# Bond Case Briefs

*Municipal Finance Law Since 1971*

---

## Judge Rejects San Bernardino's Bankruptcy Proposal.

Judge says plan doesn't contain enough information for bondholders

A federal judge said San Bernardino's leaders need to explain their plan to have the southern California city exit bankruptcy protection by repaying a fraction of its debts instead of raising taxes.

U.S. Bankruptcy Judge Meredith Jury Wednesday rejected—for a second time—the city's proposal to cut debts, saying it didn't contain enough information for bondholders, retirees who face health-care cuts and others to vote on the proposal. She agreed to consider another draft of the plan at a March 9 hearing in U.S. Bankruptcy Court in Riverside, Calif.

Several groups protested the bankruptcy-exit plan's wording, arguing that city leaders should explain why they can't pay a class of debt valued between $130 million and $150 million more than 1 cent on the dollar. That includes $52 million owed to bondholders who extended money to the city so it could pay pensions.

Bondholders' lawyers have objected to the plan, saying the city should raise taxes instead. In court papers, they pointed out that voters in northern California city of Stockton approved a sales tax of at least $28 million annually to help that city emerge from bankruptcy earlier this year, according to their projections filed in U.S. Bankruptcy Court in Riverside, Calif.

A sales tax increase of 0.25% to 8.50% for San Bernardino could bring in more than $150 million over the next 17 years, they said in court papers filed earlier this year.

At Wednesday's hearing, Judge Jury didn't say whether she thought the 1% payment rate was fair. Instead, she said city leaders need to better explain why that amount has remained the same since they suggested new ways to cut costs.

"The city does need to disclose further why it has arrived at a decision that you can't raise taxes or otherwise increase revenues that way," Judge Jury said. "The city's position on that needs to be clarified."

San Bernardino officials plan to continue making full payments into the pension fund run by California Public Employees' Retirement System, also known as Calpers, which distributes that money to thousands of retired city workers.

City officials decided to make pension payments, even though federal judges in charge of Detroit and Stockton's bankruptcy cases ruled that pensions could indeed be cut. In its plan, San Bernardino said it considered breaking ties to Calpers but determined that it wasn't realistic if the city wanted to attract workers.

Pension benefits enjoy strong protections by states. Some pension plans have tried to overcome shortfalls by cutting benefits for future hires or reducing cost-of-living adjustments. But filing for bankruptcy protection gives a city or county the power to cut contracts, including pension agreements that promise payments for retired and current city workers.

Bondholder officials have criticized that decision through San Bernardino’s bankruptcy.

THE WALL STREET JOURNAL

By KATY STECH

Dec. 24, 2015 9:14 a.m. ET

Write to Katy Stech at katherine.stech@wsj.com