

# **Bond Case Briefs**

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## **WSJ: Record Muni Bankruptcy Nears End; Jefferson County's Creditors Agree to Forgive \$1.2 Billion of Debt; Hedge Funds Stand to Profit in Deal.**

A big bet by hedge funds and private-equity groups on the largest municipal failure in U.S. history is close to paying off after a deal on Tuesday that should enable Jefferson County, Ala., to exit bankruptcy.

The county's biggest creditor, J.P. Morgan Chase & Co., will shoulder a loss of about \$840 million as part of the agreement between Jefferson County officials and holders of \$3.1 billion of debt linked to a troubled sewage system.

Under the deal, \$1.2 billion of the county's debt would be forgiven and a group of investors will help with refinancing some of the remaining debt. The desire by the hedge funds and other distressed-debt investors to earn a return on their money was crucial in reaching an agreement that had eluded other creditors, people close to the matter say.

Jefferson County residents will see their sewer rate increase by about 7% for each of the next four years to help pay for the sewer system's debt going forward, according to the agreement. "We've got to get out of bankruptcy," Commission President David Carrington said.

A bankruptcy-court judge is expected to review the proposed deal at a hearing in Alabama on Wednesday, but he won't need to approve it until the county proposes a formal bankruptcy-exit plan. County officials said they hope the county can emerge from Chapter 9 protection by the end of the year.

A group of seven investment firms, including Claren Road Asset Management LLC and Stone Lion Capital Partners LP, bought around \$900 million of sewer debt. Some firms purchased the debt at a discount to its original price after the county filed for bankruptcy in November 2011, according to people familiar with the situation.

Tuesday's deal could enable some of the firms to make money in two ways, these people said: When the county refinances its current debt, it will use the cash to pay off the old debt held by the investment firms. In some cases, the firms would be paid more than they bought the old debt for. Some of the firms also have agreed to backstop a portion of the refinancing, and can earn fees for that support.

"We are pleased that our clients played an important and constructive role in driving a consensus among the parties," said Soren Reynertson, a managing general partner at GLC Advisors & Co., which advised a group of hedge funds during the bankruptcy.

The county's lawyer, Kenneth Klee, said that the deal will save the county \$200 million more than the last serious debt-restructuring proposal that circulated—but ultimately failed—in September 2011.

The agreement is the result of months of negotiations between county officials, banks, bond insurers and the investment firms.

If approved, the deal would close a painful chapter in the history of Alabama's most populous county, which includes Birmingham. It also could embolden other municipalities to seek to slash their debt through the bankruptcy process.

Jefferson County's financial woes were partly the result of questionable debt deals to finance repairs to an aging sewer system.

Some former county officials and others involved in some of those transactions were sentenced to prison.

J.P. Morgan paid fees and penalties to settle federal securities charges related to its role in the deals.

As part of the deal struck Tuesday, the New York bank has agreed to take the largest haircut—roughly \$842 million on the \$1.2 billion of sewer debt the bank owns, Mr. Carrington said.

A settlement eluded county officials and creditors through months of negotiations leading up to the county's bankruptcy filing in November 2011.

But people involved in the most recent talks said a few things had changed since then. One of the biggest factors was the involvement of the investment firms. Hedge funds sometimes buy up debt on the cheap in corporate restructurings, but their involvement in the Jefferson County case is likely the biggest bet hedge funds have ever made on municipal debt.