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Free Bluegrass Plays On as Kentucky Town Angles for Bankruptcy.

In Hillview, Kentucky, residents enjoy free once-a-month use of a trash dumpster and a free bluegrass music program every Thursday night. They're still buzzing about last month's free winter festival and exotic animal show, which was interrupted when a 70-pound porcupine darted into the ladies' room.

Such small luxuries ease life in the Louisville suburb, which in August sought bankruptcy protection rather than pay a \$15 million legal judgment. As the first U.S. city to file since Detroit's \$18 billion insolvency in 2013, Hillview, a growing community of 8,000 people, is trying to plow new ground. It isn't claiming an inability to pay the debt, which is about five times its annual budget, but an unwillingness.

"I don't think they can shut us down as a city, and I don't think they can put this burden on the taxpayers," Mayor Jim Eadens said in an interview at city hall, where three inflated snowmen outside wave to visitors.

For cities under stress, Detroit's record case changed municipal bankruptcy from a stigma to a potential solution, and the mere threat of court oversight has proven an effective tactic for settling with creditors.

Mammoth Lakes, California, and Boise County, Idaho, filed for Chapter 9 under similar circumstances as Hillview, though they settled out of court. Officials in Puerto Rico, the cash-strapped Caribbean commonwealth, have pleaded with Congress to let it turn to court to slash its \$70 billion of debt.

Hillview's filing is "more evidence that municipalities increasingly consider Chapter 9 as a way to cure balance-sheet problems," said analyst Nathan Phelps at Moody's Investors Service. The U.S. Bankruptcy Court in Louisville this week will hear arguments on the filing.

The judgment that began the affair stems from a 10-year-old dispute with a trucking company over 40 acres in the middle-class city of modest homes. A 2012 jury verdict awarded Truck America Training LLC \$11.4 million for business the company said it lost when Hillview took control of the land and evicted it.

Negotiations mediated by retired bankruptcy judge Steven Rhodes, who oversaw the Detroit case, produced no settlement. In the meantime, interest costs on the award grew almost \$3,800 a day. The city's filing Aug. 20 froze the growth.

Discount Biscuits

"It's just frustration by this town in continuing to lose," said Howard Cure, head of municipal research in New York at Evercore Wealth Management, which oversees \$5.9 billion of assets. "It sounds like this is their way of negotiating to get the settlement somehow diminished. Cities

oftentimes run up against hard negotiators.”

Tammy Baker, Hillview’s city attorney, said it was “financially irresponsible” not to file bankruptcy because of mounting interest costs.

Since then, Eadens said, there has been no talk of tax increases, service cuts or dismissals in the city’s 24-person workforce to pay the obligation. The free chipping of fallen limbs continues, as does a \$3 sausage, biscuit and gravy breakfast with the mayor on Wednesdays. At last week’s bluegrass event, a crowd of about 100 ate fish sandwiches and cole slaw while listening to a seven-piece band belt out gospel standards like “I Shall Not Be Moved.”

“You don’t hear much talk about bankruptcy now, because services haven’t been cut,” said Terry Bohannon, the city’s recreation director.

Nor is there talk of bond defaults. Debt obligations will be met, the city said. Not, however, the payment to the trucking company.

“This is a unique situation,” said Jonathan Steiner, executive director and chief executive officer of the Kentucky League of Cities. “It’s not a city that spent itself into this situation or saw the collapse of an industry.”

Unlike Detroit, which for decades endured an industrial collapse and a population exodus, Hillview’s population has grown more than 5 percent since 2010. The median household income, \$48,000, exceeds the Kentucky average, and the percentage of people in poverty is less than half the state rate of 19 percent, according to U.S. Census data.

An Aug. 31 analysis by Moody’s Phelps said the city can issue bonds to pay the debt and has “considerable ability to increase its two largest sources of operating revenue, occupational license taxes and property taxes.”

The trucking company agrees.

“They’ve made no attempt to do anything other than to throw their hands in the air and say, ‘We can’t do this, so let’s file bankruptcy,’” said Debby Mobley, Truck America Training’s chief financial officer.

Sparing Citizens

Baker said higher taxes might have serious consequences.

“They think we can just go and raise taxes through the roof, and it won’t drive away business and it won’t hurt the citizens of Hillview,” Baker said.

“It would be possible to raise the occupational tax and the insurance premium tax to high amounts,” Baker said. “That would be a heavy burden on our industry and a heavy burden on our citizens.”

Hillview is the first Kentucky city to file a bankruptcy petition. Kentucky is among 16 states that allow such filings under certain conditions. Twenty-two states don’t provide access to Chapter 9, while 12, including California, provide a blanket authorization.

The city will face a tall legal hurdle to prove its eligibility, said Richard Ravitch, a former New York lieutenant governor who was a court-appointed expert in the Detroit case.

“You have to prove you’re totally broke and can’t pay your debts,” Ravitch said.

Detroit emerged from bankruptcy last December, 17 months after filing. Yet financial pressure is mounting on cities, big and small. Chicago, with \$20 billion in unfunded pension liabilities, faces the prospect of insolvency. The budget director of East St. Louis, Illinois, said last month the city should consider bankruptcy, and a year ago, the council president in East Cleveland, Ohio, said the same thing.

After the Hillview filing, Standard & Poors lowered the city’s rating on its general obligation debt five levels, to B-minus from BB-plus, and signaled that more downgrades may follow.

The pressure on Hillview to settle out of court could be great because of bankruptcy’s costs and unpredictability, said James Spiotto, a lawyer at Chapman Strategic Advisors in Chicago.

“It’s going to be expensive, and that’s just the beginning,” Spiotto said. “This will sound heretical, but there are better things to do than spending your money on lawyers.”

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