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## Jefferson County's Bankruptcy Left Few Winners as Debt Forgiven.

The impact of Jefferson County's bankruptcy will reverberate for decades in Alabama and in the $3.7 trillion U.S. municipal bond market.

Creditors, including JPMorgan Chase & Co. (JPM), agreed to forgive $1.4 billion of the county's $3 billion sewer bonds. Ratepayers, like Charles Hicks, a retired landscaper who lives on a fixed income in Birmingham, will see his sewer rate rise about 8 percent annually for the next four years and 3.5 percent annually thereafter, under a plan approved by a federal judge yesterday.

"There's a lot of pain going around — bondholders are taking large losses, but ratepayers are as well," said Matt Fabian, a managing director at Concord, Massachusetts-based Municipal Market Advisors.

For the next 40 years, residents and businesses that already have some of the highest sewer rates in the county will pay back more in principal and interest than they owed before the bankruptcy, according to an analysis by Jim White, a Birmingham-based financial adviser who did a financial analysis for residents challenging the bankruptcy plan. Until Detroit's July filing, Jefferson County was the nation's largest municipal bankruptcy.

The willingness of Alabama's most populous county to enter bankruptcy, along with the losses imposed on creditors, may make bondholders of other distressed municipalities more willing to to negotiate outside of court. Taxpayer groups will look at Jefferson County and see that bankruptcy won't wipe away their obligations, Fabian said.

Lawyer Fees

"It does take the thunder out of taxpayer groups who are looking to get into bankruptcy just to shed debt, because it shows that those taxpayers could also be put on the hook to contribute in the future," Fabian said.

Since filing the $4.2 billion case in November 2011, the county has spent more than $24 million on attorneys and other advisers. Most of the payments went to the county's two main law firms.

Klee, Tuchin, Bogdanoff & Stern LLP in Los Angeles, which is led by Ken Klee, the lawyer who helped rewrite the U.S. Bankruptcy Code in the 1970s, collected $10.1 million in fees and was reimbursed about $204,000 for expenses. The second firm, Bradley Arant Boult Cummings LLP, which has offices in Birmingham, collected $8.2 million in fees and was reimbursed about $294,000 for expenses.

Enforcing Rates

Under an unusual provision in the exit plan approved by a federal judge yesterday, Jefferson County's commissioners' power to set and enforce rates will be limited until the $1.84 billion on

bonds sold this week to pay creditors are paid off in 2053. The trustee for bondholders can ask the court to force sewer rate increases that may be needed to pay the debt.

The challenges facing the county's finances and its sewer system won't end with bankruptcy. Because the new bond issue pushes debt service payments into the future, rising 67 percent in 2024, the county is facing a projected $1.2 billion gap in money available to maintain the sewer system. A consulting firm that conducted a feasibility study for the county said it couldn't identify where the county would get money to pay for capital spending.

The rate increases pledged to pay debt service will impose a "high burden" on ratepayers, and would cause rates to "approach the limits of reasonableness," according to the Chicago-based consulting company, Galardi Rothstein Group.

Increasing Costs

Sewer rates will rise 7.9 percent each year for four years, starting in 2014, and by almost 3.5 percent annually through 2053. That's on top of a 329 percent increase from 1997 to 2008 after the county embarked on a capital program to comply with a U.S. Environmental Protection Agency decree to clean up discharges into the Cahaba River.

The cost of Jefferson County's sewer system ballooned to $3 billion as the county built treatment plants and laid pipe without a strategic plan and local officials accepted bribes from construction contractors and financial advisers seeking business with the county.

The sewer rate increases will disproportionately affect the poor. Seventy percent of the sewer system's users reside in the commission districts with poorest residents, according to County Commissioner George Bowman, who voted against the bankruptcy.

"This whole process had been fraudulent to the ratepayer," said Hicks, 67, who heckled Carrington after U.S. Bankruptcy Judge Thomas Bennett approved the plan.

Wealthy Benefit

Under Alabama law, sewer rates must be reasonable and nondiscriminatory. Ratepayers who objected to the county's plan are vowing to continue legal challenges.

Some residents in wealthy Birmingham suburbs, who have septic tanks and aren't connected to the sewer system, don't have to pay additional charges even though they get the indirect benefit of the county having clean water.

Calvin Wood, president of the Birmingham Chapter of the Southern Christian Leadership Conference, said it was wrong that county officials didn't spread the pain of rate increases evenly.

"Unless you're going to put it across the board on everybody, you're still going to have a lot of trouble," Woods said. "All of us live in the county."

By Martin Z. Braun

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