J. OF PUBLIC BUDGETING, ACCOUNTING & FINANCIAL MANAGEMENT, 17 (2), 129-150 SUMMER 2005

FINANCIAL DISTRESS AND MUNICIPAL BANKRUPTCY: THE CASE OF PRICHARD, ALABAMA

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ABSTRACT. Since 1934, the federal government has provided a process for municipalities to declare bankruptcy, and approximately 500 governments have done so. In recent years, an average of less than one city government declares bankruptcy each year. In this article, the authors identify five factors that contribute to financial distress for cities which, if left unattended, can lead to municipal bankruptcy. This discussion is followed by an examination of the events that led to the bankruptcy of the City of Prichard, Alabama, once a prosperous suburb of Mobile. The authors conclude that this municipal bankruptcy occurred, in large part, because Prichard failed to face the factors of financial distress identified by the authors in the years prior to filing for bankruptcy.

INTRODUCTION

It was not until Congress passed the Municipal Bankruptcy Act in 1934 during the Great Depression that municipalities were provided a process by which they were allowed to declare bankruptcy (Murphy

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1995, p. 47; Spiotto 1993, p. 12). In the nearly seventy years since Congress established bankruptcy protection for "municipalities," which includes cities, counties, and other subdivisions created under state law, approximately 500 local governments have declared bankruptcy under the provisions of the Municipal Bankruptcy Act (Schrenk, 1999a, p. B-01; Spiotto, 1993, Appendix 13A, p. 1). The best known case in recent years is Orange County, California, which filed bankruptcy in 1994 after losing $2.5 billion through faulty investments.

Local governments face social, economic, and financial issues that, if not addressed properly, may lead to financial decline, and in some cases bankruptcy, the ultimate financial distress. This article examines the issue of bankruptcy in three discussion sections. The first section illustrates the types of financial stresses that local governments sometimes face. How well they handle them largely will determine whether they return to sound financial status or plummet into bankruptcy. The second section presents an overview of municipal bankruptcy, including a discussion of the relationship between the federal and state governments in the treatment of local government bankruptcy. Finally, a close look at the case of the City of Prichard, Alabama reveals that because the city did not address the financial stressors affecting its municipal operations, those stressors contributed to the city's slow progression into bankruptcy.

DISCUSSION

We have identified five economic and social forces that are significant contributors to local governments' money problems. These factors, that can easily lead to financial distress for the local governments experiencing them, include 1) problems with financial management; 2) a declining population; 3) structural changes within the city's economic base; 4) natural or man-made disasters; and 5) civic distrust. Quite often, a combination of these factors has been responsible for the inevitable financial decline that cities such as Miami and Philadelphia have been forced to overcome (Thai, 1997, pp. 23-25; Rendell, 1997, pp. 36-37).

Financial Mismanagement

Quite often, the most common factor that leads to fiscal distress is a problem involving the management of a city's finances. Adams

(1997, p. 21) writes that "although there can be a radical change in the financial condition of a government in a short period of time, there is normally a gradual progression to a deteriorating condition." Financial miscommunication among local government officers or inadequate auditing and reporting standards may cause significant budgetary problems requiring direct state assistance or ultimately cause a municipality to file Chapter 9 bankruptcy.

In the case of Miami, Florida, a number of items were underfunded in the budget that resulted in using reserve funds for operational purposes, and restricted funds were improperly utilized for unrelated activities. For example, $32.5 million out of a $42.5 million storm water drainage fund supported by a voter-approved homeowner tax was utilized to cover payment for garbage pickup and other budgetary shortfalls (Thai, 1997, p. 23). Therefore, the city's fiscal problems stemmed from the use of long-term obligation funding to pay for short-term service provision. When a city resorts to unsound financial management practices such as these, it is generally a sign of financial desperation.

In addition, if a city is not utilizing the technological tools available to track its finances, it may be at a disadvantage in being able to detect problems early enough to avoid serious mishaps. Another problematic issue is that many city officials have a tendency to take short-term views of their budgets (Stanley, 1980). Rather than planning for the future, many cities operate within the "survival" mode, in which they focus on each fiscal year as it comes.

Declining Population

Another important consideration in predicting financial distress is whether or not a city's population is growing or declining. If a city is experiencing a decline in its population base, the resulting reduction in the city's tax base will shrink budget revenues. Higher unemployment most often will require additional services that must be supported by the public sector.

Population decline is often caused by a migration of families out of older cities to new suburbs within the metropolitan area. Often people migrate out of certain areas because of crime, deteriorating infrastructure, or poor services. In addition, new city residents may move into newly developed areas of the region and avoid living in distressed or declining areas. As these distressed areas continue to reduce in population, their economies tend to suffer, prompting their "productive" residents to move elsewhere, such as nearby suburbs and other regions (Stanley, 1980). There are several consequences of declining population including rising per capita costs, sluggish revenue growth, and decline in the "quality of life" in the community.

"Quality of life" issues are negatively impacted if cities fail to consider the effects of pollution, traffic congestion, unkempt properties, and the deterioration or underdevelopment of infrastructure (Blair, 1995, p. 27). When a community's quality of life suffers, a decline in population often occurs. Banfield (1974, p. 30) confirms this outcome and suggests that people move "because the city (was) no longer habitable: they could not stand its dirt, noise and disorder, not to mention the danger to property values from the arrival of 'undesirable' people." This implies that a neglect of quality of life issues is a factor in bringing about a decline in population, as people choose to move their residences from a city that is experiencing social and economic problems.

In addition to creating a reduction in population base, underestimating the power of "quality of life" issues may also play a role in the loss of future economic investment opportunities. Often, investors making business decisions may locate a new business venture on the basis of "hunch" rather than carefully calculating costs and benefits (Blair, 1995, p. 14). Therefore, if there is not economic growth in an area and the population is moving out of a city, potential investors may believe that the area is in decline and look elsewhere for investment opportunities.

Typically, a city with a declining population and economy will not be a prime location for highly sought economic investments. Wolman and Spitzley (1999, p. 242) suggest that "in cities facing economic problems, fiscal problems, or both, there is likely to be strong public pressure on local officials to 'do something.'" To compensate for the negative aspects of the community that may be a concern of developers, corporations, and economic development consultants and to be able to say that they are "doing something," fiscally stressed cities are often more receptive to risky economic ventures and strategies in an attempt to attract any kind of new investment (Clarke & Gaile, 1998; Reese, 1992; Sharp, 1991).

Rising Per Capita Costs

When population shifts out of municipalities, rising per capita costs may compound the financial problem unless costs are reduced as well. Cities in population decline will tend to have more employees per citizen as well as a higher cost per employee compared to growing cities (Stanley, 1980). If the pool of taxpayers is reduced, the costs of paying for services for those remaining in the pool will be increased. Cities will experience a reduction in tax revenue collections, but will still be obligated to provide services. In addition, regardless of how large or small the population is within a city, the demands for newer and improved services never seem to dissipate. Rising costs in an inflationary economy are inevitable for all cities; it is particularly those cities in decline that will struggle if they do not have an increasing revenue base to match the increasing demands.

Reasons for sluggish revenue growth include a poor or unsuccessful economic development effort or a decrease in the amount of federal or state funding (Stanley, 1980). Rusk (1995) argues that the protection and growth of municipal revenues is often a primary concern to elected officials in order to secure the funding for the public services demanded by their constituencies. If a city depends primarily on allocations from external sources, such as federal or state grants, losing those monies is a serious problem. If legislative mandates reduce the funding or increase the required amount of services without providing the funds to provide them, cities may be in trouble.

Managers, mayors, city councilors, and citizens are often called upon to address crumbling infrastructure, a need for more parks and recreation facilities, more police officers and firefighters, or a more efficiently organized public works function (Cyr, 1993). Cities will always have room to improve the productivity and efficiency of their public services. Usually, however, "this does not change the fact that more money is required to provide the needed services" (Baxter, 1999). Often those cities with declining populations lose the residents that are best able to pay additional taxes or fees. In effect, they take their taxes and buying power to the wealthier areas to which they have moved and leave the cities they have vacated poorer and less able to pay for services.

Consequently, those left behind generally require more services but are less able to pay for them (Rusk, 1995).

Structural Changes in the Economic Base

If large-scale industry or retail establishments close or relocate, the economic base of a community will undergo structural changes that will have significant impact on other parts of the local economy. In these situations, unemployment increases and local tax base decreases will be felt. Cities must be prepared to deal with the possibility of losing these revenue sources and should attempt to provide a diverse employment base for residents. Many cities have become active in economic development out of a realization that they must protect against the loss of sunset industries or ones that find a better deal in another state or off-shore (Watson, 1995).

As technology develops and the provision of private goods and services continues to evolve, the pattern and rapidity of change within larger cities and their suburbs will increase the need for cities to invest in economic development activities. The growth of regional shopping centers and the decline in neighborhood stores has been a significant factor in changing the economic market within urban areas, according to Blair (1995, p. 74). Improved transportation and the wide variety of goods and services offered in regional shopping centers have changed the nature of the market (Blair, 1995, p. 79), making smaller cities in particular more vulnerable to closings that could significantly reduce both sales and income tax revenues. Failure to recognize changes in the market and adjust accordingly may create urban "ghost towns" thereby diminishing the ability of some cities to provide adequate services to its citizens.

For example, Bessemer, Alabama, located less than twenty miles out of Birmingham, enjoyed a healthy economy for many decades deeply rooted in the steel industry. Since its founding in 1886, Bessemer was known as a wealthy industrial city that was economically dependent on a heavy industrial manufacturing sector and its superior mineral resources. The national economic changes of the 1970s and 1980s coupled with the "lack of competitiveness of American steel companies" greatly impacted the local economy in Bessemer. Because the city had relied so heavily on the iron and steel industries for the employment of a majority of its residents, changes in the national economy caused Bessemer's unemployment to skyrocket to 35 percent in 1983 (Watson, 1995, pp. 48-49). The city's high unemployment rate forced municipal officials to act. Realizing how this situation could impact the fiscal health of the community, the city council proactively addressed the structural change that was occurring in the economic base by developing an aggressive economic development effort to turn the city around.

Rapid changes in a city's demographic composition also may contribute to financial distress if businesses are tempted to move or not to locate in an area where one demographic group is being replaced by another. For example, an influx of immigrants into Orange County, California increased its minority population to over forty percent ("Virtually Back," 1998, p. 29). While this growth has benefited technological industries in the area, it has also led to an "Orange Curtain" between Orange and Los Angeles counties, as growing inequality between the immigrant minorities and other groups in the region is creating a greater degree of isolation in industrial development. New construction in the region has shifted to areas farther south in the state, while vacancy rates for research and development space are rising in Orange County ("Virtually Back," 1998, p. 30). This reduction in investment, combined with an increase in vacancy rates, has created social and economic disadvantages for the minorities living in the county, which inevitably has contributed to a significant change in the economic base.

Natural or Man-made Disasters

A variety of urban and rural problems may be evident in the form of negative externalities, also known as spillovers (Blair, 1995, p. 27). Negative externalities, such as natural disasters, can be devastating to smaller communities without the resources to recover from a flood, tornado, or hurricane. Fortunately, the federal government through the Federal Emergency Management Agency (FEMA) provides some financial relief for many types of natural disasters. An example of a disaster not covered by federal aid took place in the city of Wapanucka, Oklahoma, when an oil truck went off a highway and landed in the city's reservoir polluting the city's water supply (ACIR, 1985, p. 10). This single man-made disaster was the major factor leading to the city's filing for bankruptcy soon after the event. Natural disasters, such as tornadoes, hurricanes, or loss of the water supply, may cause significant problems that make it difficult for a local government to recover financially. Man-made disasters, such as the terrorist attacks on September 11, 2001, can also create significant financial burdens on local governments as the attacks have in New York City.

Civic Distrust

Cyr (1993, p. 23) stated, "Americans have a love-hate relationship with governance. They want it to do everything but trust it to do almost nothing." A lack of trust between the local government and citizens has the potential to constrain approaches available to a city's management or limit the success of those approaches.

If there is distrust or a lack of credibility among elected officials, between the elected officials and the management, or between the citizens and the local government as a whole, it is likely that a city's fiscal health will be impacted. For example, if the elected officials in Auburn, Alabama had opposed the creation of an economic development department aimed at expanding the industrial base in that community and advocated by the city manager, the city would not have the diverse industrial and robust retail base it enjoys today (Watson, 1995, pp. 38-48). However, the city manager had credibility with the elected officials, and the credibility was necessary to proceed with the administrative changes necessary to be more effective in its economic development efforts.

Similarly, local governments need to have credibility with the voting public so that proposed increases in taxes or service fees are supported in a referendum. If citizens do not feel that their government is being efficient or effective in the allocation of public dollars, possible solutions to address fiscal problems will be severely limited.

In the face of a $200 million annual deficit in 1992, the city of Philadelphia developed a positive approach in working with its citizens to avoid bankruptcy. In addition to evaluating a number of structural changes aimed at saving money, "city officials also focused on cutting waste and volunteers willingly participated in cleanup operations" (Rendell, 1997, p. 36). Mayor Ed Rendell (1997, p. 37) states that "because we told them the truth, and because we demonstrated that we were serious about cutting waste, our citizens and our business community responded with an unprecedented level of financial and volunteer support."

In summary, these factors of financial stress are principle causes of municipal bankruptcy when it occurs. It should be recognized that these factors do not operate in a vacuum. To the contrary, they are interrelated and have the potential to feed on each other if a local government begins to experience a lag in revenue, rising costs, and a decline in the population. Therefore, a city must be prepared to take action to guard against situations that may threaten its financial health. Some of the options to balance a municipal budget include raising taxes, imposing new or increased fees, reducing purchases, eliminating infrastructure construction, making a commitment to involve civic leaders and professionals, applying for additional federal or state aid, enlisting help from neighboring communities, and reducing the internal workforce (Stanley, 1980; Cahill, James, Lavigne & Stacey, 1994, p. 259).

Often, a local government must look inside its organization to improve efficiency and cut costs. Internal changes may be perceived as the only option if external sources are unavailable. For political reasons, it generally seems more viable to make internal adjustments, such as employing hiring freezes and reducing the number of capital projects rather than raising taxes or cutting programs that generally create a negative reaction among citizens. If local governments are not able to neither develop solutions locally nor receive help from the state or federal governments to correct their financial crises, they are likely to be forced to consider bankruptcy under applicable federal law.

MUNICIPAL BANKRUPTCY

The Founding Fathers determined that Congress should have the authority to establish laws governing bankruptcy in order to assure consistency in addressing questions of insolvency across the new nation. Article 1, Section 8 of the United States Constitution reads: "Congress shall have the power...to establish...uniform laws on the subject of bankruptcies throughout the United States" (Spiotto, 1993, p. 12). During the 1800s, there were a number of defaults by governments, such as the 1842 default by the state of Pennsylvania on its bonded indebtedness, that led to the tighter restrictions on governmental finances (Babcock, 1990, pp. 11-12; Spiotto, 1993, p. 15). However, it was not until 1934 that Congress amended the Bankruptcy Act of 1898 to address the growing problem of local government default on bond payments. Between 1929 and 1937, 4700 defaults by local governments were recorded and, in 1934 alone, over 1000 municipalities were not making payments on their bonded indebtedness (Spiotto, 1993, p. 13).

To address this serious national problem, Congress attempted to provide a process and to establish ground rules for adjudicating disputes between local governments and bondholders. The law was enacted for an initial period of two years and was later extended until 1940. The 1934 law allowed local governing bodies to remain in charge of decision making while their financial problems were being addressed. Prior to that time, creditors, through the courts, had considerable control over the resources and affairs of the bankrupt local governments. In 1936, the Supreme Court ruled that the 1934 law was unconstitutional in the case of *Ashton v. Cameron County Water Improvement District No. 1* because it intruded upon state power (Spiotto, 1993, p. 13; Murphy, 1995, p. 48). Spiotto (1993, p. 13) observed: "The invalidation of the 1934 legislation left many municipalities hopelessly insolvent and without any real practical remedy. In fact at the time of the decision, there were approximately 89 petitions for relief." In response to the Supreme Court ruling, Congress addressed the concerns of the Court in the 1937 amendments to the Bankruptcy Act and the Court upheld the constitutionality of the 1937 law in the case of *United States v. Bekins* in 1938.

The extent of federal court involvement in municipal bankruptcy under Chapter 9 of the Bankruptcy Act is limited:

> The Court cannot constitutionally interfere with the revenue, politics, or day-to-day operations of the municipality. The Bankruptcy Court cannot replace, by its rulings or appointments, the City Council or any other elected or appointed official. The limited, but vital, role of the Bankruptcy Court is to supervise the effective and appropriate adjustment of municipal debt (Spiotto, 1993, p. 15).

An important restriction of the 1937 law was that a municipality could not file bankruptcy unless it had approval of a debt adjustment plan from a majority of its creditors (Murphy, 1995).

It was not until 1976 that Congress modified the 1937 law following the near-failure of New York City. In Spring 1975, New York was not able to sell its bonds because the bond market discovered that the city was using questionable accounting practices to camouflage its annual deficits for the prior ten years. The banks refused to extend short-term notes and the city was not able to borrow any new money from lending institutions. New York faced certain default in December 1975 if the state and federal governments had not decided to provide aid to the New York City government. As a result of the New York situation, Chapter 9 was determined not to be a viable solution to address many municipalities' problems (Spiotto, 1993, pp. 20-22). The 1976 amendments eliminated the requirements of a pre-approved plan and new powers were granted to the Chapter 9 city, such as eliminating collective bargaining agreements that were in place. In 1979, the Bankruptcy Act was repealed and replaced with the Bankruptcy Code that patterned Chapter 9 municipal bankruptcy on the corporate model. Further amendments in 1994 restricted the eligibility requirements for filing under the federal law (Murphy, 1995, p. 49).

In order for a local government to file for bankruptcy under Chapter 9 after 1994, it must meet several requirements of the law:

1. The entity filing for protection must be a "municipality," as defined in the law. A municipality is defined as "a political subdivision, a public agency, or an instrumentality of the state."

2. The municipality must be insolvent. The standard for insolvency is that the government is not paying its bills and will not be able to pay its bills in the future.

3. The debtor government has to desire to develop a plan to remove itself from the financial position it faces.

4. The municipality must demonstrate that it has tried to negotiate a settlement with its creditors but has failed (Murphy, 1995, p. 50).

An important change in the 1994 law addressed the local government's ability to bypass its state government by taking its case directly to federal court. In 1994, the federal Bankruptcy Code was amended to require states to "specifically authorize" their local governments in order for them to have authority to go to federal bankruptcy court. Lewis (1994) noted that in 1994 only sixteen states had passed legislation authorizing local governments to use the federal courts in case of bankruptcy. Interestingly, Georgia specifically prohibited its municipalities from use of the federal bankruptcy court.

States vary in their willingness to assist cities and other public entities in solving financial crises. Pennsylvania, for example, has in place legislation known as the Distressed Municipalities Act for the purpose of providing a process and a structure for local governments that are in financial trouble (Cohen, 1995, p. 64). Other states, such as Alabama, play little or at best a minimal role when one of their subdivisions is facing financial distress.

Special districts have filed most of the bankruptcies in recent decades. Many special districts are formed to install and manage infrastructure in anticipation of residential and commercial growth. In the difficult economic times of the 1980s, many special districts invested heavily in infrastructure built in anticipation of private construction that never occurred. As a result, these districts were left with indebtedness for the infrastructure without the ability to make the payments. Their only recourse was bankruptcy. According to Cohen (1995, p. 65), between 1981-1994, there were 102 filings for bankruptcy in federal court; special districts filed 76 of them. By contrast, only eleven cities and towns declared bankruptcy.

One of the cities that filed for bankruptcy was the city of Prichard, Alabama following several decades of conflict among elected officials that resulted in a financial crisis. The Prichard experience illustrates that if city officials cannot agree on budget priorities, it is very difficult to develop strategic plans or capital improvement programs to address the city's infrastructure and service needs. Due to neglect of problems with financial management, a declining population, structural changes within the city's economic base, man-made disasters, and civic distrust, the inevitable result for Prichard was bankruptcy.

METHODOLOGY

In order to understand how the economic and social forces that lead to bankruptcy actually affect a local government's financial stability, we have conducted a study of the events leading to the bankruptcy filing by the City of Prichard, Alabama. Posavac and Carey (1997, p. 67) assert that "although a case study cannot show the extent of a problem, it can show how specific program failures occur and can help policy makers visualize a need for program development and change." Our study of Prichard clarifies the many influences that shaped the decisions made by the community's leaders during the time of fiscal distress.

Further discussion on the usefulness of case studies is suggested by Coleman (1957, pp. 2-3):

> ...communities continually face problems unique in their own history and for which no precedent exists in the experience of the community leaders. It is in such a situation that social research can perform valuable service, by speeding up the diffusion process so that the experience of many communities becomes available to each.

The case of Prichard was selected because it provides a level of detail in which we can perform a contextual analysis to determine which of the factors identified earlier in the manuscript contributed to its financial decline during the late 1990s.

Limitations of this study should be acknowledged. First, the scope is limited, due to the examination of only one case of municipal bankruptcy. As Reese and Rosenfeld (2002, p. 67) state, case studies can only generally lead to "limited and uncertain generalizability." Therefore, the results of the case study will provide limited conclusions for the effect of the various social and economic factors on a city's financial crisis. Second, the background data on governmental activity in the City of Prichard are somewhat limited: available data resources included actual bankruptcy court documents regarding the case and contact with local media to acquire newspaper reports regarding the details of the political and financial environment in Prichard. Attempts to contact city officials were not successful. Therefore, the personal account of those involved in the situation is not presented in this study.

A final limitation of this study is that the conclusions drawn may not be applicable to other cases of municipal bankruptcy. Differences in geographic size, population, form of government, as well as varying social, political, and economic environments justify the need to analyze other cases to add to the growing body of knowledge on municipal bankruptcy.

CITY OF PRICHARD, ALABAMA CASE STUDY

In October 1999, the city of Prichard placed itself in bankruptcy after finding itself hopelessly in debt and unable to generate the revenue necessary to pay its delinquent bills of $3.9 million. Prichard, the third Alabama local government in recent years to take advantage of the protection offered it under the Municipal Bankruptcy Act, was once a thriving suburb of Mobile. In the mid-1960s, Prichard's population was approximately 45,000 and its downtown was the second most viable commercial center in Mobile County. By 2000, the population had shrunk to 28,000, the city was bankrupt, and several key elected officials were removed from office in shame. The story of Prichard's descent into bankruptcy over the past four decades is valuable because it demonstrates steps that a local government should not take if it is facing a financial crisis.

Prichard was incorporated in 1925 and grew steadily as a suburb of Mobile until the mid-1960s. Prior to that time, Prichard was a lively commercial center, as well as a transportation center with train and bus stations. Kantrow (2000, p. S4) reports:

> There was a time when Prichard didn't need any sympathy- or anybody's charity. In the late 1950s and early 1960s, it stood fifth in the state in population, ...and its downtown rivaled Mobile's until the early 1970s. The central business district, concentrated around Wilson Avenue, featured prominent national and local retail outlets, including for a time, the only J. C. Penney in the Mobile area.

There was never any strong effort to recruit industry to Prichard since Mobile had plenty of industrial jobs, as well as the port on the Gulf of Mexico. As a result, Prichard's economic base, like most suburbs, was housing and shopping areas to serve the residents of the city. One particularly damaging decision appears to be the de-annexation of a valuable stretch of land along the Mobile River that was later annexed by Mobile. Mobile zoned the property for industrial development and it later became home to a number of industries.

As new residential areas west of Mobile began to develop in the 1960s, many of Prichard's white residents left for the newly developed areas. The city government was in constant turmoil during the early years of Prichard's downward trend. Part of the problem was due to the weakness built into what was described as a "weak mayor, strong council" form. In the bankruptcy papers, the general counsel for the city stated, "It's unclear what the form of government was in the early 1980's. It was probably a strong council, weak mayor structure."

As early as 1964, the city's financial problems became apparent when the then-mayor warned of a deficit in the city's budget by the end of that fiscal year. Although Prichard avoided a declaration of bankruptcy for three decades, during the 1970s and 1980s Prichard's liabilities exceeded its assets and the city documented several general fund deficits. The city's financial problems marked the beginning of what culminated into a state of financial crisis in the late 1990s. It is logical to assume that if liabilities and assets were not balancing, then there was a great deal of pressure to maintain service levels within the constraints of the city's dwindling revenues. In a well-managed city, this scenario would likely result in the development of an aggressive cutback strategy. Apparently, the lack of managerial leadership in Prichard was to blame for the "head in the sand" approach to the mounting crisis.

By 1985, a judge allowed Prichard to place certain debts into a separate fund and approved for the city to pay the debts over a period of time. In that same year, a citizens group called the "Prichard Citizens for Action" petitioned Mobile to annex Prichard as part of Mobile. No action was ever taken by Mobile, but efforts to solve Prichard's problems by becoming part of Mobile continued at least until 1992 when the Prichard city council finally voted against giving up the city charter and joining with Mobile.

In 1987, the Alabama Legislature enacted a bill to give the city a strong mayor form of government and the citizens of the city approved it in a referendum. The mayor became a full-time position for the first time with responsibility for developing and submitting an annual budget and overseeing the city's finances. The general counsel noted in his report to the bankruptcy court:

> It appears the previously strong city council never accepted the strong-mayor concept, even eliciting an attorney general's opinion in May 1989 as to whether the mayor or the city council controls the city's finances. That was the apparent start of what eventually evolved into a major and continuing conflict between

the office of the mayor and the city council (City of Prichard, 1999, pp. 7-8).

In 1990, at the request of community leaders, two professors from the University of South Alabama evaluated the city of Prichard's economic status under a grant from the state of Alabama. The professors gathered fifty leaders from the city of Mobile, Mobile County, and Prichard at a local university to review their findings (Schrenk, 1999b, p. A-01). The study concluded that Prichard was one of the poorest cities of its size in the nation, offered "skeleton" services, and employed outdated financial management practices. They reported:

> In 1987, Prichard's per-capita income was estimated at $5,014 – the lowest in the nation among cities with a population greater than 25,000....In general, compared with the other... largest cities in Alabama, Prichard exhibits poor and inadequate housing, higher-than-average unemployment, lower-than-average wage levels, poor and inadequate infrastructure, including deteriorating roads, streets, bridges and sidewalks, and a lower average level of health and expected lifespan of Prichard citizens (Schrenk, 1999b, p. A-01).

The authors of the study recommended the city begin immediately to develop a strategic plan if it had any hope of salvaging its financial future. One of the professors told those assembled in 1990 that if they did nothing, "in ten years you'll be just like you are now or you'll have to declare bankruptcy" (Schrenk, 1999).

In 1992, Jesse Norwood was elected mayor. The general counsel noted, that at the time, there was hope that his election would be the "beginning what many thought would be an era of open communication and responsible planning. Mr. Norwood was a leader in the fight against annexation by the city of Mobile, and with his articulate and professional style, everyone thought that positive changes were in the making" (City of Prichard, 1999, p. 7). However, instead of cooperation and communication between the mayor and council, acrimony grew worse than before. There is evidence that the mayor refused to share financial information with the city council and this failure to keep the council informed was a major source of friction between the mayor and council.

This "confrontational relationship" led to the use of the same budget for multiple years because the mayor and council were unable to agree upon a budget. The fiscal year 1999 budget was actually the same budget approved for fiscal year 1998 even though revenue had decreased significantly (City of Prichard, 1999, pp. 7-8). The description of the events of fiscal year 1999 is worth quoting from the general counsel's report to the court:

> Using the fiscal 1998 budget in fiscal 1999 resulted in budgeted revenue and expenditures significantly different from the revenue and expenditures actually incurred. Since there were no forecasts or revised budgets developed, the city proceeded to spend, in 1999, 99% of the expenditures included within the 1998 budget now used in FYE 1999, without regard for the fact that revenues were coming in at 85% of the FYE 1998 budget. In addition, the elected officials should have been made aware of the fact that March year-to-date sales taxes were coming in at only an annualized 74% of the $3.9 M included in the budget. ...the fact that sales taxes were coming in so much lower should have been recognized even before March, and immediate and drastic action taken to prevent financial disaster by the end of the fiscal year. Unfortunately, there were no forecasts or amended budget projections documenting the impending doom (City of Prichard, 1999, pp. 7-8).

In 1999, Prichard spent $1.4 million more than it had in revenues that year. By September 30, 1999, Prichard had current unpaid bills totaling $3.9 million and had no way to pay them. Numerous mistakes by elected officials, such as granting 30 percent pay raises to police officers and firefighters in 1998 in the face of dwindling revenues, exacerbated the city's financial plight. Prior to filing bankruptcy, the city admitted that it had not made payments into the pension fund of employees for years and had also withheld taxes from employees' paychecks but had not submitted them to the federal and state governments.

While not part of the court reports, the university studies, or the media exposure, it is important to note that the state of Alabama played no role in addressing the financial ills of Prichard except for one grant to study the problems. Prichard, as a municipal corporation, is a creation of the state but no effort was made by any of the governors over this period of time or the state legislature to address the Prichard situation to mandate change before it was too late.

Following the city's bankruptcy, a Mobile county grand jury brought bills of impeachment against Mayor Norwood and the entire city council. They were charged with willful neglect of duty for appropriating and spending money they did not have. In March 2000, the mayor was acquitted of incompetence and corruption charges but was found guilty of neglect of duty and was removed from office. Two of the council members resigned as part of a plea bargain with the district attorney and agreed not to run for city council again (Kantrow, 2000, p. S4). The one city council member who had not been indicted served the remainder of Norwood's term as mayor and later was re-elected to his council position.

In September 2000, a political novice was elected mayor over a candidate endorsed by most of the elected officials in Mobile County. The election was very close with Charles Harden, a truck driver and former employee of the county schools, the victor by eighteen votes. Reminiscent of the meeting twelve years earlier, the city's political, civic, and business leaders were organized by Leadership Mobile's class of 2000 as the Prichard Leadership Initiative for a weekend retreat at Gulf Shores. Over $10,000 was raised from private sources, including the Kettering Foundation, to pay for the retreat led by a consulting firm from Virginia. The new mayor announced that his priorities were to gain public trust, improve trash collection, and curb crime (Schrenk, 2000, p. A-03). He also promised that he would begin immediately on the development of a strategic plan for the city.

In the years since the bankruptcy filing, the city of Prichard has made positive efforts to move forward by enhancing social, financial, and technological growth within the city. In 1999, under the direction of the U.S. Department of Justice, the city received federal funding to implement a "Weed and Seed" program that attempts to bring about reform through aggressive economic development strategies. The city has "weeded out violent crime and drug abuse while seeding the area with services, educational opportunities, and neighborhood revitalization" (Schrenk, 2001a, p. B-01).

In 2001, Prichard also made strides in economic development as it worked with Mobile County to build a new high school and partnered with a local non-profit agency to purchase a partially vacant shopping center in Prichard. The intent of the shopping center purchase was to provide financial incentives for a grocer to invest in the community, as well as to create additional job opportunities for low-and-moderate income citizens in Prichard (Schrenk, 2001b, p. B-02). A financial success was reported in 2001, as the city council passed the FY 2001 budget "on time," and the budget included the hiring of several additional personnel in the police and fire departments. The 2001 budget projected a four percent increase in revenue compared to the budget in 2000 (Schrenk, 2001c, p. A-11), illustrating that the city has been making a positive "comeback" since its bankruptcy.

CONCLUSION

Prichard suffered from most of the economic and social conditions that we identified as factors for financial distress. The city's population decrease was dramatic with nearly 40 percent of Prichard's population leaving the city limits within 40 years. The loss of population is especially notable when compared to the Mobile County population increase of over thirteen percent from 1990 to 2000. The entire Mobile MSA is growing quickly with neighboring Baldwin County one of the two fastest growing counties in the state and one of the fastest in the nation.

With the flight of those most able to pay for the services the city provided, the tax base was severely limited in its ability to produce more money. For example, in 1998 when the city council decided to raise police and fire salaries by 30 percent, the council also raised the sales tax by one percent. The unexpected result was that the sales tax revenue for the city for the following year was lower than it was in 1998. With a sales tax at 10 percent, those who could shop outside Prichard obviously took advantage of the opportunity to do so. With businesses closing because of the high crime and other societal problems, the city's ability to raise money through business licenses and property taxes was lessened.

According to the experts that studied Prichard's finances, including the general counsel in the bankruptcy case and the University of South Alabama professors, the level of professionalism in accounting for the city's funds was very low. In addition, the highly advanced state of conflict between the mayor and city council made even the adoption of an annual budget impossible. The final blow to the city's chances to avoid bankruptcy came when the city used the FY 1998 budget again in

FY 1999 despite the fact that revenue in 1999 had dropped to 85 percent of the 1998 level.

With only the poorest citizens in the Mobile area living Prichard, the social problems mounted. Housing, infrastructure, and law enforcement became serious problems. The lawlessness was so serious in the city that the Mobile County sheriff's office assigned a task force of deputies to patrol the streets to enforce order without informing city officials first. The city's early decision not to seek an industrial base turned out to be a mistake. The de-annexation of prime industrial land that the city of Mobile later incorporated, zoned for industrial uses, and then developed for industry reflected the city's lack of interest at the time in broadening its tax base.

The inept leadership of the city of Prichard created a man-made disaster for the ailing community. None of the problems of economic base, housing, infrastructure, or crime have been alleviated since the city declared bankruptcy even though more capable leadership seems to be in place. The downward slide of Prichard into bankruptcy was predictable years ago, but the political gridlock in the city government rendered the city impotent to make bankruptcy anything but inevitable.

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