Pennsylvania's capital faces possible financial takeover

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Harrisburg, the capital of Pennsylvania, is moving closer to a financial takeover by the state under conditions of mounting municipal debt and a budget deficit for 2011. City and state officials are working to ensure that investors and bankers are paid in full at the cost of the pensions and living standards of the working class.

Investors demanded that the city make a $3.3 million bond payment due on Wednesday, and state officials intervened to ensure that the payment was made. The Harrisburg Authority, the municipal entity dedicated to the construction and financing of public works, recently missed a payment of almost $500,000 dollars in May.

These onerous payments are part of the more than $300 million owed by the city for the refinancing of bonds used to build and maintain a certain municipal trash incinerator. This year, the bonds will cost the city $68 million in interest payments, with half of these payments going to Bear Stearns, now a part of JP Morgan Chase, for a working capital loan.

There is uncertainty as to whether the city has the funds to pay its 500 municipal workers, with $1 million due yesterday as well as another $1 million due September 29th.

The city was only able to pay its debts after receiving annual pension payments from the state early as well as $7.5 million from The Harrisburg Authority. The authority secured the money through a $10 million loan at an interest rate of 10.75 percent. The authority is also only able to make payments on interest until 2016, which will cost taxpayers at least an extra $5 million. This calls to mind the extortionate rates being imposed on Greece and Spain.

The city's council has rejected two financial bailout plans this year, both of which called for the leasing or selling off of city assets such as the parking system, and aimed to gain concessions from union contracts in order to reduce the deficit. The council also called for the selling of the incinerator, likely for much less then the current $300 million still owed.

With both plans being rejected, it seems likely that the state will take fiscal control of the city. The state legislature is contemplating measures sponsored by Senator Jeffrey Piccola to allow for such a takeover. Governor Corbert indicated that he would sign such legislation if it comes to his desk.

Such a takeover would lead to "forced negotiations," which undoubtedly mean massive cuts in the city's workface as well as concessions from workers. Already one third of Harrisburg's 50,000 citizens live below the official poverty level. It is accepted as fact by state officials that the city must pay on its obligations to investors such as JP Morgan Chase in full, while the city must renege on its obligations to its workers.

The city council had been considering filing for bankruptcy protection, but a new law also presented by Senator Piccola and signed by Corbert prevents cities in Pennsylvania entering into bankruptcy, requiring instead state imposed cuts.

Since 1969, the construction and maintenance of a certain municipal trash incinerator plant has required the city to issue 11 sets of bonds, which the city now finds it virtually impossible to pay. The incinerator, built in the early 1970's, has been plagued with problems from the original construction, and was previously shut down in 2003 due to high levels of poisonous dioxin being emitted.

After the closing in 2003 the city decided to retrofit the plant in order to continue operations. For reasons that have yet to emerge, the city chose to hire Barlow Projects Inc. for the retrofitting, even though Barlow's largest project prior to the retrofitting had been only

one eighth the size of the Harrisburg plant.

The original estimate of the cost for the incinerator quickly climbed from $45 million to $150 million due to delays and overruns. The city swiftly passed these costs on to residents with a 17 percent tax increase.

The plant was justified on the grounds that it would burn trash from Harrisburg and surrounding counties, while using the steam created from the process to create electricity or sell for revenue. However the incinerator is plagued with constant problems preventing efficient operation.

The Harrisburg Authority chose not to issue performance bonds, a standard practice that would have served as insurance on the contractor finishing the work on the project. Instead, the terms of the bonds left city authorities financially unprepared when Barlow stopped work.

The city also paid around $15 million in fees to law and engineering firms that arranged the deal. After pocketing enormous fees, these experts advised the city to go through with the deal. In the fallout following the disastrous incinerator project, there have been several lawsuits against Barlow, which has moved to Texas and entered bankruptcy.

Harrisburg is not an isolated case. At least 5 municipalities in the US have filed for bankruptcy so far in 2011, already approaching the 6 that filed in 2010. Many other cities are on the verge of bankruptcy. In each case, the city's working class is required to endure massive cuts to their living standards to ensure that the city's creditors are paid.

Central Falls, Rhode Island is attempting to shift the burden of its debts onto workers by demanding some $2.5 million in promised pension benefits from the city's police and firemen. The city has already eliminated library funding, laid off staff and closed a community center, further exacerbating the current economic crisis for the city's population.

Jefferson County of Alabama, which contains Birmingham, is another municipality facing bankruptcy. With no money for infrastructure, the city has been forced to send school buses on detours around aging bridges, which have been deemed unsafe, adding almost 1,800 additional miles in detours annually.

The citizens of Vallejo, California, the largest bankrupt city in America, face even worse conditions. Since the city filed for bankruptcy in 2008, funding for essential services such as fire and police protection have been cut.

As the financial crisis continues, and while trillions of dollars are squandered on bank bailouts and war, more and more cities and municipalities are running out of money. City officials, whose mismanagement of state funds in many cases have exacerbated the problems, are doing everything in their power to shift the burden of the crisis onto the working class.