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California Town Seeks Financial Salvation in Imprisonment.

Adelanto, California, a Mojave Desert community with more prisons than supermarkets, is poised to authorize two more detention facilities as city leaders try to stave off insolvency.

The city of about 31,300 residents 85 miles (135 kilometers) northeast of Los Angeles has faced boom-and-bust property markets. The residential foreclosure rate is four times the California average and five times the U.S. level, according to RealtyTrac.

Officials face a \$2.6 million deficit on a \$13.3 million spending plan for the year through June 2015 after the defeat of a ballot measure last month to raise rates at its utility. Adelanto leaders are set to consider proposals for a 1,000-bed, privately run prison and a city-owned facility to house as many as 3,264 overflow inmates from Los Angeles County. The City Council is scheduled to vote Dec. 10 on the larger facility, and take up the smaller one Jan. 28.

"Should Adelanto be known as a prison town? No, but I'd rather have it known as a prison town than a crime or gang or a 12 percent-unemployment town," Mayor Cari Thomas, who leaves office this month after losing in November's election, said by telephone. "We have no other way."

Jail Revenue

With the nation's cities and towns still finding ways to mend their finances five years after the recession, Adelanto isn't alone in looking to jails to raise revenue. Littlefield, Texas, was trying to fill its empty 382-bed prison earlier this year with undocumented migrants, and officials in Oregon's Multnomah County want to sell an unused jail. Adelanto bailed out its budget in 2010 by selling a city-owned jail to a Florida operator for \$28 million.

Adelanto stands to gain from the prisons because of fees it will receive from developers as well as business related to the jails. The facilities aren't a sure bet. In November, California voters approved a measure to reduce sentences for some non-violent offenses, which the state's legislative analyst estimated could apply to 40,000 prisoners. Los Angeles County, the source of most of Adelanto's expected new inmates, is pushing offenders into treatment programs rather than jails.

Baseball Too

Adelanto, home to the High Desert Mavericks, an affiliate of Major League Baseball's Texas Rangers, was founded in 1915 by E. H. Richardson, inventor of what became the Hotpoint Electric Iron. It has one full-service supermarket. It also boasts a private detention facility for immigrants awaiting deportation, a county jail and a federal correctional site on the border with neighboring Victorville.

Boca Raton, Florida-based GEO Group Inc. (GEO) is expanding the Adelanto detention facility it bought from the city four years ago by 640 slots to accommodate 1,940 people by next year. San Bernardino County houses about 700 inmates in Adelanto. More than 4,700 federal prisoners occupy the Victorville correctional complex.

City Manager James Hart said prisons bring hundreds of jobs. Adelanto's median household income of about \$41,100 compares with \$61,400 statewide, according to U.S. Census data. Its poverty rate of 32 percent is more than double the state level. The city government gets about \$230,000 directly in prison-related fees a year, he said.

'Stay Solvent'

GEO is offering about \$300,000 in mitigation fees to compensate for costs related to its proposed 1,000-bed facility, while LCS Holdings, the developer proposing the 3,264-bed prison, would pay about \$1.2 million, according to a staff report to the city council. Both fees are recurring and will vary depending on how many prisoners are housed.

"While these funds will greatly assist the city with its deficit, the city will still have to focus on other businesses to make up the difference," Hart said via e-mail.

After the school district, the city's biggest employer is General Atomics, with 250 workers, according to Adelanto's website.

The California Municipal Finance Authority would issue \$327 million of tax-free debt on the city's behalf, provided that Los Angeles County agrees to send overflow inmates to Adelanto and pay the city to house them, said Doctor R. Crants, a principal in LCS Holdings and a founder of Corrections Corp. of America. Adelanto would use the proceeds to pay the developer of the 3,264-bed prison. Payments from the county would go toward repaying the debt.

'Prison Community'

City documents describe LCS as the developer, while Crants said in a telephone interview that the company is a consultant.

Councilman Jermaine Wright said the mitigation fees aren't worth the cost to Adelanto's reputation and quality of life.

"We're building this into a prison community and not a place where you'd want to bring a family and work in good-paying jobs," said Wright, who runs an armored-car business in nearby Apple Valley. "We've turned into a community of no opportunity, unless you're an inmate."

GEO Chief Executive Officer George Zoley and the company's media department didn't return calls and e-mails seeking comment on the plan. Crants said the city-owned prison would create dozens of high-paying jobs and boost the municipal budget.

The town has struggled for years: It dissolved its police department in 2001 and declared a fiscal emergency last year, even as its population grew from about 18,000 in 2000.

Bankruptcy Precursor

Ambac Assurance Corp. sued Adelanto's Public Utility Authority in 2009 after it missed a termination payment on an interest-rate swap. Hart at the time said the water authority faced financial strains after Ambac lost its top credit rating, which inflated interest rates on authority debt. A federal court awarded Ambac the \$4.5 million termination payment plus interest and fees, according to authority bond disclosures.

Since the fiscal emergency, a precursor to municipal bankruptcy under California law, Adelanto has cut spending by about \$2.5 million by closing a fire station, letting go almost a quarter of employees

and eliminating its building and safety department, according to a report by Hart. The city is still projected to run out of cash by the end of next year, Hart's report said.

Adelanto has no general-obligation bonds. The utility authority, which provides water and sewer service and is separate from the city general fund, has \$73.5 million in debt, according to its annual fiscal report.

Authority bonds maturing in July 2020 traded as recently as Nov. 21 at an average yield of about 2.1 percent, or about 0.9 percentage point above benchmark municipal debt, data compiled by Bloomberg show. The tax-exempt bonds are unrated.

City officials have considered bankruptcy or disincorporation, although Hart said there's still hope of avoiding those outcomes by trying another utility-tax measure or counting on fees for new prisons.

Terry Delgado, who has lived in Adelanto for 10 years, looks up at a prison from his house. He said he's skeptical that new jails will do much for the city.

"Adelanto has not worked for anybody for a long time," Delgado said. "Every other house is a drug house. They need to clean up what they have before they keep going."

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