# Bond Case Briefs

*Municipal Finance Law Since 1971*

---

## Fitch: State Fiscal Intervention Losing Ground in IL, NJ.

Fitch Ratings-New York-20 April 2015: Recent developments in Illinois and New Jersey are lessening the chances of state intervention that could result in better outcomes for bondholders than allowing distress to lead to bankruptcy, Fitch Ratings says. We believe efforts to resolve looming budget deficits and ensure the affordability of long-term obligations would be more productive than focusing on easing laws or practices to allow bankruptcy.

Illinois governor Bruce Rauner recently proposed granting the authority to local governments to file a Chapter 9 petition. The proposal is similar to a law introduced by a state representative last fall. It supports Fitch's view that the needs of a distressed municipality are a better indication of the possibility of bankruptcy than whether current state law allows it. Current Illinois law bars local governments with populations over 25,000 from filing a Chapter 9 petition.

Further fueling concerns about the credit quality of Chicago Public Schools (CPS), Governor Rauner said this week that he fears the district may need bankruptcy as a solution to its large budget imbalance. According to CPS analysis, their reserves will likely be fully depleted by the end of fiscal 2016.

In New Jersey, the recent appointment of corporate restructuring experts to assist Atlantic City in resolving the city's fiscal crisis appears at odds with the state's strong history of aiding local governments to prevent the type of stress that could lead to bankruptcy. Of US states, New Jersey has historically provided among the strongest levels of early intervention to local governments with financial strain.

Fiscal intervention mechanisms vary by state. Most focus on helping local governments recover from distress, rather than preventing it. Many can approve or reject financial plans, budgets, and certain government contracts under state control. Their powers, however, are constrained by laws governing labor contracts, benefits including pension obligations, and service provision. Fitch believes this limits their ability to remediate financial distress.