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## **MUNI WATCH: Forget Corporate Turnarounds, Now It's Governments**

- Corporate turnaround firms see opportunity in stressed municipalities
- Municipal engagements can pay less; often involve political battles
- States, counties, even school districts seek professional guidance

By Kelly Nolan  
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Turnaround firms, well known for their involvement in corporate restructurings, are seeing increased opportunities to help distressed state and local governments.

**Alvarez & Marsal Inc., FTI Consulting Inc. (FCN), Conway MacKenzie Inc. and other consultants are advising such famously ailing municipalities as Jefferson County, Ala., and Harrisburg, Pa., as well as lesser-known cities in trouble, some school districts and even a few states.**

While the slowly improving economy may help some state and local governments solve short-term revenue-and-spending imbalances, municipalities with so-called structural issues, like high pension liabilities, shrinking tax bases or significant population changes, face a much tougher battle, these consultants say.

William Nolan, a senior managing director in FTI Consulting's corporate-finance practice, said those problems must be "addressed through significant financial and operational change processes," which private consultants are promising to deliver.

It is a significant business opportunity. "The problems facing state and local governments are not going to go away overnight," said Nolan, whose added that his practice is handling a half-dozen cases.

FTI's clients include Jefferson County, which has been staving off what would be the largest municipal bankruptcy in history. Its financial woes began with a soured sewer-system bond financing, but what pushed the county to hire FTI was the loss of a crucial source of revenue, a jobs tax that the state Supreme Court ruled unconstitutional in March.

"We needed a fresh pair of eyes to look at our situation," said Commissioner Jimmie Stephens, who oversees the county's finances. "We now have a roadmap," in case the

state legislature doesn't approve proposals to help the county's finances, he said. That roadmap includes 1,000 job cuts, he said.

Municipalities often wait until a crisis point before they reach out for help, said Michael Imber, principal at Grant Thornton LLP. "The single biggest frustration of any turnaround professional is that we often get the call late," he said.

Consultants accustomed to dealing with private for-profit companies also find that public sector engagements can bring in less money and sometimes require more creative fee structures. Municipal work is also often riddled with politics.

**"When you are dealing with a private company, for the most part, you're dealing with economic considerations," said Charles Moore, senior managing director at Conway MacKenzie, in Birmingham, Mich. But "when you're dealing with a governmental entity, not everyone has economic considerations as the most important factor."**

Taxpayers who lose services can punish their elected officials by voting them out of office. Corporate executives may be less worried about a backlash from laid-off employees.

**Moore estimates his firm is looking at three times the number of opportunities in the public sector than it was 18 months ago. Conway MacKenzie recently advised Puerto Rico on its pension plan, which has enough assets to cover only 13.5% of its obligations, according to Moody's Investors Service.**

Bill Roberti, managing director and head of Alvarez & Marsal's public sector group in New York, said that while more municipalities have reached out to his firm, too, some potential clients have balked at the consulting fees needed to help them.

In the case of Harrisburg, the capital of Pennsylvania that's struggling under the weight of \$288 million in incinerator debt, A&M provided its services for free. It partnered with law firm Cravath, Swaine & Moore LLP to produce a report, released in March, advising the city council on its options beyond Chapter 9 bankruptcy.

In other instances, A&M has been willing to work on an expense-only basis, with the certainty and understanding that the municipality will use its recommendations and pay Alvarez & Marsal a percentage of the savings, Roberti said.

The firm, well-known for its role in managing the Lehman Brothers bankruptcy case, has been working in the public sector about eight years. Clients have included some states--though Roberti declined to identify them, citing confidentiality agreements--and big urban school districts, including the two largest, New York and Los Angeles.

A former leader of one Alvarez & Marsal client, the New Orleans public schools, said the firm was essential to the district's recovery from Hurricane Katrina in 2005.

"We never would have survived it if it weren't for them," said Jimmy Fahrenholtz, a former member of the Orleans Parish School Board. "Every school had damage and about 80% of them were totally destroyed...they had to figure out how to get everything back up and running without a revenue stream."

Alvarez & Marsal helped the district get federal and private money to start several charter schools and also ferreted out corruption.

"Money was disappearing out the door, there were tons of people on payroll who were dead or didn't exist...we hadn't reconciled our books in quite a while," Fahrenholtz said. "That was all part of what they needed to clean up."

Scott Eisenberg, a managing partner at Amherst Partners LLC and a board member of the Turnaround Management Association, an industry group, said state and local agencies can learn from private enterprises that struggled through the financial crisis.

"Companies went through a very aggressive restructuring process in the 2008 and 2009 period," he said. "Everyone in the private sector had to figure out how to do more with less. The public sector is still trying to figure out how to swallow that bitter pill."

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