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Judge Directs San Bernardino, Insurers to Negotiate Bankruptcy Resolution.

The city filed for bankruptcy protection in 2012, suffering from unemployment and low tax revenue

A federal judge told San Bernardino, Calif., officials to negotiate with an insurer to gain access to money that would have gone to families who have filed lawsuits claiming police brutality, an issue that's again delayed the exit of the city of 200,000 from bankruptcy.

Judge Meredith Jury said Tuesday that another bankruptcy judge will mediate a dispute between city leaders and insurance administrators over coverage for major lawsuits, including the police litigation.

She set a Dec. 6 hearing to determine whether the city can leave bankruptcy protection after more than four years.

"I wish I ruled this afternoon because I pretty much knew what I was going to do," she told lawyers in her Riverside, Calif., courtroom. Judge Jury was originally expected to rule on the city's exit from bankruptcy last month, but the insurance issue prevented her from doing so.

The city had filed for bankruptcy on Aug. 1, 2012, saying it suffered from double-digit unemployment and lower tax revenue from fallen property values.

City lawyers have proposed a 76-page plan that would pay 1% of \$209.3 million owed to retirees, families who have won police brutality lawsuits and other unsecured debts. Under that plan, which Judge Jury must approve, a European bank owed \$51 million in bond debt would be paid 40% of its claim over 30 years, according to documents filed in U.S. Bankruptcy Court in Riverside.

At Tuesday's hearing, Judge Jury rejected the idea that the city may be able to pay off a greater portion of its debts because of California's recent vote to legalize marijuana. The suggestion that the legalization would boost the city's sale tax revenue came from lawyers who represent a municipal entity that handles San Bernardino's solid waste disposal and hasn't been paid for that work.

"I agree it would be a nice tax source, but there are so many unmet needs," Judge Jury said, ending her remarks with "nice try."

Throughout the bankruptcy, the city found ways to save money, including reduction of staff from 600 people from 1,140. It began using county-employed firefighters instead of its own and contracted out solid waste disposal, recycling and sweeping services.

City leaders stopped paying retiree health benefits, though they will continue making full payments into the pension fund run by California Public Employees' Retirement System, also known as Calpers. The system distributes payments to thousands of retired city workers—often their lone source of income, court papers said.

The city decided to make pension payments even though federal judges in charge of Detroit and Stockton's bankruptcy cases ruled that pensions could indeed be cut.

But despite the money-saving changes and the debt elimination, city leaders concede that the plan will pay only a portion of the \$56.5 million requested by the police department for the next five years. By its own financial projections, the city will pay about 40% of what is necessary to fund the city's police needs amid a crime wave, according to court papers.

San Bernardino's bankruptcy-exit plan doesn't call for any immediate tax increases on its residents.

Creditors who had the power to vote on the plan largely agreed to approve it. A total of 983 creditors who are owed \$154.1 million voted to accept the plan, while 43 creditors owed \$2.8 million rejected it, according to court papers.

San Bernardino, about 60 miles east of Los Angeles, was the scene of a terrorist attack nearly a year ago that left 14 people dead.

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