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## **Kentucky City Claiming Bankruptcy May Not Be Broke, Moody's Says.**

Hillview, Kentucky, the first city to file for bankruptcy since Detroit, may struggle to prove it's insolvent and in need of court protection, Moody's Investors Service said.

Because of an \$11.4 million legal judgment to a local company, Hillview filed for protection Aug. 20. The locality of about 8,000 people has about \$13.8 million in debt, compared with revenue of \$2.5 million in the 2014 fiscal year. Though the burden seems insurmountable, Hillview under Kentucky law can issue bonds to cover losses in legal judgments and pay off the resolution over the course of a decade, Moody's analyst Nathan Phelps said Monday in a report.

The local company, Truck America Training LLC, has indicated it may fight the city's bankruptcy by asking the judge overseeing the case for permission to interview city officials under oath and for access to internal city financial documents. Should Truck America or another creditor convince U.S. Bankruptcy Judge Alan Stout in Louisville that the city isn't eligible to remain under court protection, the case would be dismissed and the company free to try to collect the judgment.

Hillview's plight parallels that of Mammoth Lakes, California, a ski resort community of 8,200 near Yosemite National Park that filed for bankruptcy in 2012 because of a \$43 million development lawsuit, Moody's said. The locality exited Chapter 9 after about four months because it reached a settlement with the land-acquisition company.

### **Tax Increase**

Hillview, which hasn't defaulted on its general-obligation bonds, also has room to increase taxes on wages, business profits and property, Moody's said. Kentucky courts have said municipalities can raise levies above the maximum rate to repay debt backed by their full faith and credit, according to Moody's.

After filing a Chapter 9 petition, a municipality automatically gains temporary protection from creditors. Unlike in corporate bankruptcies filed under Chapter 11, the city or county can't proceed with its restructuring case until it convinces a judge it's eligible to remain under court protection, in part by showing it isn't paying debts as they come due.

In Aug. 28 court filings, the city claimed it was eligible because it lost the court case to Truck America. The case, which is related to a land sale, led to a judgment for the company of \$11.4 million plus annual interest of 12 percent.

The city claimed it tried unsuccessfully to negotiate with creditors before filing for bankruptcy.

The case is *In re City of Hillview, Kentucky*, 15-32679, U.S. Bankruptcy Court, Western District of Kentucky (Louisville).

### **Bloomberg News**

by Steven Church and Brian Chappatta

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