California Assembly passes curb on local government bankruptcy

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Cities, counties and special districts would need state approval to file for bankruptcy protection under legislation approved Wednesday by the Assembly.

The measure, sparked by last year's bankruptcy filing by the city of Vallejo, is opposed by local governments as an intrusion into their affairs.

Assembly Bill 155 passed by a vote of 43-16 Wednesday, with no Republican support.

Labor unions are pushing the bill to ensure that local governments could not use bankruptcy protection as a tactic to nullify workers' contracts.

Assemblyman Tony Mendoza, an Artesia Democrat who proposed AB 155, said it provides reassurance that bankruptcy filings would be used only as a last resort.

But Assemblyman Juan Arambula, D-Fresno, said the state should honor local control. "I suggest that, instead of dealing with their backyard, that we fix our backyard first," he said.

Gov. Arnold Schwarzenegger has taken no position on the bill, which would not affect Vallejo because it filed for debt relief in May 2008.

Under AB 155, local governments would need approval from the nine-member California Debt and Investment Advisory Commission before filing for bankruptcy protection.

The commission currently provides financial information, education and advice. It consists of the state's treasurer and controller, the governor or his finance director, two local-government finance officers, and two members apiece from the Assembly and Senate.
The Assembly Appropriations Committee cautioned that AB 155 possibly could expose the state to legal challenges and potential liability of hundreds of millions of dollars for allowing or barring local governments from filing for bankruptcy protection.

Supporters say the state has a legitimate right to intervene in such matters because city, county or special-district bankruptcies could affect California's credit rating and prompt requests for bailouts.

Critics counter that only three local governments ever have filed for bankruptcy protection, and that AB 155 is ripe with irony because state raids on local coffers and other decisions contemplated by the Legislature could push local agencies toward insolvency.

AB 155 now goes to the Senate.

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