San Bernardino, California officials to vote on bankruptcy plan

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20 May 2015

The San Bernardino City Council will vote on a recently released bankruptcy plan that will pay one percent of the $50 million owed to bondholders, force retirees to pay more for health insurance, and contract out the city's fire and waste disposal departments. The so-called Plan of Adjustment is to be submitted to the US Bankruptcy Court before the May 30 deadline.

The city reached a settlement with the California Public Employees Retirement System (CalPERS) in June that the retiree fund and others would be paid in full as required by the California Constitution. The city will, however, dump its health care obligations to its retirees and their dependents.

San Bernardino's plan follows the bankruptcy of Detroit and Stockton, California. In Detroit, pension bondholders received between 22 percent and 66 percent of their debt. In Stockton, a federal judge ruled that the city can move forward with its plan of adjustment. In that case, Judge Christopher Klein argued that pension obligations can be set aside under federal bankruptcy laws, the same rationale used in the Detroit bankruptcy.

The preferred method to attack workers in California has been through not only the bankruptcy courts but also public referendums, chiefly financed by Wall Street interests. Chuck Reed, former Democratic Mayor of San Jose, will place a measure on the 2016 ballot that would eliminate constitutional protections for pensioners in the state.

San Bernardino's second largest creditor, Luxembourg-based bank EEPK, holds $50 million in pension obligation, but will only be paid a fraction of this debt according to the city's plan. The amount will be reduced to $500,000, or a penny on the dollar. No payments will be made to bonds issued in 1996 and 1999, respectively, for five years. In 2035, the interest will be paid for years six through 10; then interest and principal will be repaid according to the terms of the lease.

Large financial institutions are regularly insured against losses while the burden of bankruptcy restructuring is borne by workers.

Negotiations with bondholders and city unions will likely take months before the plan is ratified by US Federal Bankruptcy Judge Meredith Jury. The city's firefighters union has already sued San Bernardino over contract disputes while the police union has not yet agreed to the bankruptcy plan.

While CalPERS remains the city's largest creditor, officials have not taken on the largest pension fund in the US, estimated at $300 billion and responsible for more than 3,000 state and local agencies. Despite the fact that the fund is asking for a 50 percent increase from city contributions over the next 10 years, it would appear that the ruling elite in California is delaying a full confrontation with state workers over the issue. Instead the unions are being kept on board to support cuts in retiree health care and the outsourcing of jobs.

San Bernardino, a city of 205,000 people 60 miles east of Los Angeles, declared bankruptcy in August 2012. With a $45 million debt, it was the biggest city to declare bankruptcy before Detroit. The city's workforce was reduced to 900 from a peak of around 1,400, and the city put off $200 million to replace vehicles and maintain buildings.

Under the new plan, the city would lose another 115 workers by outsourcing the fire department and 100 more by privatizing the trash services. The city would also save $370,000 a year by eliminating retiree health care. At the same time, the city also plans to add 30 more police officers over the next 10 years, bringing the total police force to 270. These plans would save

$7-10 million a year, according to the plan.

Despite these austerity measures, the city will still have a $20 million deficit. According to the bankruptcy plan, only about $51.7 million of the potential $357.9 million in “labor savings” for fiscal year 2014-15 through 2033-34 have been enacted through negotiations. The city’s creditors can still vote on the bankruptcy plan before it takes effect, but city officials plan to ask the bankruptcy court to approve the plan regardless.

The changes to the city’s charter will take effect in a year and will be placed on the 2016 ballot for voters to approve. Firefighters and police will see salary increases of three percent a year as the city charter now requires, while non-safety employees will receive a two percent increase in salary.

An additional meeting to discuss the plan of adjustment will take place May 23.