



What Happens When Cities Go Bankrupt?

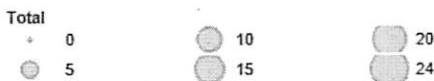
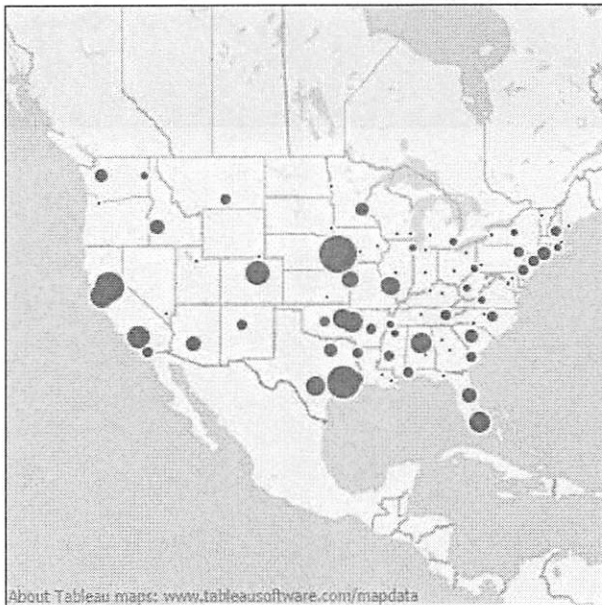
(July 13, 2012)

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Over the last few weeks, municipalities have declared bankruptcy. Chapter 9 of the Bankruptcy Code provides for reorganization of municipalities, which includes cities and towns, as well as villages, counties, taxing districts, municipal utilities, and school districts.

Chapter 9 filings are not common. From 1986-2011 there were 263 Chapter 9 bankruptcies filed nationwide, with 13 filed in FY 2011. The majority of the cases in the last 40 years have been for utility districts and not sovereign government entities.

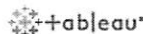
Chapter 9 Bankruptcies Filed, By Judicial District, 1991-2012



No Chapter 9 bankruptcies were filed in the Districts of Alaska, Hawaii, or Puerto Rico between 1991 and 2012.

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The purpose of Chapter 9 is to provide a

financially-distressed municipality protection from its creditors while it develops and negotiates a plan for adjusting its debts. Reorganization of the debts of a municipality is typically accomplished either by extending debt maturities, reducing the amount of principal or interest, or refinancing the debt by obtaining a new loan.

Although similar to other chapters in some respects, Chapter 9 is significantly different in that there is no provision in the law for liquidation of the assets of the



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municipality and distribution of the proceeds to creditors.

Learn more about Chapter 9 and Bankruptcy Basics [here](#).

Data on Chapter 9 bankruptcies by district was compiled from F-2 Tables for Calendar Years 1991-2011, [Bankruptcy Statistics](#).

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