Federal judge rejects Harrisburg, Pennsylvania bankruptcy filing

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A federal bankruptcy judge rejected Harrisburg, Pennsylvania's bankruptcy request, almost ensuring that the city will be placed under a state receiver who will cut social services, lay off city workers, sell off city-owned assets, and raise taxes on residents.

Harrisburg, the capital of Pennsylvania, owes more than $300 million for an incinerator project that was riddled with cost overruns and corruption and has never functioned as the manufacturer claimed it would. Total debts owed by the city are near $400 million.

The decision by US bankruptcy court Judge Mary France last week means that Harrisburg will have to find ways to pay the bonds. In October, the City Council voted to file for bankruptcy protection after it became clear the city did not have the money to pay the interest on the debts along with day-to-day operations.

Harrisburg has only been able to make payroll payments for the remainder of the year because the state agreed to forward Harrisburg funds early.

Democratic Mayor Linda Thompson opposed the bankruptcy filing and has instead sought to have the city placed under state control. Pennsylvania Governor Tom Corbett, a Republican, is seeking to have the city's finances placed under a receiver who will have authority to make massive cuts in city services in order to pay the bondholders.

Among the items that the receiver would consider are cutting city services, laying off city workers, cutting the wages and benefits for current city workers, cutting the pensions and benefits for retired city workers and raising taxes and fees on city residents.

The receiver is also likely to sell or lease city assets such as the city parking garages to private investors.

It is unlikely that such actions would raise enough funds to make interest payments for more than two or three years, leaving Harrisburg in the same situation a few years down the road while having gutted city workers and services.

Harrisburg is not alone. The biggest municipal bankruptcy was declared last month when Jefferson County Alabama, filed for bankruptcy protection on its more than $3.2 billion in debts. Jefferson County took on the debts as part of a massive rebuilding of its water and sewage systems.

Like Harrisburg, political corruption has been alleged in the deals between local leaders and financial firms, including JPMorgan Chase and Regions Financials. The Jefferson County administration had worked aggressively to cut its debt by more than $1 billion to avoid going into bankruptcy.

Jefferson County became the fourth municipality to file for bankruptcy this year. In addition to Harrisburg, Central Falls, Rhode Island and Boise County, Idaho, have also filed for bankruptcy. Like Harrisburg, Boise County's filing for bankruptcy has also been rejected by the court.

Municipalities throughout the country are facing massive financial problems and many are expected to default or go bankrupt in the coming year. The past three years have seen cities' and other municipalities' revenue fall as a result of the economic slump. In addition, cuts in both state and federal funds have left local governments facing massive deficits.

At the same time, these same local governments have taken on more and more debts to fund large-scale projects such as new stadiums, convention centers and tunnels. Many were built without any clear idea of how they would be paid for, and were used as one more way for the wealthy to rob the public coffers.

In Harrisburg's case, the city backed the bonds to build an incinerator that was supposed to make money for the city by burning trash for neighboring towns.

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Instead, the builders went bankrupt, and the lawyers contracted by the city to arrange the deal never required the builders to be bonded. Thus, Harrisburg was left with an incinerator that didn't work properly and debts it could not pay.

The bankruptcies of Harrisburg and other local governments have far-reaching implications beyond those of the immediately affected areas. The nation's largest banks and brokerage houses have extended billions in loans and bonds to city and local governments. Many lenders never took out insurance against failure of these bonds, once considered to be among the safest investments, and have left themselves exposed.

Those that took out insurance are not necessarily better off since the insurers themselves don't have enough reserves to cover their debts. MBIA, one of the largest insurers of municipal debts, owes $12 billion more than cash on hand. Berkshire Hathaway, another large insurer, has just enough cash to cover its debts but won't have enough to cover future bankruptcies.

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