the city more leverage over its creditors and may allow it to write off some of its debts. However, the move exasperated the business community.

"Just when you think it couldn't get any more ridiculous, it did," said David E. Black, president of the Harrisburg Regional Chamber of Commerce and Capital Region Economic Development Corporation.