



Are All Victims Really the Same? - February 18, 2010

In today's Wall Street Journal there is an article entitled "Muni threat: Cities weigh Chapter 9". Much of the article is dedicated to discussing the financial woes of Harrisburg, Pennsylvania, the state's capital. With such a high profile issuer in the news, I would like to more fully expand Harrisburg's current situation.

The city of 47,000 is considering Chapter 9 bankruptcy protection as their projected budget gap over the next five years is expected to top \$160 million. Although Harrisburg is facing the same challenges and financial pressures as many state and local governments their extraordinary quagmire is also unique. Their problems originated from \$288 million of debt which was guaranteed by Harrisburg to finance a publicly owned trash incinerator. This debt is so large that the principal and interest payments actually exceed the city's entire operating budget. To make matters worse, over the last several years the incinerator has been plagued by technical problems that have prevented it from producing adequate revenues. In fact, it has been operating at a loss of \$1 million a month since 2006. In essence, it is the incinerator that is burning a hole in the city's finances, not the weak economic environment.

As always, we are not attempting to minimize any talk of bankruptcy. However, it is both obvious and important that each unique problem situation should not be used to over-generalize the risk of chapter 9 filings by municipalities. Vallejo County's outsized union labor contracts, building a monorail in Vegas, and misuse of derivatives by the Jefferson County Sewer Authority are all illustrations of mismanagement. Therefore, this is why these are chapter 9 candidates. Said differently, would these issuers be discussing chapter 9 filings if economic deterioration was the sole culprit?

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