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Judge Authorizes San Bernardino to Exit Bankruptcy.

California city to emerge from bankruptcy after more than four years with a plan to eliminate millions of dollars in debt

A federal judge on Tuesday ruled that San Bernardino, Calif., can leave bankruptcy even though city leaders said they won't have enough money to fully fund a police department that is fighting a rise in violent crime after last year's terror attack.

U.S. Bankruptcy Judge Meredith Jury cleared the 200,000-resident city to emerge from bankruptcy after more than four years with a plan to eliminate millions of dollars in debt. The plan, however, would pay just a portion of the \$56.5 million sought by the police department for the next five years.

"The city infinitely could use more funds" for its police department, Judge Jury said. "Anybody who lives in the area knows that the crime problem in San Bernardino is substantial."

San Bernardino police officers were lauded for their response to the Dec. 2, 2015, attack in which Syed Farook and Tashfeen Malik shot and killed 14 people, injuring 22 others, at a gathering of county workers.

Now the same department is battling a crime wave with 220 officers, down nearly 40% from before the bankruptcy.

"It wasn't like crime decided to take a vacation when we lost those positions," said Lt. Mike Madden. "We're chasing our tails; we're not being as proactive and stopping crime before it's committed."

The city outside of Los Angeles has recorded 60 homicides so far this year, Lt. Madden said. There were 44 murders last year, including the 14 people killed in the attack at the Inland Regional Center.

"If the homicide rate continues, the city will have more murders this year than in any year since 1995," Chief of Police Jarrod Burguan warned in papers filed in the city's bankruptcy case.

Gary Saenz, the city's lawyer, said that while the restructuring will balance the city's budget for the next 20 years, the city plans to pay only about 40% of what is necessary to fund the city's police needs. The city won't be able to provide all of the services that citizens need, he said.

"Given where we are financially, this is what we can afford," Mr. Saenz said, adding that the plan will provide an "adequate" level of public safety.

During the bankruptcy, the city's staffing fell to 600 people from 1,140. Its finance department can't recruit workers to work at below-market wages, city officials said in court papers.

The city also won't be able to fund the \$180 million needed for street repairs and \$130 million for building repairs. It can't afford to replace the 60 public computers at its library system that are all more than seven years old.

San Bernardino filed for bankruptcy on Aug. 1, 2012, projecting it would run out of money in less than two months. The city that sits about 60 miles east of Los Angeles has suffered from double-digit unemployment and lower tax revenue from fallen property values.

Throughout the case, San Bernardino officials found ways to save money aside from cutting the amount of debt it faced. The city began using county-employed firefighters instead of its own and contracted out solid-waste disposal, recycling and sweeping services.

City leaders stopped paying retiree health benefits, though they will continue making full payments into the pension fund run by California Public Employees' Retirement System, also known as Calpers. The system distributes payments to thousands of retired city workers—often their lone source of income, court papers said.

The city decided to make pension payments even though federal judges in charge of other large municipal bankruptcy cases ruled that pensions could indeed be cut.

The restructuring plan also doesn't call for any immediate tax increases on its residents.

"The city came in in financial chaos, and it's leaving in much better shape," Judge Jury said Tuesday.

The plan aims to pay 1% of \$209.3 million owed to retirees for health-care claims, families who have won police brutality lawsuits and other unsecured debts.

A European bank owed \$51 million in bond debt will be paid 40% of its claim over 30 years. The bank's lawyers argued that, by law, the bonds should be paid at a higher rate. City officials disagreed.

Lawyers who handled the bankruptcy of Detroit, the largest city in U.S. history to file for chapter 9 municipal bankruptcy, had to similarly balance cutting debts between retirees and certain Wall Street firms who stood, by law, to be paid a better rate. Detroit leaders reached a deal with all of the major creditors before emerging from bankruptcy in December 2014.

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