



Jefferson County, Alabama Files Chapter 9 Petition in Bankruptcy Court (November 10th, 2011)

On Wednesday, November 9th 2011 Jefferson County, Alabama filed for bankruptcy protection. This event comes after some years of negotiation with creditors failed to resolve issues regarding approximately \$3 billion of sewer system revenue bonds with J.P. Morgan (the county's largest creditor).

The bankruptcy filing is the largest municipal filing on record. The petition, in order to proceed, must first be approved by the bankruptcy court.

Things to Consider:

- The bankruptcy filing is not a harbinger of future major municipal bankruptcies to come.
- This does not, by any means, support or give any credence, to Meredith Whitney's cry of billions of dollars of municipal defaults to come. The problems of Jefferson County predate her exaggerated call.
- The county's problems are specifically attributable to corruption and criminal activity, and the failure of auction rate bonds to attract investors (rollover debt).
- The county, through mid-2011, was current on all non-accelerated debt payments. The county's exposure to variable rate debt was excessive.
- The filing was promulgated by a combination of accelerated principal repayments as a result of failed auction rate bonds, and the corresponding termination costs that are due under swap agreements.
- It should be noted that RSW, when looking at bonds for client portfolios, looks at issuer potential exposure to naked swaps and variable rate exposure as issues that could stress liquidity and endanger the ability to remarket such debt.

The bankruptcy court is not obligated to approve the filing and it is uncertain as to the timing of its decision. We note that the filing comes after about 3 years of ongoing negotiations and a decision from the state supreme court, earlier this year, which found that the occupational tax implemented by the county to help address



the strain caused by the sewer system bonds was unconstitutional. The county rejected a recent settlement proposal from J.P. Morgan that would have reduced the approximate \$3 billion in debt to \$2.05 billion.

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