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WSJ: Judge Approves Jefferson County, Ala., Bankruptcy-Restructuring Plan.

A bankruptcy judge cleared Jefferson County, Ala., to exit Chapter 9 protection with a plan that cuts its $3.1 billion sewer debt nearly in half but places a heavy repayment burden on residents for decades to come.

At a hearing Thursday in the U.S. Bankruptcy Court in Birmingham, Ala., Judge Thomas Bennett said he would confirm the county's bankruptcy-exit plan, which lays out a sewer bond-repayment strategy and the difficult cost-cutting measures that elected leaders have taken on since putting the 658,000-resident county under Chapter 9 protection two years ago.

The plan was crafted around about $1.4 billion worth of bond breaks that county officials negotiated with bondholders, who began extending money to the county in 1997 for construction projects to stop sewage from flowing into local rivers.

Judge Bennett's confirmation, the last major step in the bankruptcy process, was granted after about 14 hours of courtroom arguments, mostly from two activist lawyers who questioned whether the county can afford the $1.7 billion in sewer debt that still remains.

Jefferson County is scheduled to repay its new sewer debt over 40 years for a total cost of about $6.7 billion, with the biggest payments to bondholders coming as the repayment period ends in 2053.

County officials said sewer-debt payments have to be lower for the first 10 years to free up cash to help fix the leaky sewer system, which—despite the county's heavy sewer spending—still isn't fully in compliance with federal environmental law.

Lawyers who fought the plan said that sewer bills for county residents and businesses have already risen throughout the case, and they could be asked to pay even more than the gradual rate increases that are built into the restructuring plan. Alabama law says that public utility rates must be "reasonable."

Judge Bennett, however, determined that the plan is affordable and didn't find fault with the decision to push bigger payments to the future.

"Absent that, the rates would be even higher today," he said.

Lawyers for Jefferson County, which is home to the city of Birmingham, had argued that its population could rise to cover the additional cost. They also said that future county leaders could negotiate a new, more affordable deal with Wall Street investors as the county regains its financial footing.

Judge Bennett's approval marked a rare moment in U.S. municipal bankruptcy history. Only about two dozen cities, towns and counties that have filed for Chapter 9 protection since 1954 have seen their bankruptcy-exit plans confirmed by a judge, according to figures kept by Chapman and Cutler

LLP, a Chicago law firm.

About half of U.S. states ban their municipalities from bankruptcy, and those that allow it usually have tight restrictions that make it easy for judges to dismiss a case on a technicality.

Jefferson County listed its overall debt at $4.2 billion when it filed for bankruptcy protection in November 2011, making it the country's largest municipal bankruptcy until the city of Detroit filed in July with about $18 billion in debt.

During the confirmation hearing, one lawyer objecting to the restructuring plan said the county should abandon the plan and pursue corruption-related lawsuits against Wall Street firms to try to win what he estimated could be $1.6 billion in damages.

The county's sewer-borrowing deals were tainted by a bribery scandal that landed several former officials in jail. J.P. Morgan Chase & Co. agreed to pay $722 million to settle with the U.S. Securities and Exchange Commission, which accused the bank of improperly courting elected officials in Jefferson County. The bank didn't admit wrongdoing.

Jefferson County lawyers criticized that approach as expensive and uncertain, and Judge Bennett said during the hearing that the county's case has had "significant extensive complex litigation from the day [it] was filed."

Jefferson County leaders began negotiating with sewer bondholders when the debt went into default during the 2008 financial crisis. Throughout the bankruptcy, J.P. Morgan, which arranged the borrowing deals, agreed to forgive about $942 million of its roughly $1.2 billion in sewer-bond debt. Bond insurers, hedge funds and other banks also agreed to a discount.

As part of the deal, county leaders were required to find new investors to purchase the remaining $1.7 billion worth of bonds. Earlier this month, the county said it successfully found buyers, debunking claims by some analysts who said the taint of bankruptcy would repel municipal bond investors.

Money from the bond sale, which could be finalized on Dec. 3, is supposed to pay off current bondholders, which could enrich some distressed-debt-focused hedge funds that purchased the county's bonds at a discount.

Aside from the sewer-debt reductions, county officials said they imposed cost-cutting measures to save more than $100 million in annual expenses. Throughout the bankruptcy, the county closed remote courthouses, cut staff "in essentially every department" and scaled back operations at Cooper Green Mercy Hospital, the county-owned hospital for the poor, according to court papers filed before Thursday's hearing.

"These measures fulfill a basic purpose of debt adjustment under Chapter 9—matching expenses to revenues," county attorneys said in court papers.

By KATY STECH