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GFOA: The Pathology of Municipal Financial Crisis

Bankruptcy is rarely just about finances. Learn what Stockton's Chapter 9 case reveals about organizational health, service delivery, and the deeper factors that can push governments toward financial distress.

Municipal bankruptcy is often described as a financial event. In legal terms, that is true. In practical terms, however, bankruptcy is usually the final expression of a much deeper institutional condition. A city does not wake up one morning and become insolvent. It moves there over time, through accumulated obligations, deferred decisions, optimistic assumptions, economic shocks, political avoidance, and the gradual weakening of its ability to align promises with capacity. The City of Stockton, California's Chapter 9 bankruptcy offers an important case study in that pathology. The city filed for bankruptcy protection on June 28, 2012, and exited bankruptcy in February 2015. But the real story is larger than the filing date or the court-approved plan of adjustment. The city's experience shows how financial distress becomes organizational distress, how organizational distress becomes service-delivery distress, and how recovery requires much more than legal exit from bankruptcy court.

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