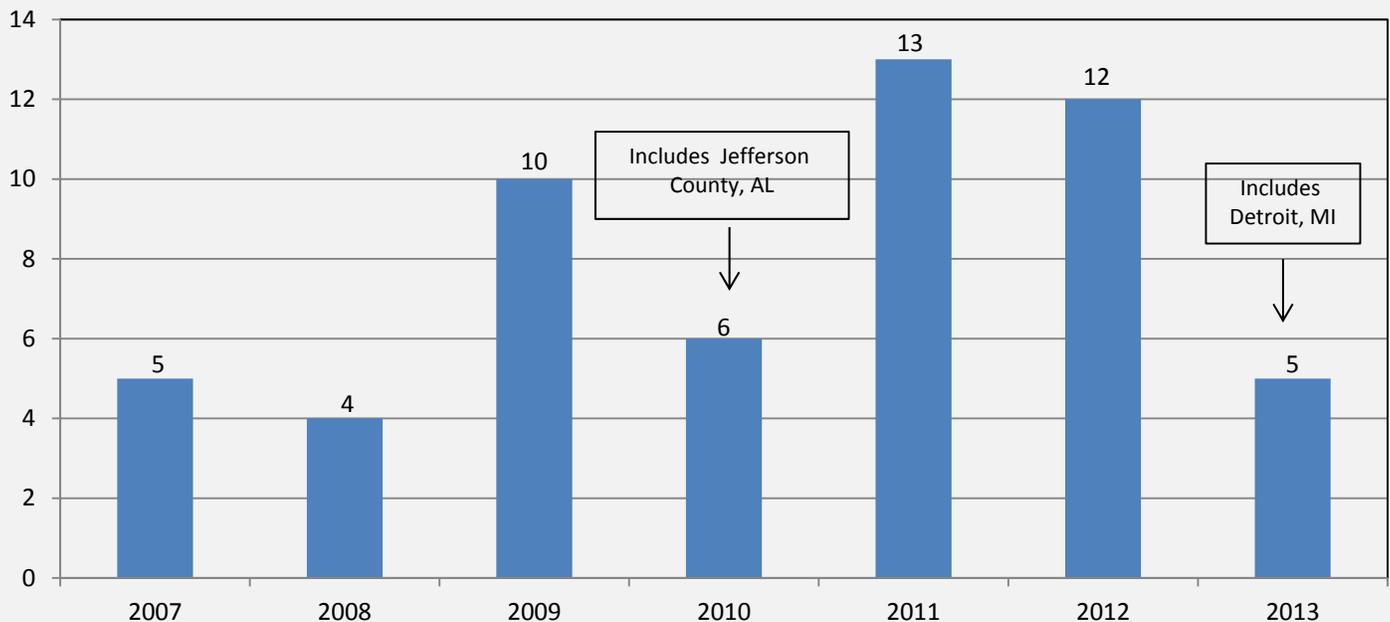


With the approval of Michigan’s Governor , the City of Detroit filed for bankruptcy protection on Thursday July 18th, becoming the largest US city to ever file for Chapter 9 bankruptcy. The city enters into a period where eligibility will be determined. For a municipality to be allowed protection under Chapter 9, it must demonstrate that it is insolvent, unable to meet its obligations as they come due, and that it has tried to negotiate in “good faith” with its creditors prior to the filing. We expect that there will be various challenges against the city’s eligibility, as well as the restructuring plan as it materializes.

While Detroit is a large, iconic city grappling with the growth of long term liabilities, as many US cities are, there are no other cities in the US that have been in such a **long-term economic, demographic, and wealth decline** as the City of Detroit, which has led to long-term revenue deterioration. It is this loss of the structural foundation of the city and the revenue deterioration that has accompanied this structural decline, that has led to this point in the city’s history.

The bankruptcy filing was an expected course of action by the emergency manager appointed in March 2013, after a failed proposal to restructure the city’s debt with creditors. As a result of this filing, we expect to see valuations on Detroit bonds, and likely other strained local governments in Michigan, to be negatively impacted. Although it did not surprise the market, investor confidence may be shaken, and outflows may persist. Due to the size of the city’s liabilities, the scope and diversity of the creditors involved, and the likely roadblocks that will continue to arise throughout the course of the proceedings, we would expect this to be a long, drawn out restructuring process. We will continue to monitor the proceedings and will keep our clients updated to any future determinations that could potentially impact municipal credit quality and the broader market. *We continue to expect municipal bankruptcies to remain very rare and limited within the municipal marketplace.*

MUNICIPAL BANKRUPTCIES UNDER CHAPTER 9 WILL REMAIN RARE
NUMBER OF CHAPTER 9 FILINGS PER YEAR



Source: Municipal Market Advisors and Janney FIS

Appleton Partners does not approve Detroit debt for purchase in client accounts.

For more information on Detroit’s financial standing, please reference our piece from last month which outlines the city’s recent default (Detroit Debt Default).

APPLETON PARTNERS, INC ONE POST OFFICE SQ. BOSTON, MA 02109 TEL. 617.338.0700 WWW.APPLETONPARTNERS.COM

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