

San Bernardino Became Third California City in a Month to Declare Bankruptcy

by Joel R. Glucksman on July 13, 2012

The recession and consequent housing crisis have taken their toll on California, and San Bernardino has now become the third city in the state to file for Chapter 9 municipal bankruptcy in a one-month period.

The filing comes on the heels of filings by Stockton and Mammoth Lakes, which both filed for protection under federal bankruptcy law after budget shortfalls, municipal debt and growing pension problems became too financially burdensome. San Bernardino currently faces budget shortfalls of \$45 million and is expected to run annual deficits for the next five years.

Currently, the city is expected to run out of money to pay its nearly 800 employees in the next 90 days, the city mayor's chief of staff, Jim Morris, told the Wall Street Journal.

The city tried to stem off bankruptcy by selling off assets, reducing spending and requesting that city workers take a pay cut. In addition, the city reduced its workforce by 20 percent during the previous four years. During the past three years, officials also negotiated \$10 million in annual concessions from employees to cut costs. However, falling tax revenues and climbing pension woes eventually exceeded the city's budget, giving it little recourse other than bankruptcy.

Michael Coleman, who serves as a fiscal policy advisor for the California League of Cities, told the Los Angeles Times that San Bernardino may not be the last city to file for municipal bankruptcy protection if current trends continue.

"There are likely to be more in the future, but it's hard to know, since a lot of struggling cities may manage to work things out," Coleman said. "Some cities may not go into a bankruptcy, but they may dissolve. They may cease to exist."