Creditor to Oppose San Bernardino Bankruptcy Plan Favoring Calpers.

LOS ANGELES (Reuters) – A major capital markets creditor of bankrupt San Bernardino, California, will oppose any exit plan that is more favorable to Calpers, California's public pension fund, a source familiar with the creditor's strategy said on Thursday.

The creditor intends to pursue a new approach when hearings resume next year, in light of a deal the city reached with Calpers in November that will see the pension fund paid in full under a bankruptcy plan. The city has been ordered to produce a plan by May.

"We will strongly resist a plan that treats its pension claims substantially better than our claim," the source involved in the creditor's San Bernardino strategy said, who spoke on the condition of anonymity because negotiations with San Bernardino are subject to a judicial gag order.

The move is significant because all the capital market creditors have so far supported the bankruptcy and it signals a change in course, speaking to the wider fight between Wall Street and pension funds over how they are treated in municipal bankruptcies.

San Bernardino declared bankruptcy in July 2012 with a $45 million deficit. Along with Calpers, other major creditors include Ambac Assurance Corp, the insurer of $50 million of pension obligation bonds issued to the city in 2005; Erste Europäische Pfandbrief-und Kommunalkreditbank AG, the holder of the bonds; and Wells Fargo Bank, the bond trustee and the flagship bank of Wells Fargo & Co.

The deal with Calpers has alarmed many of the city's other creditors, who fear they will be forced to bear the brunt of the city's debt restructuring if the pension fund is left unharmed.

San Bernardino, a city of 205,000, 65 miles east of Los Angeles, is one of a handful of municipal bankruptcies that has been closely watched by the $3.6 trillion U.S. municipal bond market.

Bondholders, public employees and state and local governments want to understand how financially distressed cities handle their debts to Wall Street, compared with other creditors like large pension funds such as Calpers, during Chapter 9 protection.

Two other U.S. cities – Detroit, Michigan and Stockton, California – produced bankruptcy plans this year where pensioners emerged relatively unscathed but where Wall Street bondholders and insurers took significantly greater losses.

Gary Saenz, San Bernardino's city attorney, said Stockton chose to pay Calpers in full in its bankruptcy plan. "The city has to have a life after bankruptcy," Saenz said. "To achieve that there needs to be a stable workforce. Without stable pensions it's difficult to maintain a stable workforce."

Calpers said: "The city (San Bernardino) has made the right decision to fulfill the retirement security promises made to its employees."

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