San Bernardino Creditors Cry Foul at City's Plan to Hire PR Firm.

LOS ANGELES — A move by bankrupt San Bernardino to spend up to $200,000 on a public relations firm has angered some of the cash-strapped California city's creditors, who face deep cuts under an imminent exit plan.

Negotiations between San Bernardino and most of its creditors have stalled, three months before it must produce a court-ordered bankruptcy exit plan. The city, 65 miles east of Los Angeles, is in year three of a bankruptcy process beset by delay and dysfunction.

City officials have made clear their intention to significantly cut their debt to the holders of $50 million in pension obligation bonds. The city has imposed deep cuts to its police and fire departments and wants to enshrine those cuts in a bankruptcy plan.

On March 2 the city council is set to discuss invited bids from eight public relations firms to improve the city's communications strategy.

Bids have ranged from $72,000 to $201,000 annually. The city already has a $600,000 contract for fiscal year 2014/15 with a financial consultancy to help with the bankruptcy. In November it hired a management consultancy in a $300,000 deal.

"The city's problem is not public relations. It's a lack of leadership," said Corey Glave, the attorney representing the city's fire union.

Ron Oliner, representing the police union, said: "The city is bringing in new experts and advisors, but we cannot yet discern real progress toward its exit from bankruptcy."

Calls to the city manager's office were not immediately returned.

San Bernardino declared bankruptcy in August 2012 with a $45 million deficit, one of a handful of municipal bankruptcies 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 during Chapter 9 protection.

Last year it agreed under any bankruptcy plan to pay in full its biggest creditor Calpers, the state public pension system.

In January, Luxembourg-based Erste Europäische Pfandbrief-und Kommunalkreditbank AG (EEPK), which holds $50 million in pension obligation bonds, sued the city over the Calpers deal.

EEPK argues that its debt should be treated the same as the city's obligation to Calpers. EEPK was joined in suing the city by Ambac Assurance Corp, which insures a portion of the pension bond debt, and Wells Fargo Bank, the bond trustee and flagship bank of Wells Fargo & Co.

By REUTERS

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(Reporting by Tim Reid; Editing by Chris Reese)