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

April 19, 2017
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
States with local intervention laws in place:

- OR
- NV
- NM
- LA
- FL
- TN
- NC
- OH
- MI
- PA
- NY
- VT
- NH
- MA
- RI
- CT
- NJ
- DE
- MD
- DC
- TX
- IL
- IN
- OH
- PA
- NC
- TN
- LA
- FL
- WA
- ID
- UT
- CO
- WY
- MT
- ND
- MN
- NE
- IA
- SD
- WI
- IA
- MO
- AR
- KY
- MS
- AL
- GA
- SC
- VA
- WV
- CA
- AZ
- NE
- KS
- OK
- MN
- WI
- IA
- MO
- AR
- KY
- MS
- AL
- GA
- SC
- VA
- WV
Monitoring and intervention

States with fiscal monitoring and intervention policies
Mapping the policy spectrum

Distress

Emergency

Monitoring

Early Assistance

State Intervention

Nonbinding

Binding
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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