

## **Municipal Bankruptcy**

### **Background**

Under federal law, before a municipality can seek relief under Chapter 9 of the Bankruptcy Code, it must be “specifically authorized” under state law to file bankruptcy – 24 states currently provide this authorization. Illinois lacks that authorization, providing no ability to help turn around struggling communities.

### *Original Proposal*

This legislation explicitly authorizes municipal bankruptcy. There are no requirements, pre-conditions or other limitations to a municipality’s access to Chapter 9 in the proposed legislation. The decision whether to file is left entirely up to a municipality.

- *Compromise Proposal:* The bill introduces an additional process before a municipality may petition for bankruptcy relief. Before proceeding in bankruptcy court, the municipality must first initiate a neutral evaluation process. During that process, the municipality, together with its creditors, selects a specially-trained, neutral third party, who then assists in exploring all alternatives to bankruptcy. In confidential discussions with the neutral evaluator, the municipality and its creditors are encouraged to come to a mutually agreeable resolution. Only if that process is not successful can the municipality petition a federal bankruptcy judge for Chapter 9 relief.