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Bankrupt San Bernardino Spars With Creditors Over Police Spending.

(Reuters) – The bankrupt California city of San Bernardino won praise from bondholders on Wednesday for its handling earlier this month of the massacre that killed 14 people, but at the first significant court hearing since the attack, creditors questioned a plan to increase spending to bolster the police force.

U.S. Bankruptcy Court Judge Meredith Jury also praised the city for its handling of the shooting by a married couple.

Creditors were concerned with their treatment in San Bernardino's proposed plan to exit Chapter 9 protection.

Bondholders questioned the city's plan to spend $159 million over 20 years to increase police staffing, improve technology and replace aging vehicles, and another $24 million set aside as a bankruptcy reserve.

Representing EEPK, the Luxembourg-based bank and the city's second-largest creditor, Vince Marriott said the plan was "completely opaque," and the city needed "to explain in more detail what it is, what it is for, and how it is calculated."

San Bernardino has proposed to pay a penny on the dollar on nearly $50 million in pension obligation bonds held by EEPK.

The city's police force has fallen from about 350 sworn officers in 2009 to 290 today. The city has also slashed police pensions and overtime and wants to introduce a salary cap.

The city said that more than half of the police department's squad vehicles require replacement, with many having been driven beyond 100,000 miles as a result of deferred maintenance. And outdated technology is not capable of dealing with the region's increased crime, the city said.

City officials have described San Bernardino, with a population of 205,000 and located 65 miles east of Los Angeles, as one of the most thinly policed U.S. cities of its size. Residents worry that their city is not safe, and the number of homicides this year has reached 40, near the 42 investigated last year.

In May, San Bernardino proposed a plan to exit bankruptcy, called a plan of adjustment, that would virtually eliminate retiree health insurance costs, and outsource its fire, emergency response and trash services.

At the same time, the city would pay its largest creditor, the state pension fund CalPERS, in full, an approach taken in the recent bankruptcies of Detroit, Michigan and Stockton, California.

San Bernardino declared bankruptcy in 2012 with a $45 million deficit. Along with Detroit and Stockton, its bankruptcy has been closely watched by the $3.6 trillion U.S. municipal bond market.

The case is In Re: City of San Bernardino, California, Case No. 6:12-BK-28006-MJ in the U.S. Bankruptcy Court, Central District of California.

By REUTERS

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(Reporting by Robin Respaut; Editing by Leslie Adler)