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## Analysts Call for Clarity on Municipal Restructurings.

Governments should give municipal-bond investors a clearer idea of how they would fare in a bankruptcy, the National Federation of Municipal Analysts said in paper released Wednesday.

When deciding between two equally priced general obligation bonds, the NFMA wrote, investors would likely reject the one whose payments could easily be clawed back by a bankrupt government. "Yet in today's market, most investors are not able to make this distinction because they are not given the relevant information," the NFMA wrote.

Increased disclosure could benefit municipal-bond holders—ranging from mutual funds to insurance companies to retail investors—as they seek to avoid rare-but-costly government defaults. Mutual funds with billions tied up in once-lucrative Puerto Rico bonds are now facing significant losses as the commonwealth prepares to restructure its $70 billion debt load.

The NFMA called on public officials to clearly disclose in borrowing documents the existence of statutory liens that could keep tax dollars flowing to bondholders in a bankruptcy. They urged governments to also disclose "special revenue" pledges, which exempt the bond payments from an automatic stay in the event of bankruptcy.

"Detroit was a wake-up call to the market," said bankruptcy expert James Spiotto, of Chapman Strategic Advisers. In that city's agreed-upon bankruptcy settlement, holders of unlimited tax general obligation bonds were paid in full only after insurers supplemented the city's partial payment, he said, adding, "It made investors eager to ensure that any special revenues pledges or statutory liens were clearly spelled out and disclosed."

At least 30 states have some form of statutory liens protecting some government debt, according to a March presentation by Mr. Spiotto. The NFMA found that general obligation bondholders protected by statutory liens were paid 100 cents on the dollar in bankruptcies in Central Falls, R.I., and California's Sierra Kings Healthcare District. A study by Moody's Investors Service found, in most recent bankruptcies, bondholders with special revenue pledges received "significantly higher recoveries" than those without them.

Municipal bankruptcies are extremely rare. In 22 states, municipalities either lack state authority to file for bankruptcy, or can only do so with explicit state authorization, according to Moody's Investors Service.

In February, as Illinois Gov. Bruce Rauner was pushing to give Chicago's public school system the authority to declare bankruptcy, the junk-rated district was preparing to issue a $725 million bond. In public borrowing documents, the school district said it intended taxes pledged for debt payments to be treated as special revenues under the bankruptcy code.

A bankruptcy court could still disagree. But "having that written into bond documents was a critical piece of the marketability of the deal," said John Miller, co-head of fixed income at Nuveen Asset Management, which bought a roughly $300 million share of the bond issue.

Still, revenue pledges can only go so far. Analysts said even the strongest pledge is no substitute for simply having enough money to go around.

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