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[Antioch Mulls Bankruptcy](#)

The city of Antioch in California is considering filing for bankruptcy protection. Already another California city, Vallejo has filed for bankruptcy and now Antioch city officials are bracing themselves to be the next on the list. With weak revenue earnings and low property taxes, the prospect of bankruptcy seems increasingly likely.

The city has undertaken various measures to reduce expenditure and costs from spending cuts to layoffs to furloughs but they have proven to be inadequate. In fact, Orange County treasurer, Chriss Street expects more local governments in California to have similar experiences. A case in point is Sacramento County where one of its top finance officers predicted a worse-than-expected shortfall of \$181 million for the county, which could trigger more than 1,000 layoffs among the county's workers.

Back in 1994, Orange County, the third most populous county in California filed for bankruptcy protection after they experienced \$1.7 billion in losses due to bad investments. It took 2 painful years before the county emerged from bankruptcy in 1996 and had its credit rating restored from its pre-bankruptcy 'junk' status. Earlier this month, Fitch Ratings affirmed its 'AA' rating on the number of the county's long-term obligations.

On the other hand, municipal officials are not rushing to the bankruptcy courts because they recognize the very real consequences of bankruptcy. It is not all about getting rid of debts. Filing Chapter 9 bankruptcy, which is the part of the bankruptcy code that applies to municipalities, has dire consequences on the counties such as lower credit ratings which in turn affect borrowing costs. Another consequence municipalities want to avoid is being locked out of the municipal debt market, which would worsen fiscal problems. In addition, bankruptcy could frighten potential investors and thereby dispel the job opportunities that come along with them. This would only serve to exacerbate the unemployment rate, which for California stands at 12.6% in April. For these reasons, most states limit the number of Chapter 9 bankruptcy filings among their counties.

But despite all the gloomy prospects of bankruptcy for other cities, Vallejo has its bankruptcy filing to thank for some positive developments. The move to file bankruptcy has forced public employee unions to negotiate with city officials thus providing city leaders an opportunity to

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limit compensation, which makes up more than three-quarters of Vallejo's general fund spending.

Los Angeles, like Vallejo, sees bankruptcy as a viable option for it between now and 2014. Mayor Richard Riordan is of the opinion that bankruptcy would draw the city's public employee unions back to the negotiating table. Also, it could pave the way for adopting 401(k) retirement accounts for new city workers instead of pension benefit plans with escalating costs.

But the influential public employee unions are not in favor of bankruptcy. Some of these unions are demanding for the state legislature to pass a bill that would require local governments to get the approval of a state board before filing for bankruptcy. Since the board could comprise of many members considered union-friendly, moves toward bankruptcy could be easily rejected or delayed.