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Bill would make cities ask for state approval before Chapter 9 filing

By JESSICA A. YORK/Times-Herald staff writer

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Wiggins: Co-author of AB155.

State Sen. Pat Wiggins has co-authored new legislation that would make it harder for California municipalities to sue for Chapter 9 bankruptcy protection.

The Democrat-sponsored Assembly Bill 155, introduced Monday and co-authored by Wiggins, would require a municipality to receive filing approval from a state panel.

The rules of Chapter 9 bankruptcy filings empower states to set their own methods for authorizing municipalities to file.

The proposed Legislature-formed committee would include the state controller, treasurer and director of

finance.

City officials for Vallejo filed for Chapter 9 bankruptcy protection in May, when no such state screening existed.

The bill was introduced by Democratic Assemblyman Tony Mendoza, whose district includes Los Angeles and Orange counties. Mendoza has the support of 11 other Assembly members, plus Wiggins.

Wiggins, D-Santa Rosa, whose district includes Solano County, urged Vallejo to "consider all its options" when it debated the wisdom of a bankruptcy filing.

"My fear, and the fear shared by others, is that declaring bankruptcy will cause too large of a disruption in the status quo and could have long-term negative economic, cultural, and social consequences that would outweigh the benefits and severely impact the community for years to come," Wiggins wrote in a May 6 letter to the Vallejo City Council.

Miller said economic conditions statewide lent this bill some sense of urgency.

"Many municipal governments are struggling with deficits ... given the uncertainty, not to mention the prospect for additional municipal bankruptcy filings. .. (legislators) feel that they need to play a more active role in this," Miller said.

Mendoza, the bill's primary author, said in an e-mailed statement the bill will provide a checks-and-balance approach, protecting taxpayers and the state's future.

"When a city or local agency declares bankruptcy, it not only hurts local taxpayers, but the ripples are

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felt throughout the state, affecting its ability to issue bonds and secure loans," Mendoza wrote.

League of California Cities leaders have some concerns with the bills, including who is sponsoring the legislation and motives behind the bill, said spokeswoman Megan Taylor. She added that state leaders could do more good by resolving the state budget standoff, thereby providing economic certainty for cities and avoiding a bankruptcy avalanche.

"If the state is concerned with having local agencies getting to the point of bankruptcy, the most important thing that they can do is balance the state budget," Taylor said.

Marc Levinson, Vallejo's bankruptcy attorney, said he believed the bill was a bad idea at first glance. The state-appointed committee would likely have partisan political pressures weighing into their decisions, he said..

"They're going to have to spend a lot of time just getting up to speed," Levinson said.

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