Bond Case Briefs

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Bond Market `Very Forgiving' of Alabama County's Record Collapse.

- **Despite the fading stigma, no city bankruptcies since 2015**
- **'We were told our children would be destined to poverty'**

For localities worried about facing big bond-market penalties if they go bankrupt, consider Jefferson County, Alabama.

The county of 659,000 people — once the largest municipality to ever seek bankruptcy protection — has sold debt several times since emerging from court protection in 2013. Carrying an investment-grade rating of AA- in May, the county completed a refinancing of its general-obligation debt by paying yields of 2.86 percent on bonds due in 2026, just about half a percentage point above top-rated debt.

"We were told our children would be destined to poverty, you were going to be the hole in the donut, you will never recuperate," County Commissioner David Carrington said in an interview. He said the county's bond deals have even seen strong demand from investors. "The markets are very forgiving if you have results."

Municipal-bond market analysts — and even investor Warren Buffett — have long worried that the fading stigma of bankruptcy could embolden more local governments to petition the court to cut their debts.

But despite a few municipal bankruptcies in the wake of the last recession, there's been little sign that more will follow suit. No city or town has filed for bankruptcy protection since Hillview, Kentucky, did in 2015 as a result of an adverse ruling in a contract dispute that it couldn't afford to pay. Rather than let its capital go bankrupt, debt-strapped Connecticut agreed to pay off some of Hartford's debts instead.

While Jefferson County has gotten market access and its investment-grade rating back, the process was far from painless. Contending at the same time with revenue lost when a court struck down a key tax, it fired 1,300 employees, put off roadwork and shuttered inpatient services at its hospital that cared for the poor. To exit bankruptcy, officials agreed to raise sewer rates 8 percent annually through October 2018, followed by yearly jumps of 3.5 percent until 2053. Creditors including JPMorgan Chase & Co. forgave $1.4 billion of debt.

"You have to get to that point where there is no other alternative," Carrington said.

He said he's been called by other elected officials who are considering bankruptcy and has told them there is a "huge" financial burden. He said it cost the county about $1 million per month during the approximately two years it took to get through the bankruptcy process. "Do you have the political will as a governing body to make the decisions you're going to have to make?" he said.

Detroit, which followed Jefferson County with a bankruptcy filing in 2013, exited state financial oversight this year but still hasn’t returned to the bond market on its own. Mammoth Lakes, California, which sought bankruptcy protection in 2012 after a fight with a real estate developer, sold $24 million in investment-grade bonds in October that priced at a top yield of 4.47 percent in 2035, more than 1.8 percentage points above top-rated debt. In the years since the bankruptcy, the town has cut expenses and grown its revenues, S&P Global Ratings said.

Local bankruptcy have been deterred because of the barriers to filing and the improving economy, said Henry Kevane, managing partner at law firm Pachulski Stang Ziehl & Jones LLP who specializes in such cases. Some states, including Illinois, don’t allow municipalities to file for Chapter 9 and others require permission from the governor.

Still, municipalities face financial pressure points, he said. State and local governments’ unfunded pension liabilities stand at around $1.8 trillion, according to Federal Reserve data, which will require them to boost their payments into the retirement funds.

“Municipalities still have colossal post-employment obligations that aren’t going anywhere,” Kevane said. “I still see that becoming a real problem.”

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