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Bankruptcy Beat

An inside look at companies in trouble from Daily Bankruptcy Review

Cravath Looks Good, Does Well in Harrisburg Case

By MARA LEMOS STEIN

Everyone knows there's no such thing as a free lunch, so when Cravath Swaine & Moore LLP decided to counsel the city of Harrisburg, Pa., on debt restructuring for free, the question of what's in it for the law firm was an obvious one.

The answer is also mostly obvious: The New York firm will deepen its expertise in municipal bankruptcies, and look good while it's at it, as any pro-bono work by an elite firm in such high-profile situation is bound to carry the intangible benefit of "doing good."

"We thought this was a good opportunity to do something significant and challenging as this undoubtedly will be — there aren't a whole lot of firms with Chapter 9 experience," said Paul Zumbro, a partner in Cravath's bankruptcy practice who has been involved with proposing the firm's services to Pennsylvania's capital city. Chapter 9 is the part of the Bankruptcy Code dealing with municipalities, and it's rarely used.

Cravath provides pro-bono services from time to time, but mostly in litigation cases.

"We certainly aren't trying to grow a municipal restructuring-for-free

practice; this is more in the nature of a unique situation where we felt it was our duty to help where we can, given the appropriate circumstances," Zumbro said in an interview.

Cravath was in a race with four other firms, and it was the obvious outsider as the only one not based in the Keystone State. It was also the only firm with any experience in municipalities in bankruptcy cases; it's representing New York City Off-Track Betting Corp., the only Chapter 9 bankruptcy case ever filed in New York state. Being an outsider, however, probably worked in Cravath's favor.

"I would imagine that some of the additional challenges [in this situation] is a complex political dynamic, there are various parties having different points of views," said Zumbro. "Part of what we bring to the table is an unbiased, objective professional advice as to the best approaches to take."

The firm was also aware that Harrisburg couldn't really pay its fees, not least because of its fiscal woes. So the day before the city announced its decision, Cravath put forward a proposal to work on a pro-bono basis, and that got the firm the contract.

Harrisburg's fiscal crisis comes primarily from a troubled project to build an incinerator, which Mayor Linda Thompson referred to as "the albatross" in her state of the city address in April. "This problem, this fiasco, has been a decade in the making," she said.

The "albatross" has brought the city a debt load of approximately \$282 million between initial bond issuance and cost overruns, and a shortfall in revenue generation, as initially projected by developers. That debt is about four times Harrisburg's annual budget. The political intrigue in the issue has to do with certain counties using the incinerator refusing to raise waste removal fees for their residents.

Although the city has missed payments on the incinerator bonds, these were insured and had matured before the nonpayment, so technically there was no default, according to Moody's Investors Services.

Zumbro said that it isn't yet clear whether the restructuring will involve a Chapter 9 filing. Moody's said that there were only 54 municipal defaults between 1970 and 2009, mostly involving health-care and housing projects.

Cravath, Swaine & Moore LLP