

The State Role in Municipal Distress and Bankruptcy: Lessons from the 50 States

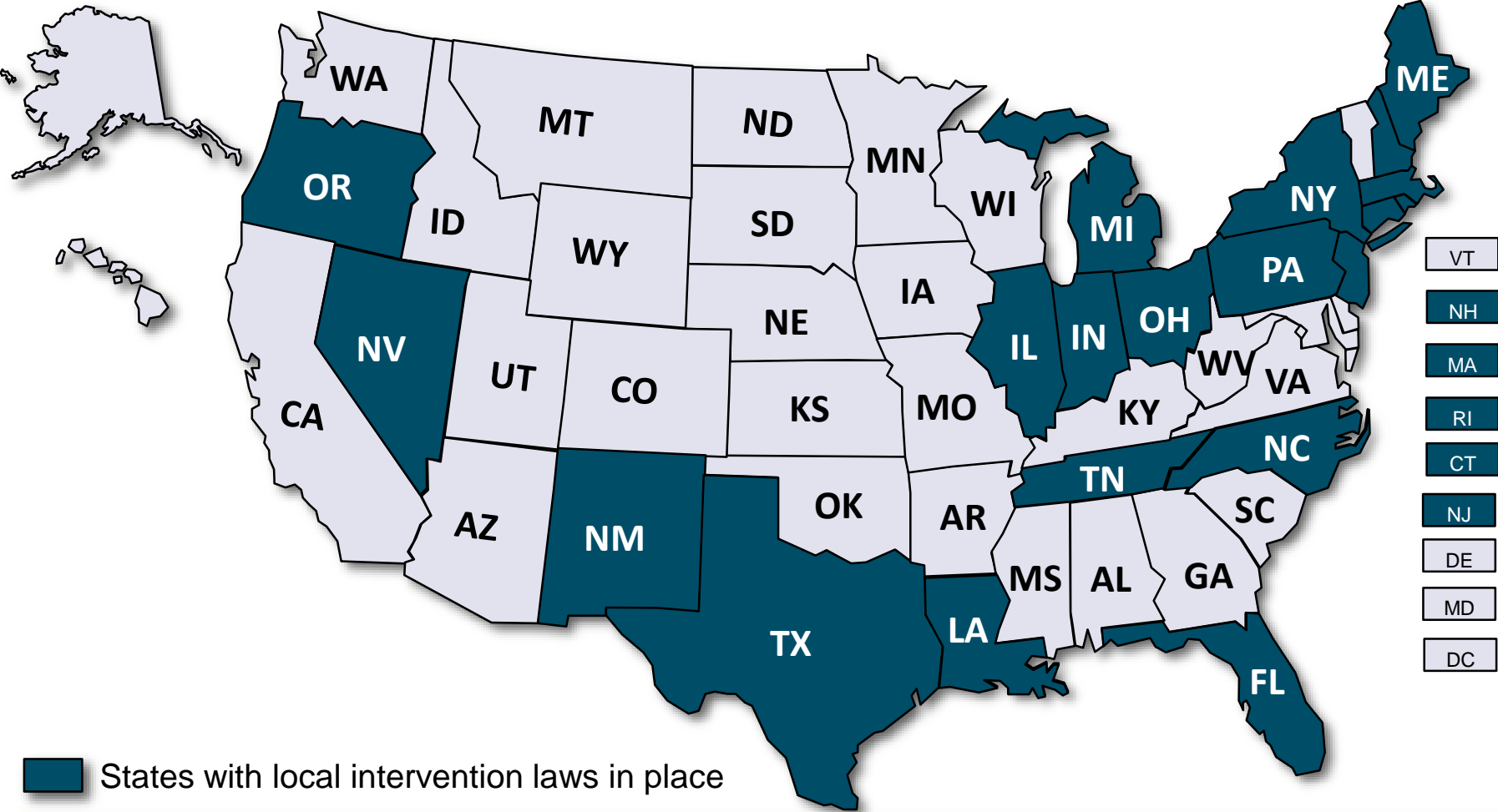
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The Civic Federation and Chicago Federal Reserve Bank

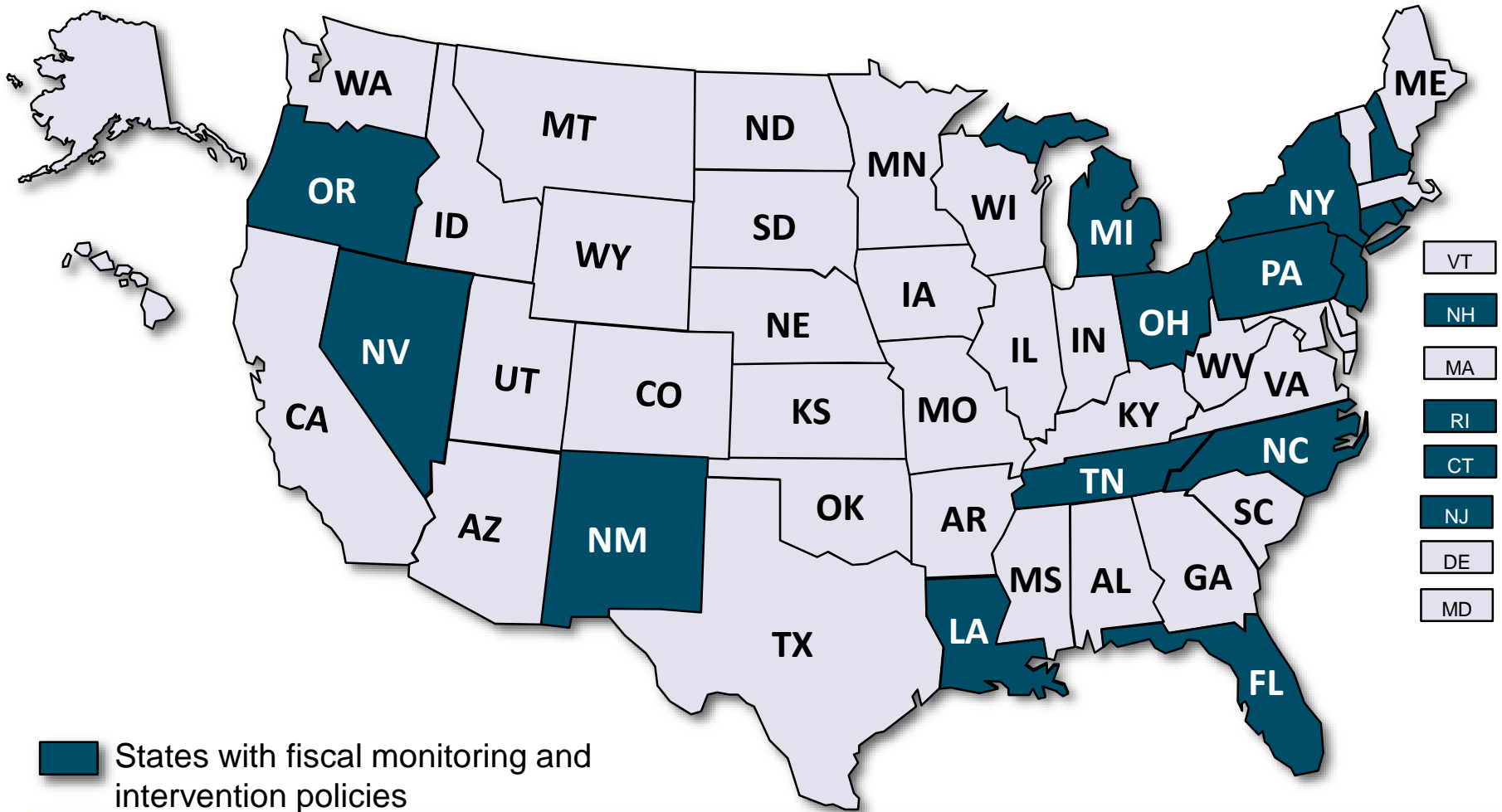
States vary in approaches to distressed local governments

- Defining distress
- Monitoring fiscal and economic conditions
- Systems to offer technical assistance, emergency aid, enhanced capacity, and other forms of voluntary assistance
- Responses to fiscal emergency
- Access to municipal bankruptcy

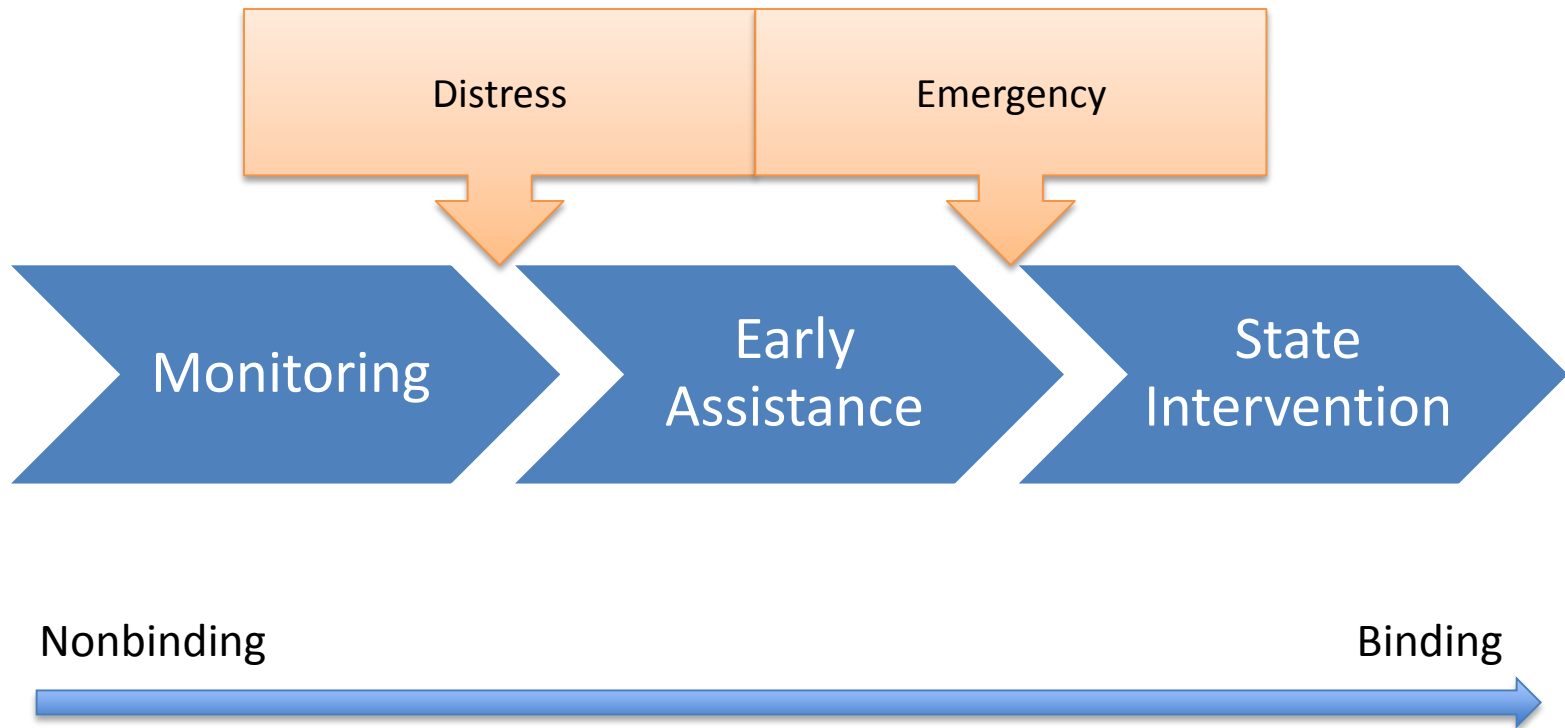
State intervention policies



Monitoring and intervention



Mapping the policy spectrum

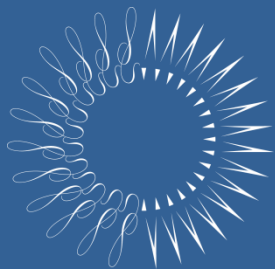


Of states that allow Ch. 9, policies vary

- State legal requirements to access federal bankruptcy court differ
- State governments attempt to keep local governments out of federal bankruptcy court in a variety of cases
- Case law also suggests some changes in the definition of “service insolvency”

Market response considerations

- State policies can bolster local credit ratings
- Bankruptcy and out-of-court debt adjustments introduce uncertainty for bondholders
- Rarity of municipal bankruptcies means conclusions are difficult



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