

Jefferson County, Alabama verges on largest ever US municipal bankruptcy

Naomi Spencer
2 August 2011

Bankruptcy looms over Birmingham, Alabama's Jefferson County, the state's most populous county. With a debt of \$4.1 billion, the county's filing would be the largest municipal bankruptcy in US history.

The county has faced the prospect of insolvency since February 2008, when ratings agency Standard & Poor's lowered its bond rating to junk status over rising expenses on a county-owned sewer project. Moody's swiftly followed suit, lowering its rating of the county in March 2008, inflating interest payments on debts—financed through dubious derivatives swaps with investment banks, including JPMorgan—to untenable levels.

The ongoing economic crisis, years of state-level austerity measures, and damage costs from this spring's devastating tornadoes have exhausted the county's general fund. "Jefferson County's finances are in such disarray that it cannot currently borrow at any price," the *New York Times* commented July 28, comparing the demands of the county's creditors to those imposed on Greece.

Much like the Greek population, Jefferson County residents are being targeted through cuts to social spending and public worker compensation to pay for the criminal speculative activity of the corporate elite.

Numerous officials who negotiated the sewer bond deals have been convicted on corruption charges, including former Birmingham Mayor Larry Langford. JPMorgan reached a settlement agreement with the federal Securities and Exchange Commission (SEC) over the scheme, paying \$75 million to the city in 2009. As the SEC investigation continues, residents have angrily rejected the bankruptcy and repayment proposals.

The state, which had long refused to intervene in Jefferson County's debt crisis, was given to understand

by the ratings agencies, as well as the federal government, that it could be held liable for the cost of the municipal sewer project and see its own borrowing terms worsen. The county was set to file for Chapter 9 in late June when Governor Robert Bentley hastily negotiated a 30-day standstill.

Another weeklong extension of bargaining between municipal officials and private investors is set to expire August 4. Commissioners will then decide whether to file for Chapter 9 bankruptcy or to agree to a settlement plan with creditors.

Few details on the settlement proposal have been released, but officials have said the plan would reduce the county's \$3.14 sewer debt by \$1 billion. Under the creditors' plan, the state government would take on borrowing authority for the municipality, ostensibly lowering interest rates for the county. Officials said that in exchange, residential sewer rates would rise significantly.

The *Birmingham News* reported July 29 that the creditors' proposal included several scenarios, all of which would jack up sewer rates: "Those ranged from three years of higher rate increases followed by years of lower rate increases; several years of medium-sized increases, or one big increase in the first year followed by modest rate increases."

Officials said one plan would impose an annual increase of 8 percent in rates for four years or more. The county's court-appointed receiver for the sewer system has recommended a 25 percent rate hike effective immediately.

These plans are overwhelmingly opposed by residents, who correctly identify them as attempts to offload the cost of reckless speculation onto the working class population. Even minimal rate increases will seriously impact the budgets of poor households.

“The numbers I’ve heard are totally inadequate,” Commissioner Sandra Little Brown told the paper. “They are not satisfactory.” Commissioners told the media they had been given nothing in writing.

The financial crisis has already borne heavily down on the county’s working class. Five hundred fifty county workers, a quarter of the workforce, have been furloughed. This has left critical public services understaffed or paralyzed.

At the overcrowded county jail, the ratio of inmates to deputies has risen to 100 to 1, with jail staff working part-time shifts, a staffing level below federal regulations. The county courthouse has been paying guards with state funds. A CBS News report noted, “Even small things, like a sewer leak at a county building, go unattended.”

Municipalities throughout the country are increasingly facing similar predicaments. Libraries, schools, fire departments and other critical services are being gutted, infrastructure is sold off or destroyed, and public workers are stripped of health care, jobs, and pensions. The Jefferson County bankruptcy will serve as a precedent in its scale and severity for other distressed municipalities such as Detroit and Harrisburg, Pennsylvania.

Prichard, Alabama, which declared bankruptcy in 1999 and again in 2009, continues to stagger from debt. The *Press-Register* reports that the small city, with an annual operating budget of only \$10.2 million, is currently in the hole by \$930,000, and faces a shortfall of \$1.8 million next year. Much of the debt is designated as “non-negotiable” under Chapter 9 terms. Prichard has slashed payroll over the past three years, from 230 employees in 2008 to 170 today, and owes millions in back payments to its retirees. Many former city workers now suffer in dire poverty.

Harrisburg, the capital of Pennsylvania, has been threatened with a state takeover if it does not agree to the sell-off of public assets. Harrisburg Mayor Linda Thompson will announce a “recovery” proposal Tuesday, two weeks after the city council voted to reject the state’s “distressed city program.”



To contact the WSWS and the
Socialist Equality Party visit: