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Survey: Most Analysts Say Chapter 9 Bankruptcy Taboo.

WASHINGTON - Most municipal bond analysts believe Chapter 9 bankruptcy is taboo for municipalities and should be avoided, according to an analyst survey by PNC Capital Markets LLC.

More than half of the analysts also said Chapter 9 bankruptcy for Puerto Rico would be unfair to holders of the commonwealth's bonds.

The PNC survey, which polled 146 municipal bond credit specialists, 73% of which were buy-side analysts, found that 94% of the participants believed the act of filing for Chapter 9 should be avoided and would make them at the least think twice about buying the issuer's credit.

Eighty percent of the respondents said the overall municipal market thinks the act of filing for bankruptcy is somewhat taboo and 57% said it would be unfair if Puerto Rico was able to access some type of Chapter 9 protection.

The survey found 76% of analysts considered the 2014 Detroit Chapter 9 decision to be unfair to bondholders.

Meanwhile, the Center for Individual Freedom has been stoking fears about a possible Super Chapter 9 solution allowing Puerto Rico to file for bankruptcy protection in a national campaign of television ads that warn viewers that this would lead financially troubled states like Illinois to take similar steps. The group has budgeted about \$2 million for ads, according to one knowledgeable source.

CFIF started the campaign following the House Natural Resources Committee's March 29 release of draft legislation to help Puerto Rico. The draft bill would not extend bankruptcy protections to the commonwealth but would allow a federally imposed oversight board to file restructuring petitions in federal court on behalf of Puerto Rico if attempts to reach agreements through voluntary restructuring talks with its creditors are unsuccessful.

"As written, [the bill] is an even more dangerous version of the Obama administration's unprecedented Super Chapter 9 proposal, and amounts to a bailout of Puerto Rico on the backs of American savers and retirees," Timothy Lee, CFIF's senior vice president of legal and public affairs said on the group's website. "We want to make sure that every American knows of the disastrous and far-reaching implications of this bill."

But legal experts and muni market participants dispute CFIF's message, saying the U.S. Bankruptcy Code does not permit states to file for bankruptcy protection. It only allows them to authorize their municipalities to file for bankruptcy.

James Spiotto, a managing director at Chapman Strategic Advisors, said no state is asking to file for bankruptcy, as far as he knows, and states even cited their opposition to this in 2011 statements from the National Governors Association and the National Conference of State Legislatures. Additionally, states are dual sovereigns under the Constitution while territories are not, leaving

states with more control over their own government, affairs and revenues than territories.

“This resorting to the easy way, namely, a fresh start through a bankruptcy proceeding, would be more costly and less beneficial for the states than other possible solutions,” Spiotto said.

PNC in its survey also asked analysts about the top five issues and trends currently facing the municipal market and they overwhelmingly said public pensions were one of the five, with 93% including it on their list.

The next most popular addition to the list was declining investor trust in an issuer’s willingness to pay, which 41% of analysts included. While 84% of survey respondents said they have a “high” or “moderate” level of trust toward state and local governments’ willingness to honor their obligations, 79% said that level of trust is “lower” or “much lower” than it was five years ago.

Chapter 9 proliferation, infrastructure, and Puerto Rico rounded out the rest of the consensus top five list with 38%, 36%, and 35% of analysts including them, respectively.

Other frequently cited issues were disclosure, the threat to tax exemption, and level of liquidity, each of which were included in over 30% of the surveyed analysts’ lists.

The survey also asked respondents to provide insight on their concerns about financially troubled states like Illinois and Pennsylvania. They were asked to assess the general state support of local governments. Ninety-six percent of those surveyed have a “moderate” or “higher” level of concern about Illinois and Pennsylvania’s budget delays and 67% said they are questioning those states’ abilities to repair their fiscal conditions.

However, 88% said they believe states at least moderately support local governments.

The Bond Buyer

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