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Municipal Finance Law Since 1971

Too Essential to Fail: Lessons from County Fiscal Crises.

When a fiscal crisis strikes a local government, local communities suffer. Fiscal crises mean that there is no money for public safety, no money for pensioners, no money to keep residents' lights on, and no money for the basic services that make for modern life. Just ask the residents of Detroit or Puerto Rico, who lived through those very traumas.

Not all local governments, though, are equally prone to such fiscal crises. There is, in fact, one type of local government that is particularly good at avoiding fiscal crises: counties.

Often called the "forgotten level of government" because of how little scholarly attention they receive, counties have much to teach about fiscal crises. Counties almost never experience fiscal crises. And when they do, they have effectively handled the crises using both federal tools (bankruptcy) and state ones (fiscal intervention).

This Article draws out the lessons of counties for municipal finance. To do so, the Article begins by unpacking the municipal finance regulations that have provided counties with extraordinary fiscal safety. The Article then turns to case studies of the eleven counties that either filed for bankruptcy or had state fiscal interventions since the passage of the Bankruptcy Code in 1978. Those case studies show how counties' finances can (in rare cases) go wrong despite well-designed municipal finance regulations. The case studies also show how counties have successfully responded to those crises through bankruptcy and fiscal intervention.

Using that analysis, the Article concludes with lessons for municipal finance more broadly. That includes lessons for making municipal finance safer for all local governments, lessons for mitigating the risk of municipal finance going wrong, and lessons for handling fiscal crises so as to minimize the human misery that local fiscal crises threaten, and too often, bring.

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