City of San Bernardino

The Road to Financial Recovery
San Bernardino is Broke!

- The City owes hundreds of millions of dollars to creditors, including unfunded pension liabilities exceeding $150 million.

- The City’s Pendency Plan shows a $45.8 million gap in funding for 2012–13 a reduction of 35% in salaries and benefits and 25% overall in expenses.
Union control of Council

- Collective bargaining, charter section 186, and control of the council has given the Fire and Safety unions the ability to “Sack the Treasury” at will.
- The council is intimidated by the very real threat of “vote our way or we will put someone in who will”
- Union ability to buy elections.
- Voter apathy
- Small wards in some cases with low voter turn–out
- City Attorney is their Champion
Cause of the Financial Collapse

- Council has continued to “kick the can down the road”
- Poor financial data reporting
- Lack of “respect” for management or consultants
- Ward system works against consensus—when resources get short council members are pitted against each other fighting for the scraps
Cause of the Financial Collapse

Demographic change
- Low income
- Renters vs. Owners
- Renters do not have the same stake in and participation in governance

Decreasing revenues
- Recession – City was hard hit
- Property values
- Lowers sales tax
- Departure of large retailers
Cause of the Financial Collapse

Decline in Business

- Deterioration of locally owned business community – this is not a business friendly town. Business owners have moved.
- Decline in two shopping malls
- City is politically unstable to attract investment. “Capital seeks stability”
The Charter

- The charter is old, outdated and needs revision
- Charter sections that are frequently attacked:
  - The ward system
  - Section 186
  - Elected City Attorney
  - Hybrid Strong Mayor/City Manager
  - Structure provides too many fiefdoms that have their own boards
City spends more on personnel and pension costs than it collects in revenue

City personnel costs total 103% of its General Fund – the revenues that aren’t assigned by law to a specific project or purpose

Personnel costs are the single largest item in the City’s budget, accounting for 74% of all City spending. Most cities spend 44% – 55% on personnel*

*Center for Budget and Policy Priorities
“A (San Bernardino) police lieutenant can retire in his 50’s and take home $230,000 in one-time payouts on his last day before settling in with a guaranteed $128,000-a-year pension.”

--- Reuters Special Report
Police and firefighter salaries are based on a rigged formula in the City’s charter established decades ago.

Formula ensures City’s police and firefighters earn as much as those in cities with more revenue like Irvine and Huntington Beach.
Salaries Gone Wild

- City public safety employees earn twice as much as the average City employee
- Some City workers double their salary with overtime
# Top Earning City Employees in SB

<table>
<thead>
<tr>
<th>Position Title</th>
<th>Annual Salary</th>
<th>Overtime</th>
<th>Overtime % of Annual Salary</th>
<th>*Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Manager</td>
<td>$259,875</td>
<td>$0</td>
<td>0%</td>
<td>$293,107</td>
</tr>
<tr>
<td>Battalion Chief</td>
<td>$146,774</td>
<td>$59,438</td>
<td>40.5%</td>
<td>$236,072</td>
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<tr>
<td>Battalion Chief</td>
<td>$146,774</td>
<td>$49,065</td>
<td>33.4%</td>
<td>$220,439</td>
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<tr>
<td>Battalion Chief</td>
<td>$146,774</td>
<td>$48,824</td>
<td>33.3%</td>
<td>$220,360</td>
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<tr>
<td>Fire Captain</td>
<td>$102,433</td>
<td>$74,187</td>
<td>72.4%</td>
<td>$207,034</td>
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<tr>
<td>Fire Captain</td>
<td>$102,433</td>
<td>$85,184</td>
<td>83.2%</td>
<td>$204,978</td>
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<tr>
<td>Fire Chief</td>
<td>$181,267</td>
<td>$0</td>
<td>0%</td>
<td>$204,402</td>
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<tr>
<td>Firefighter/Paramedic</td>
<td>$88,126</td>
<td>$100,124</td>
<td>113.6%</td>
<td>$203,315</td>
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<tr>
<td>Battalion Chief</td>
<td>$146,774</td>
<td>$37,643</td>
<td>25.6%</td>
<td>$200,390</td>
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<tr>
<td>Fire Captain</td>
<td>$102,433</td>
<td>$68,181</td>
<td>66.5%</td>
<td>$195,006</td>
</tr>
<tr>
<td>Firefighter/Paramedic</td>
<td>$88,126</td>
<td>$80,543</td>
<td>91.4%</td>
<td>$193,066</td>
</tr>
</tbody>
</table>

*Including special compensation and auto allowances if applicable

Source: San Bernardino City Council Budget Report
Why Chapter 9 is the Answer

- Chapter 9 exists in the U.S. Bankruptcy Code solely to provide a pathway to recovery for struggling cities and counties.

- Under Chapter 9, the City can reject collective bargaining agreements to reduce and control labor costs.

- Chapter 9 will allow San Bernardino to finance its debts over time so it can pay its bills without dissolving.
Why Chapter 9 is the Answer

- Chapter 9 can limit or reduce the possible liability of San Bernardino residence and property owners.
Chapter 9 has allowed many government entities to get back on their feet, including Orange County, CA in 1994.

“Orange County’s experience in the 1990s does show a Chapter 9 municipal bankruptcy filing can help local governments.”
The Bankruptcy Plan

The Three Stages of the Bankruptcy Plan

- **Pre-Pendency Plan** – Remedy immediate flow issues and initial budget reductions of $13.452 million
- **Pendency Plan** – 18 months budget through June 30, 2014 $25.981 million in reductions.
- **Plan of Adjustment** – This budget and plan must return the city to long-term financial health
Consequences of No Action

Without Chapter 9, the City will be forced to dissolve

CLOSED!
If the City Dissolves...

- City employees & retirees will be **shortchanged** – without future City payments, **pension fund** will be depleted prematurely

- City Hall, police and fire department will close

- Services will be cut **drastically**

- Residents will lose local control of land use decisions and other government functions
Who is Liable?

- Residence and property owners will ultimately pay the price for the council's mismanagement of city through special assessments.

- Plus they will have to pay assessments for services that they want to continue to receive.
City Managers Budget Message

City Managers Budget Message Feb.19, 2012
Andrea M. Travis-Miller

Recommends:
- Continued reduction of expenses
- Modeling of cash
- Revisit all sources of Revenue
- Revisit outsourcing and other recommendations in the pre-pendency plan
- Improve financial reporting ability
Revenue Estimates

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenues</th>
<th>Pendency</th>
<th>6/30/2014 Estimate</th>
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<tr>
<td>2012-2013</td>
<td>$113,000,000</td>
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<tr>
<td>2013-2014</td>
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<tr>
<td>6/30/2014 Estimate</td>
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</table>
Expense Estimates

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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<tbody>
<tr>
<td>2012-2013</td>
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<td>$122,000,000</td>
</tr>
<tr>
<td>2013-2014</td>
<td>$123,000,000</td>
</tr>
</tbody>
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Plan vs. Estimate (before transfers)

2012-2013

2013-2014
The Bleeding Has Not Stopped

Cash Balance


Cash Balance
2012–2013 Budget

Items not included:

- $1.8 million in salary increases under charter section 186 approved by council
- Resumption of payments to CalPers
- Deferred employee payouts for accrued time off

Ok, it's in the budget but do I have the cash to write the check?
What is Next?

- Keep the council focused on taking the actions needed to complete the bankruptcy – Budget cuts, Increasing Revenues, fiscal discipline, and modeling of cash
- Council development of a “Plan of Adjustment”
- It is apparent that this Council and charter have failed to provide good government.
Return “Good Government” to San Bernardino by:

- Repealing the City’s charter and going to a “General Law City”
- Launch a recall of all of the cities elected officials.
- Develop a long-term plan and vision for economic development, financial and political stability in the city.

There are many cities in California that are charter cities that are financially sound and well run. Even though I believe that a charter city is a more flexible form of governance, in San Bernardino it is corrupted by the people and the culture that exists in the city.
QUESTIONS