



## **CALIFORNIA LABOR FEDERATION FACT SHEET AB 155 (Mendoza)**

### **PREVENTING ABUSE OF MUNICIPAL BANKRUPTCY**

#### **Purpose**

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To provide some state oversight of municipal bankruptcies to ensure that cities and counties use bankruptcy only as a last resort.

#### **Background**

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On May 6, 2008, the Vallejo City Council voted to declare bankruptcy, even after firefighters, police officers, and public employees offered a package of wage and benefits concessions that would have solved the city's deficit. This bankruptcy has jeopardized the benefits owed to employees and retirees, contracts with vendors, and the delivery of city services.

In the wake of the Vallejo bankruptcy and the deepening recession, cities across California are now discussing bankruptcy as a possible option. Municipal bankruptcies are devastating to entire communities. When a city or county enters bankruptcy, property values decline, the business climate is depressed, and retirees are left in limbo. Vendors cannot rely on timely payments, threatening service delivery and costing jobs. It is unfair to the citizens and businesses of any community to allow a municipal bankruptcy to be entered into when it is not necessary.

Under federal law, it is up to each state to determine whether cities and counties have access to bankruptcy protection. California is one of just eleven states that provide a blanket authorization for municipal bankruptcies without any standards

that cities or counties must meet. (Government Code Section 53760). Two states specifically ban municipal bankruptcies, and an additional 26 states are silent, which effectively means municipal bankruptcies are not authorized. A total of 39 states either prohibit municipal bankruptcies or require municipalities to meet certain criteria prior to filing.

In the absence of clear standards or oversight, local elected officials considering bankruptcy and the communities impacted by such a bankruptcy have little guidance about whether it is merited or necessary. In addition, there is nothing to prevent a frivolous bankruptcy petition or one that is politically motivated.

The State has a vested interest in protecting taxpayers from the effects of an ill-advised bankruptcy. Clear standards will also help city and county elected officials make the most responsible decisions for the communities they represent.

#### **What This Bill Will Do**

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AB 155 (Mendoza) will provide state oversight and guidance to cities and counties considering filing for municipal bankruptcy. Under AB 155, the California Debt and Investment Advisory Commission (CDIAC), will review bankruptcy petitions to ensure that they have merit before cities or counties can file in bankruptcy court. CDIAC was created by the Legislature to assist

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state and local agencies with the issuance, monitoring, and management of public debt and the investment of public funds. This bill would NOT ban municipal bankruptcies or make them impossible. Instead, it would simply create an oversight structure to ensure that bankruptcies are only entered into when necessary.

### **Support**

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- ~ California Labor Federation, AFL-CIO
- ~ California Professional Firefighters
- ~ California Teamsters Public Affairs Committee

### **Key Contacts**

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