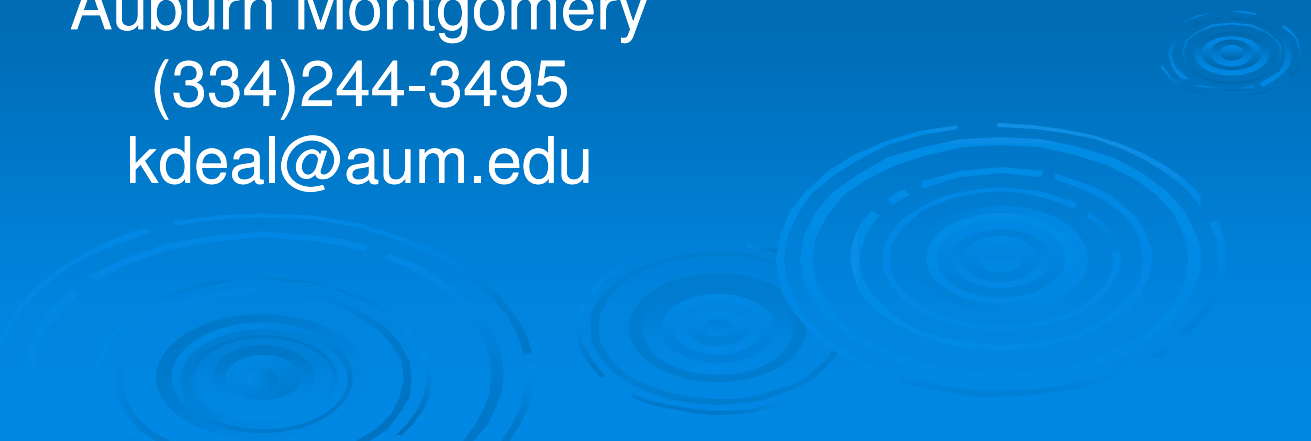



Municipal Bankruptcy in Alabama

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Outline of Discussion

- Chapter 9 Bankruptcy Basics
 - Purpose of Research
 - Chapter 9 Filings in Alabama since 1990
 - Conclusion
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Chapter 9 History

- First municipal bond default on record occurred in 1839 – Mobile, Alabama
- Municipalities were given bankruptcy protection under federal law in 1934
 - Municipal bond defaults went from 678 in 1932 to 4,770 bond defaults by end of 1930's
- Last amendment in 1994 - states had to specifically authorize municipalities to file for Chapter 9 bankruptcy protection

U.S. Municipal Bankruptcies

Years	Number of Municipal Bankruptcies
1938 – 1939	106
1940 – 1949	215
1950 – 1959	31
1960 – 1969	8
1970 – 1979	7
1980 – 1989	43
1990 – 1999	109
2000 – 2009	71
2010	1

Chapter 9 Bankruptcy

- Primary purpose – provide protection for a municipality to adjust its debts when they become fiscally distressed
- Municipality may continue to operate while it adjusts or refinances its creditor claims
- Municipality not subject to involuntary filing (similar to farmers and charitable corporations)

Five Statutory Requirements

- Qualify as a municipality
- State law must give specific, written authority to file as of the 1994 legislation
 - State authority split down the middle
- Municipality must meet insolvency test
 - Present and future cash flow examination
- Desire to effect a plan – Best Interests Test
- Negotiate with creditors

Major Differences in Chapter 9 and Other Bankruptcy Legislation

- Involuntary filings are not allowed
- No court-appointed trustee
- Municipality may continue to operate without a change in management
- Even when authorized by state, states take various approaches from “hands off” (Alabama) to approval by Governor/state agency to financial intervention
 - Only 14 states do not notify state agency or go through additional state-imposed steps

How it affects Alabama

- Nine municipal bankruptcies occurred between 1990 and 2004 in Alabama
 - At all levels of local government
- Conducted case studies of the 9 bankruptcies to determine the causes
- Found administrative, economic and demographic factors that led to financial failure

Alabama Municipal Bankruptcies (1990 – 2010)

- 1991 - City of Lipscomb
- 1992 - Town of North Courtland
- 1994 - Alabama State Fair Authority
- 1996 - Greene County
- 1998 - West Walker Water Authority
- 1999 - City of Prichard
- 2002 - West Jefferson Amusement and Public Park Authority
- 2002 - Etowah Solid Waste Authority
- 2004 - Town of Millport

City of Lipscomb

- Filed April 19, 1991
- First city in Alabama to file for Chapter 9
- Population
 - 2800 in 1990
 - 2300 in 2005 – almost 20% decrease
 - Large percentage of elderly, retired and unemployed individuals who rely on fixed income

Lipscomb (continued)

- Defaulted on \$832,000 GO bond and \$353,000 GO refunding warrant from Farmer's Home Administration
- Loan part of financing for \$3 million sewer project started in 1979
- GO Bond backed by levied sewer assessment on property owners connected to sewer system
- GO warrant backed by 1% increase in sales tax
- City failed to make payments on the outstanding debt since 1985

Lipscomb (continued)

- FmHA filed suit in 1987 and 1988 to collect the delinquent payments on outstanding debt – awarded judgments of \$120,000 collectively
- In 1991, FmHA was filed suit again asking for city to turn over keys to City Hall, 3 police cars and its 1976 and 1954 fire trucks
- City's largest source of revenue is water, sewer, and garbage collection fees – over \$150,000 in past-due accounts at time of bankruptcy
- City witnessed over 90% reduction in sales tax revenues due to many businesses moving to neighboring Bessemer or Midfield

Town of North Courtland

- Filed on December 9, 1992
- Population – app. 1000 - 28.1% below poverty
- Civil lawsuit filed by former city employee against city - 14th amendment rights violated.
- Former employee was awarded over \$100,000 in judgment against city
- Plaintiff began garnishing city's tax revenues

Town of North Courtland (continued)

- City could not pay judgment and did not carry liability insurance to cover tort judgments
- At time of bankruptcy, \$187,190 in liabilities:
 - \$107,115 to former employee for tort judgment
 - \$39,220 to State of Alabama for statutory payments
 - \$11,100 to Lawrence County for statutory payments
- Total revenues of city app. \$290,000 annually – judgment approximately 40% of that amount.

Alabama State Fair Authority

- Formed under Act No. 215 during 1947 state legislative session.
- Located in Birmingham to operate the annual state fair and community events.
- City Council of Birmingham appointed 9-member board and appropriated funds annually
- 130 acres in city's western section
 - Auto racetrack
 - 5000-seat arena for musical and theatre events
 - Agricultural and animal exhibit areas (State Fair)
 - Picnic and Play area

Alabama State Fair Authority

- Filed bankruptcy on June 24, 1994 (as Ch. 11 – converted to Ch. 9 on June 23, 1995)
- Owed nearly 90 entities over \$750,000 at time of bankruptcy filing
 - \$666,556 to unsecured creditors for fair operations
 - \$88,819 to IRS, State of Alabama, Jefferson County, City of Birmingham for withholding and sales taxes
- March 1994 – state, county and city gave the authority \$700,000 to cover debts
 - Disbursed to IRS, State of Alabama, local governments, and vendors for delinquent payments

Alabama State Fair Authority (cont)

- State fair was losing money since 1989 – net loss of \$800,000 from 1993 fair alone
- Authority would take on debt to operate fair, spring festival, and flea market
- City took over operations in September 1994
 - City allowed the Authority to retain management of the fairgrounds, State Fair and Spring Fling
 - City continued to appropriate over \$600,000 annually
 - City also made large expenditures to maintain fairgrounds (resurface racetrack, install new lighting)

Alabama State Fair Authority (cont)

- State Fair Authority designated event management to State Fair Management, Inc.
 - Received \$9,697 in 1994 and \$26,479 in 1995
 - At end of 1995, still owed \$438,000 in debt for bankruptcy filing
- In late 1996, City Council decided to terminate agreement with Authority made in September 1994
- Authority ceased operations in 2000

Greene County

- Second county in the United States to file for bankruptcy protection
- Least populated county in Alabama - app. 9,700
 - 45% lived below poverty level
 - 18.8% unemployment rate
- Filed Chapter 9 in September 1996 with total claims of \$154 million
 - 87 of those claims made by individual residents - \$1.7 million/resident (\$152 million)
 - Amended Plan filed in 1997 showed \$3.4 million in liabilities

Greene County – Audit Findings

- FY92-94 audit – 27 findings; 16 repeat findings
- Examiners charged Commission officials with \$766,917 in mismanagement of govt funds
 - \$2 million from previous audits were still outstanding
- \$519,000 owed to IRS in back payroll taxes
- No retention of financial records (bids, invoices, financial statements)
- \$1 million of earmarked revenues for roads and bridges used to pay employee salaries
- \$763,494 in improper travel expenses
- \$20,000 in insufficient bank charges
- Approximately \$1.5 million owed to other govt entities

Economic Decline in Greene County

- Greentrack primary source of revenue
 - Over one-third of total revenue source in annual budget
- Dog track opened in 1977 – quite prosperous
- Employed many county residents
- Began to suffer in early 1990s
 - Due to introduction of dog racing in Birmingham and casino gambling in Mississippi
 - Betting revenues \$98M in 1988; \$24M in 1994
- Remitted over \$908,000 in 1990 to County
- Remitted only \$14,400 in 1996 to County

West Walker Water Authority

- Filed on June 9, 1998
- Serviced 260 rural customers in Walker, Fayette, and Tuscaloosa County areas
- User fees were 100% of revenue base
- Authority owed \$400,000 to U.S. Department of Agriculture, Rural Economic and Community Development
- Also owed \$42,000 in short-term liabilities
- Sold to Oakman Water Authority in 2002

City of Prichard

- First large city in Alabama to file Chapter 9 on October 5, 1999
- Population and economic development decline since 1960s
 - 35.5% of population below poverty level
- Began experiencing financial stress in 1964 – resident relocation, business and industry relocation, loss of tax base
- 1974 audit first record of general fund deficit – continued until 2003

Prichard Bankruptcy

- 1990 University of South Alabama study found that Prichard's per-capita income was \$5,014 in 1987 – lowest in nation of cities over 25,000
- Per-capita income in 1999 - \$10,626
- Financial mismanagement; economic decline; and political problems between Mayor's office and City Council contributed to financial decline
- Same budget used for several years due to disagreement between mayor and council

Financial Decline of Prichard

- Lasner Fund created in 1985 by Mobile Circuit Court to help city pay delinquent debts
- FY1999 - \$2.4 million deficit; \$4.9 million in liabilities
 - \$600,000 in payroll withholding/deductions unremitted
 - Auditors cited 21 audit findings
 - City had not maintained proper financial records
 - Auditors could not determine true fund balances

Prichard Unfunded Pension Plan

- Unfunded pension liability - \$20 million plus at time of bankruptcy filing
- Underfunded since 1975
- City had not made required payments to plan for several years prior to bankruptcy
- No annual actuary reports on funding of plans
- Still unfunded by \$16 million in 2007

City of Prichard - Recovery

- Closed bankruptcy case in December, 2002
- Final payments on bankruptcy and Lasner Fund paid in 2007 – not forecasted until 2008
- No audit findings or questionable costs for FY 2004 audit period to date
- Under new political management
- City helped by new motorsports park, FedEx facility, and \$8M in state/local grants

West Jefferson Amusement Public Park and Authority

- Created in 1995 by 11 local municipalities in west Jefferson County to open and operate VisionLand
 - Cities - Adamsville, Bessemer, Birmingham, Brighton, Fairfield, Hueytown, Lipscomb
 - Towns – Maytown, North Johns, Sylvan Springs, Vance
- Opened in 1998 after \$60M bond issuance in 1996 and \$5M bond issuance in 1998
- Park revenues were to be primary source of payment on bonds
- Plus, each of 11 member municipalities were to pay in total \$2,952,360 annually (apportioned by annual funding agreement)

VisionLand Problems

- Never met attendance projections
- Had unexpected expenses (malfunctioning equipment, visitor accidents, traffic access, etc.)
- Changed management in 1998, 2000, and 2002
- \$90M bond issuance in 1999 to refund the 1996 and 1998 bond as well as to fund additional improvements to amusement park

Authority Files Bankruptcy

- June 4, 2002, authority filed for Chapter 9
- Owed \$100 million at time of filing
 - \$90 million to bondholders
 - \$10 million to creditors
- Attempted additional \$10 million bond in 2000 in order to pay over \$4 million in overdue bills
- Park sold for \$5.25 million - \$20 million less than asking price
- Member municipalities (unwillingly) had to pay original funding agreement through 2007 even though park was sold in 2002

Etowah Solid Waste Authority

- Established in 1993 by Etowah County Commission to handle garbage pickup and landfill operations for county area
- January 2002, 4 individuals associated with authority were found guilty of mail fraud and money laundering
 - Authority Administrator McKee and wife conspired with Crenshaw County Probate Judge (Faulk) and Crenshaw County Administrator (Williamson) to defraud authority by setting up own waste management company and receiving discounted rate for dumping in Etowah County landfill
- Defrauded authority over \$1.4 million (1995-2000)

Etowah Solid Waste Authority

- Court found that authority did not have the requisite authority to file for Chapter 9 protection under Alabama law
- Case dismissed in October 2002
- Authority sold to Waste Management, for-profit firm, in December 2002
- Authority closed owing \$1.9 million
 - \$744,042 for Revenue Bonds
 - \$500,000 to ADEM for fines

Millport

- Filed on December 14, 2004
- Declining population since 1990 – about 1000 presently
- Two factors contributed to bankruptcy
 - New administration in town after 20 years – incoming mayor inherited vast financial problems
 - Loss of available employment in area

Financial decline of Millport

- New mayor found that former administration did not create and operate under budget or properly use and account for revenues and expenditures of town
 - Alabama law does not require budgets for towns
- Revenue bonds issued by USDA in 1993 for sewer and water system upgrade in Millport
- \$2,081,000 original amount - \$2,010,000 due at time of filing – defaulted for several years
- Also, approximately \$1.3 million was due on GFO bonds for renovation of civic center

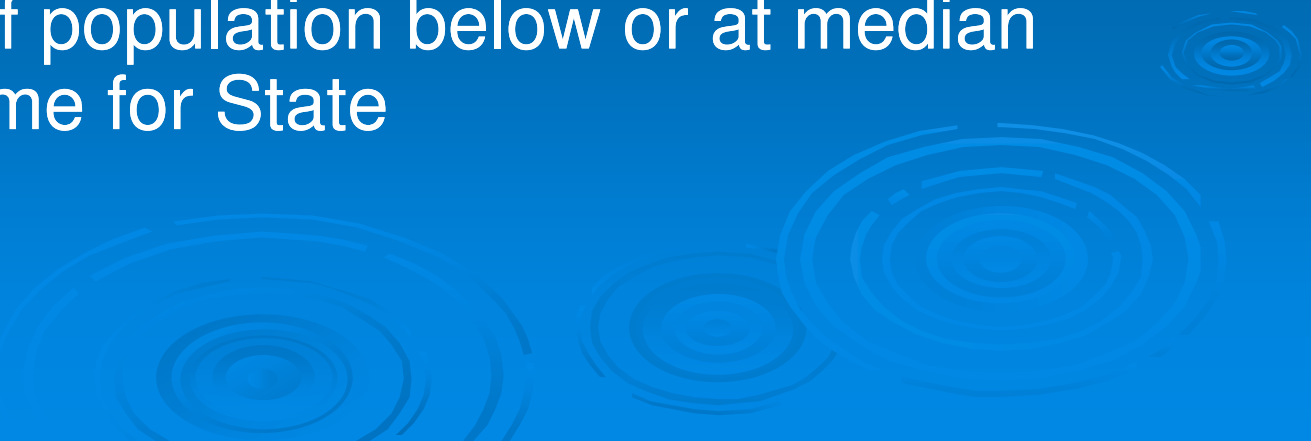
Financial decline of Millport (cont.)

- Total liabilities at time of filing - \$3.5 million
 - \$192,226 to engineering firm for beautification improvements to town and cultural arts center
 - \$45,991 past due for garbage and waste svc
 - \$20,000 to town clerk for funds borrowed by former administration
 - \$14,784 due on furniture for new Town Hall
- Approx. \$23,000 in insufficient check charges by former administration

Bankruptcy Case Settlement – November 2006

- Town to pay \$137,000 in additional interest and penalties to USDA – total amount due after settlement - \$2,147,000
- GO Bondholders to receive 8% of monthly sales tax collection for 40 years
- On \$112,000 due to other parties – town to pay \$12,000 annually through 2016

Economic Side of Financial Decline

- Decline in population of over 16% since 1980 census
 - Loss of 450 jobs in Millport area alone in last 10 years
 - Over 2,175 jobs lost in 25-mile radius
 - Town's sales tax revenue declined over 20% from 2000 to 2004 fiscal periods
 - Two-thirds of population below or at median level of income for State
- 

Conclusion

- Nine municipal bankruptcies occurred between 1990 and 2004 in Alabama
- Prevailing theme in the 9 municipal bankruptcies
 - Financial Mismanagement
 - Socioeconomic Factors (declining population, aging population, economic decline, poverty)

Credit Market Analysis of \$4,590,000 Bond Issued by Greene County in 2002

General Obligation Non-Rated, Uninsured \$1,405,000 30-year term Principal Amount	General Obligation Insured (taken from Bloomberg Fair Market Yield Curves for Date of Issuance)
Interest Costs \$2,655,450	Interest Costs \$2,103,285
6.30%	4.99%

Credit Market Analysis of \$4,590,000 Bond Issued by Greene County in 2002

General Obligation Non-Rated, Uninsured \$1,405,000 30-year term Principal Amount	General Obligation BBB-; Uninsured (taken from Bloomberg Fair Market Yield Curves for Date of Issuance)
Interest Costs \$2,655,450	Interest Costs \$2,259,240
6.30%	5.36%

Top Municipal Bankruptcy Filings By State (1990 – 2009)

State	Number of Filings	Percentage of Total
Nebraska	38	17%
California	33	14%
Texas	28	12%
Missouri	11	5%
Alabama	9	4%
Colorado	9	4%
Oklahoma	9	4%
All Other States	93	40%

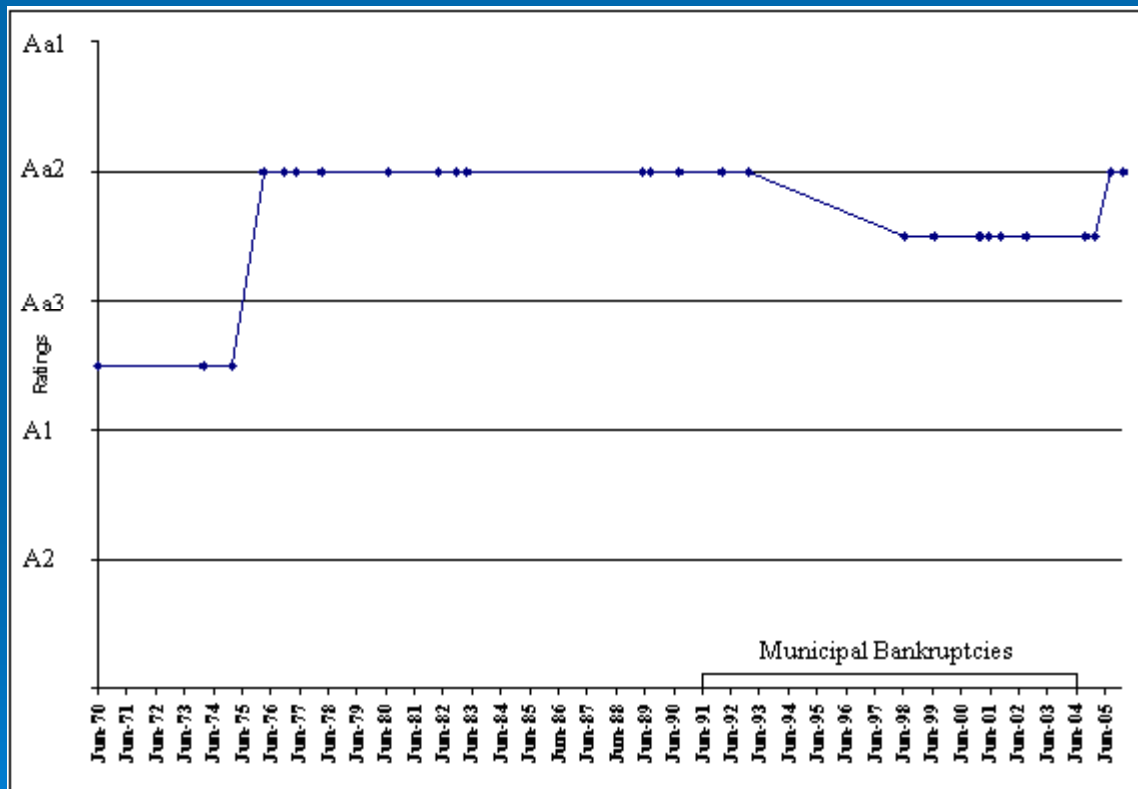
Ranking of Municipal Bankruptcy Filings To Local Governments, 1990-2009

State	Filings	Local Governments Per 2002 Census/Municipal Bank. Filings
Nebraska	38	$38/2791 = .1365$
Alabama	9	$9/1171 = .0077$
California	33	$4409/33 = .0074$
Texas	28	$28/4784 = .0058$
Oklahoma	9	$9/1798 = .0050$
Colorado	9	$9/1928 = .0046$
Missouri	11	$11/3422 = .0032$

Alabama in Comparison 1960 - 2009

Type of Municipality	United States	Alabama
Counties	2	1
Cities and Towns	37	4
School Districts	4	0
Hospital Districts	27	0
Utility Districts	119	2
Special Authority	48	2

Did Municipal Bankruptcies Affect the State of Alabama General Obligation Bond Ratings?



Is Reform Needed?

- Financial analysts forecast various fiscal challenges for U.S. municipalities in future
- Other states have introduced reform
- Alabama takes a “hands off” approach to municipal bankruptcy filing; statute gives authorization – no state-level notice or approval
- Only municipal legislation addressing fiscal stress affects Alabama’s local education agencies – introduced by Alabama SDE in 1995
- Time to bring the local governments on board?

THANK YOU

The image features the words "THANK YOU" in a bold, 3D, light blue font. The letters are arranged in two rows: "THANK" on top and "YOU" below it. The text is set against a black, rectangular background that appears to be a surface. Below this surface, there are several concentric, light blue circles representing ripples in water. The entire scene is set against a solid, medium blue background.