
Firefighters Lose Bid to Sue Bankrupt San Bernardino in State Court.

Calif Dec 3 (Reuters) – Firefighters in bankrupt San Bernardino cannot sue the city in a California state court over lost wages and benefits, the U.S. Bankruptcy Court judge overseeing the case ruled on Wednesday.

"Starting to allow parties to argue their claims in another forum isn't a precedent I want to set," U.S. Bankruptcy Judge Meredith Jury said.

The city's firefighters union had sought to escape the automatic block on suing a city under Chapter 9 bankruptcy protection. Firefighters want a state court, not the federal bankruptcy court, to hear their arguments that the city has illegally cut wages and benefits since declaring bankruptcy in August 2012.

Jury said she would not approve any city bankruptcy plan that breaks state law when it comes to firefighter compensation.

San Bernardino, a city of 205,000 people 65 miles east of Los Angeles, filed for bankruptcy in August 2012 with a budget deficit of $45 million.

The city is one of a handful of municipal bankruptcies, including Detroit, Michigan and Stockton, California, being closely watched by the $3.7 trillion U.S. municipal bond market. Bondholders, public employees and other state and local governments are keen to understand how financially distressed cities under Chapter 9 protection handle debts to Wall Street, large pension funds and other creditors.

Last month, San Bernardino revealed it was not going to challenge its largest creditor, the California Public Employees' Retirement System (Calpers), in any bankruptcy plan.

In a deal struck during private mediation sessions with Calpers over the past year, San Bernardino has agreed not to reduce future payments to the giant fund, America's biggest public pension system with assets of $300 billion. The city has also begun repaying about $13 million in arrears to the fund.

That leaves open the prospect of the city cutting what it owes to other creditors, including Wall Street bondholders and insurers.

These include Ambac Assurance Corp, insurer of $50 million of pension obligation bonds issued to the city in 2005, Erste Europäische Pfandbrief-und Kommunalkreditbank AG, holder of the bonds, and Wells Fargo Bank, the bond trustee and the flagship bank of Wells Fargo & Co.

BY TIM REID

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