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Jefferson County Bondholders Begin Fight Over Sewer Rates

By Steven Church - Jan 30, 2013

Bondholders of Jefferson County, [Alabama](#), began an effort in federal court to try to force the biggest municipality in bankruptcy to raise sewer rates enough to help cover more than \$3 billion in defaulted debt.

Today's court hearing opened a day after two county commissioners returned from [New York](#), where they tried to negotiate an end to the bankruptcy case with a group of hedge funds, which includes Brigade Capital Management LLC and Claren Road Asset Management LLC, that hold more than \$675 million in warrants backed by the sewer rates.

The meetings were "very, very constructive," even though the two sides didn't reach a deal, Commissioner Jimmie Stephens said in an interview yesterday. The county is waiting to hear back from the hedge funds before holding further talks, he said.

The fight that started today in [U.S. Bankruptcy Court](#) in Birmingham, Alabama, may affect the negotiations, Stephens said. A trustee for bondholders claims the county is refusing to boost sewer rates high enough to help cover the warrants and trying to use the bankruptcy case to unfairly impose losses on investors.

"By doing as little as possible and delaying as long as possible, the county is inflicting significant harm upon the trustee and warrant holders," attorneys for the trustee said in court papers.

Receiver Thwarted

The trustee is asking U.S. Bankruptcy Judge Thomas Bennett for permission to sue the county in state court, where bondholders won a ruling in 2011 giving control of the sewer system to a receiver. Before the receiver could raise sewer rates by 25 percent, the county filed for bankruptcy and a federal judge returned control of the system to county officials.

Bondholders now want a 22 percent rate increase. They say that change, combined with the refinancing of some sewer debt at a lower [interest rate](#), would minimize their losses.

Jefferson County adopted a 5.9 percent rate increase and may consider another boost, according to court documents. The county denied the trustee's claim that it is limiting rate increases so that it can negotiate bigger cuts it must repay on the sewer warrants.

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Bondholders refused to participate when county commissioners held public hearings about the rate increase last year, county attorneys said.

“In lieu of any rational analysis of the approved rate structure or the resolution, the trustee relies on ad hominem attacks on the integrity of the county, its commission and its advisers,” the county said in a Jan. 25 court filing.

Sewer Debt

For months, the county and its major creditors have tried to negotiate a plan to cut the sewer debt and end the biggest- ever municipal U.S. bankruptcy.

In addition to Brigade and Claren Road, the [hedge funds](#) that hold sewer debt include Fundamental Advisors LP and Monarch Capital Master Partners LP. In court filings, they said the county could base a settlement on a pre-bankruptcy agreement that creditors and state and local elected officials failed to implement in 2011. After that failure, the county filed for bankruptcy.

That plan would have required Jefferson County residents to absorb three sewer rate increases of about 8.2 percent each and creditors to make more than \$1 billion in concessions.

The plan also required Alabama lawmakers to pass laws that would help the county raise money and offer a qualified guarantee that warrant holders would be repaid. The Legislature didn't pass any of the laws.

The hedge funds offered a new plan that would have cut the rate increases and saved money by refinancing the warrants at lower interest, according to a declaration filed by hedge fund financial adviser J. Soren Reynertson.

The case is In re Jefferson County, 11-05736, U.S. [Bankruptcy Court](#), Northern District of Alabama (Birmingham).

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