

Pennsylvania Capital Should Weigh Bankruptcy, Controller Says

By Dunstan McNichol

Jan. 26 (Bloomberg) -- Harrisburg, Pennsylvania, the capital of the sixth-largest U.S. state by population, should skip a \$2.2 million debt service payment due Feb. 1 and consider bankruptcy, City Controller Dan Miller said.

Harrisburg faces \$68 million in payments this year in connection with a waste-to-energy incinerator and should weigh Chapter 9 protection from creditors or state oversight through a program known as Act 47, Miller said today. Chapter 9 bankruptcy allows municipalities to reorganize rather than liquidate.

The alternatives are to sell assets such as an historic downtown market; an island in the Susquehanna River that includes the city's minor-league baseball stadium; and the city's parking, sewer and water systems, according to a preliminary 2010 budget and an emergency financial plan submitted yesterday.

"What I'm suggesting is we stop paying the debt service until we have a plan or we decide which way to go, in bankruptcy or Act 47," Miller, a former city council member who became controller this month, said in a telephone interview. "I think it could save our assets instead of selling them."

Mayor Linda Thompson, who unseated 18-year incumbent Mayor Stephen Reed in a Democratic party primary last year to lead the city of 47,000, didn't return a call to her office for comment.

Thompson is scheduled to present her budget proposal to the city council tonight. The council has until Feb. 15 to adopt a final budget.

Asset Sales, Fees

Management Partners Inc. of Cincinnati, a consulting firm hired to study the city's finances, recommended selling assets, raising city inspection and recreation fees, and reopening city labor contracts.

Harrisburg owes a total of \$68 million in payments it guaranteed on bonds issued by the Harrisburg Authority for the incinerator and on a \$35 million working capital loan for the project.

The city skipped more than \$3.5 million in debt service and swap payments last year, prompting draws on reserves and back-up payments by Dauphin County, where Harrisburg is located, which has sued the city to recover its payments.

Harrisburg's debt was downgraded to high-yield, high-risk junk status by Moody's Investors Service in October. Moody's lowered the city's rating to Ba2 from Baa2, the second-lowest investment grade.

The city's credit rating could be lowered further after an analysis of the steps taken to address future payments on debt and two interest-rate swaps that are costing about \$800,000 a year, Moody's said in an Oct. 19 report.

To contact the reporter on this story: Dunstan McNichol in Trenton, New Jersey, at dmcnichol@bloomberg.net.

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