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PAR and BGR Release Joint Study on Municipal Bankruptcy

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The Bureau of Governmental Research and the Public Affairs Research Council of Louisiana today released a joint report—*Municipal Bankruptcy in Perspective*. The report examines the potential role of bankruptcy as a tool to help restore fiscal stability in those Louisiana local governments hardest hit by the storms. It provides a brief overview of federal and state law on municipal bankruptcy, describes the advantages and disadvantages of the option, and looks at the financial condition of selected local entities in three of the hardest hit parishes – Cameron, Orleans, and St. Bernard.

"Fortunately, many of the Louisiana local entities affected by the hurricanes have resources or options they can draw upon to avoid resorting to the courts," said Jim Brandt, president of the Public Affairs Research Council. "Some entities outside of New Orleans may require some additional assistance, but this need appears relatively small compared to the magnitude of the fiscal distress in New Orleans."

Despite steps taken to date, the City of New Orleans and the Orleans Parish School Board are teetering on the edge of the cliff. The School Board is dealing with chronic cash flow problems, and the City is one month away from running out of cash. With their tax bases in shambles, it is unclear whether they will be able to meet the threefold challenge of servicing existing debt, providing services, and rebuilding damaged infrastructure.

Faced with problems of similar scope a business would consider all of its options, including filing for bankruptcy. The option has been removed from the table, however, by state officials concerned about the stigma of bankruptcy and its potential effect on other governmental entities in the state.

While recognizing the importance of repaying outstanding indebtedness, BGR and PAR submit that debt repayment must be considered in the larger context of restoring the community's health and recovery. For destroyed communities, that recovery depends in part on their ability to deliver vital services and to build an attractive environment. In the case of Orleans Parish, it also depends on the continued reform of the school system and the availability of sufficient resources to elevate the level of public education.

Continuing to shoulder pre-Katrina debt loads may interfere with a community's ability to create the conditions needed for recovery. While the negative implications of bankruptcy must be carefully considered, the drag of outsized debt, reduced services, and elevated tax rates on redevelopment should also be analyzed.

BGR and PAR are not taking a position for or against local governments' filing for bankruptcy. They firmly believe, however, that bankruptcy should be evaluated along with other possible solutions to the fiscal problems in devastated communities.

"It is a matter of a hard-nosed analysis," said Janet Howard, President & CEO of the Bureau of Governmental Research. "The option should not be foreclosed without a thorough evaluation of all the short-term and long-term costs and benefits for the community."

The state, which maintains that the disadvantages of bankruptcy far outweigh the advantages, should act quickly to provide alternative means of relief. It could begin by tapping into relief funds and programs provided by the federal government for hurricane relief. The state's options for assisting local government entities with their fiscal crises include:

- Providing grants or loans through the Gulf Opportunity Zone tax credit program.
- Allocating Community Development Block Grants to local government expenses.
- Using general fund revenues.

- Picking up the cost of unfunded mandates or other amounts owed the state, such as unemployment compensation.

BGR and PAR call on the state and distressed local governments to embark immediately on a joint effort to assess and address their financial problems and needs. The problems are not going to disappear on their own.