

# **Bond Case Briefs**

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## **WSJ: Ruling Clears a Path for California City's Bankruptcy.**

A federal judge ruled Wednesday that the city of San Bernardino, Calif., is eligible for Chapter 9 bankruptcy protection.

The decision comes more than a year after officials in the southern California city of 213,000 residents about 60 miles east of Los Angeles declared a state of fiscal emergency and filed paperwork for bankruptcy protection.

That filing was the third in a string of municipal bankruptcy filings in California last summer, preceded by the Northern California city of Stockton and the resort town of Mammoth Lakes.

San Bernardino's case is being closely watched by officials in financially troubled cities across the U.S. that are grappling with ways to scale back pension costs.

Last year, San Bernardino officials said the city faced pension costs of more than \$26 million, and that employee costs—including pensions—accounted for roughly 80% of its annual budget.

In an unprecedented move, the city ceased making full payments to the California Public Employees' Retirement System, the \$254 billion statewide public pension fund known as Calpers, for several months after filing its petition.

City officials couldn't be reached Wednesday afternoon for comment.

Calpers was the sole party objecting to the city's bankruptcy filing. Federal Judge Meredith Jury heard arguments from both sides before issuing a final ruling on the matter.

After hours of argument and discussion, including strong dissent from Calpers attorney Michael Gearin, the judge finalized her ruling in favor of the city's eligibility.

Calpers issued a statement Wednesday afternoon saying it was considering appealing the ruling. In the statement, Calpers promised to work with San Bernardino to "resolve its financial problems," adding that it would also "aggressively pursue all past due contributions," including penalties, from the city.

Once the eligibility ruling is finalized, the city is expected to negotiate with its creditors and produce a bankruptcy plan for the judge to approve.

The economic conditions that have forced California cities toward bankruptcy have eased greatly of late. Housing markets that contributed to the financial troubles of many of the cities are mostly on the rebound.