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Kentucky Town Is First to File for Bankruptcy After Detroit.

Hillview, Kentucky, population 8,000, found a way to put itself on the map.

The town 13 miles south of Louisville on Thursday became the first city to file for bankruptcy since Detroit did two years ago. It joins an elite, if infamous, club: Only 54 cities, towns and counties have sought court protection from their creditors since 1980, said James Spiotto, managing director at Chapman Strategic Advisors, which advises on financial restructuring. Among them were San Bernardino, California, and Jefferson County, Alabama.

Hillview, which faced legal damages it couldn't afford, is only the third Chapter 9 filing this year, following an Oklahoma hospital and a special district in California.

As the economy has improved, tax revenues have followed, easing the strain on local governments. Others may have seen Detroit, which emerged from a record-setting municipal bankruptcy in December, as a cautionary tale.

"People saw Detroit — the pain, suffering, uncertainty, expense — and nobody seemed to be getting what they wanted," Spiotto, a Chicago-based lawyer, said. "It helped motivate governments and creditors to find other solutions."

Despite a spate of bankruptcies following the recession that ended six years ago, cities and counties rarely turn to federal court to escape from their debts. Even so, in an Aug. 5 report, Moody's Investors Service said it's not as taboo as it once was for governments reeling from chronic financial stress.

Contract Dispute

Hillview's Chapter 9 filing is the outcome of a contract dispute with a local company, Truck America Training, over a land sale. In February, Standard & Poor's lowered its rating to junk after the city unsuccessfully appealed a court ruling ordering it to pay \$11.4 million in damages to the company.

The city last sold bonds in 2010, when it issued \$1.4 million of general-obligation debt, according to data compiled by Bloomberg. A \$210,000 portion of the securities maturing in 2017 last traded for 90 cents on the dollar on June 24, down from 99.7 cents when they were first offered.

Hillview estimated its liabilities as high as \$100 million and assets as high as \$10 million, according to the filing in U.S. Bankruptcy Court in Louisville. Truck America is the city's largest unsecured creditor.

City attorney Tammy Baker called the filing a "very difficult decision" for the city council. The mounting interest from the court judgment is more than \$3,700 a day, she said.

"The city really ended up with no choice," Baker said in an interview. "With the interest accruing at that rate, it's just really going to be impossible for the city to pay that judgment."

Bloomberg

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