

Chapter 9 Municipal Bankruptcy: Municipalities Facing Financial Crisis

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A. Introduction

The recession has had a devastating real world impact on cities, counties and states throughout the nation and is the reason that Chapter 9 has gone from being a seldom used area of the Bankruptcy Code to a matter of current events that is discussed in the news daily and debated by unions, municipalities and Congress and state legislatures alike.

Currently, there are at least one hundred and fifteen cities and counties within the United States that are struggling financially. Additionally, forty-four out of fifty states project budget shortfalls for the 2011-2012 fiscal year. Furthermore, U.S. cities, counties and states face a \$3.6 trillion gap between their pension assets and what has been promised to retirees.¹

This paper is intended to give municipalities and other interested parties an overview of current events taking place in the area of municipal bankruptcy law. Additionally, this article offers an in depth review of various municipalities which are currently facing financial distress, as well as provides objective factors which can be used to evaluate the financial health of cities, counties and states.

B. Current Events: *Recent Developments in the Area of Municipal Bankruptcy Law*

1. State Bankruptcy

i. Background

Chapter 9 provides bankruptcy relief to municipalities, which include counties, cities, towns, villages, municipal utilities, school districts, and other taxing districts. There has been an organized federal bankruptcy process for municipalities since the 1930s, and approximately 500 cases of Chapter 9 have been filed since the original Municipal Bankruptcy Act was enacted in 1937.

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Nicholas Johnson, Elizabeth McNichol, *Recession Continues to Batter State Budgets; State Responses Could Slow Recovery*, (Updated May 27, 2010), available at <http://www.cbpp.org/cms/?fa=view&id=711>, John Paul Mitchell, *46 Of 50 States Could File Bankruptcy In 2009-2010*, (January 30, 2009), available at <http://freedomarizona.wordpress.com/2009/01/30/46-of-50-states-could-file-bankruptcy-in-2009-2010/>; *States most likely to go bankrupt*, (January 26, 2011), available at <http://www.thedailybeast.com/blogs-and-stories/2011-01-26/states-most-likely-to-go-bankrupt/>; Darrell Preston, *Christie Says 'Sue Me' as Pensioners Challenge Cuts*, (February 2, 2011), available at <http://www.bloomberg.com/news/2011-02-02/governors-reducing-pension-benefits-may-be-thwarted-as-workers-sue-states.html>.

However, under current U.S. bankruptcy laws, states are prevented from filing for bankruptcy. One of the major reasons states are not permitted to file bankruptcy is that states are sovereign. As a result, even if there was a change in the law, it is impossible to have a bankruptcy judge impose terms upon the states. Therefore, any law which would allow a state to file bankruptcy would have to be completely voluntary, meaning that neither the federal government nor any state creditors could push a state into bankruptcy unwillingly, as this would violate the U.S. Constitution's protection for a state's sovereign immunity. Additionally, bankruptcy judges would be precluded from forcing a state to change its taxing or spending policies.²

Historically, there has been little talk of state bankruptcy. However, since the 2008 financial crisis, many states are facing staggering budget deficits. Currently, states are struggling with a total budget gap of \$110 billion for fiscal 2010 and will face an estimated gap of \$82 billion in fiscal 2011. California's deficit is approximately \$25 billion, Illinois has a \$15 billion deficit and Texas has a two-year deficit of approximately \$26 billion. Additionally, states are burdened with large unfunded pension liabilities, which will likely result in money being diverted away from essential public services in order to make payments to employee pension funds.

The financial crisis facing the states has resulted in serious concern among members of congress that, if there is no bankruptcy option available to the states, states will eventually seek a Federal bailout.³ As a result, creating an amendment the Bankruptcy Code which would allow states to declare bankruptcy is being explored by some congressional leaders. This in turn, has sparked an explosive debate among public employee unions, state legislatures, lenders, bondholders, and policymakers on the topic of state bankruptcy.

ii. The Debate

Former Republican House Speaker Newt Gingrich has emerged as one of the leading proponents of state bankruptcy, saying that new legislation allowing states to declare bankruptcy is imminent, and will most likely be introduced by Congress sometime within the next few months. Gingrich has also said that there is support for such a bill in both the House and the Senate, and that lawmakers have been looking into the idea for several months. Gingrich touts

² Jeb Bush and Newt Gingrich, *Better off bankrupt, States should have the option of bankruptcy protection to deal with their budget crises*, LOS ANGELES TIMES, January 27, 2011.

³ SJ Leeds, *Bankruptcy Court for States?* January 23, 2011, available at <http://leedsonfinance.com/2011/01/23/bankruptcy-court-for-states/>.

the benefits of state bankruptcy as a possible way for states to break union contracts and reconstitute their financial situations.⁴

On January 27, Gingrich and former Florida Governor Jeb Bush urged in an op-ed in the Los Angeles Times, that “[f]ederal bailouts must come to an end.” According to Gingrich and Bush, “[f]ederal taxpayers in states that balance their budgets should not have to bail out the irresponsible, pandering politicians who cannot balance their budgets. Congress must allow a safe, orderly way under federal bankruptcy law for states to reorganize their finances.” Gingrich and Bush argue that allowing states to declare bankruptcy would create a “fair, orderly, predictable and lawful approach,” to aiding cash-strapped state governments around the country.⁵

Yet some of the biggest U.S. states with the worst budget deficits are rejecting any federal help in the form of a bill that would allow them to file for bankruptcy. New York and California, which are among the biggest issuers of municipal bonds in the \$2.8 trillion marketplace, are rejecting the idea of a state bankruptcy bill.

In California, Democratic State Treasurer Bill Lockyer responded: "States didn't ask for it. We don't want it. We don't need it. Bankruptcy would devastate states' ability to recover from the recession and make the infrastructure investments that create good jobs. It would inflict severe injury on taxpayers."⁶

In New York, Democratic New York State Comptroller Thomas DiNapoli said: "Proposals in Congress to allow states to file for bankruptcy are unworthy of serious discussion. Just the availability of a bankruptcy option and the potential bond default could severely damage state credit ratings and destroy the trust of bondholders."⁷

iii. Summary of Key Issues

Some of the key issues spurring the debate surrounding state bankruptcy are:

- The threat of bankruptcy could give states leverage with their public employee unions and allow states the ability to renegotiate union contracts.

⁴ Lisa Lambert, *State bankruptcy bill imminent, Gingrich says*, REUTERS NEWS, January 21, 2011.

⁵ Kendra Marr, *Newt Gingrich, Jeb Bush Say Let States Declare Bankruptcy*, (January 27, 2011), available at [http:// www.politico.com/news/stories/0111/48291.html](http://www.politico.com/news/stories/0111/48291.html).

⁶ *Big States Spurn Bankruptcy Bill*, (January 21, 2011), available at [http://www. reuters.com/article/idUSTR E70K78P20110121](http://www.reuters.com/article/idUSTR E70K78P20110121).

⁷ *Id.*

- Bankruptcy could mean altering contractual obligations to retirees and general obligation bondholders. Both could end up as unsecured creditors. Bankruptcy would be a wealth transfer from bondholders and state employees to taxpayers.
- If state bankruptcy does emerge as a real possibility, it could become very difficult and expensive for states to raise money, with lenders and bondholders expecting to be compensated for taking on additional risk.
- The default/bankruptcy premium could become significant in the municipal market. There have already been \$25 billion of outflows from municipal funds in the past two months.
- If there is no bankruptcy, states will eventually seek a bailout from the Federal Government.
- State bankruptcy would damage state credit ratings.
- Some states have huge deficits and severe structural problems, such as unfunded pension liabilities, which may require diverting money away from essential public services.⁸

2. California

In an effort to close California's estimated \$25.4-billion budget deficit next year, Governor Jerry Brown has proposed eliminating the state's redevelopment agencies. According to Brown, shutting down California's nearly 400 municipal redevelopment agencies would be a critical part of his budget plan and save the state \$1.7 billion.⁹

This proposal was followed by an announcement from California State Controller John Chiang that his office would dispatch auditors to review the books of 18 redevelopment agencies in California, including those in Los Angeles, Sacramento and Riverside, to determine how well tax dollars are being used by redevelopment agencies.¹⁰

⁸ SJ Leeds, *Bankruptcy Court for States?* (January 23, 2011), available at <http://leedsonfinance.com/2011/01/23/bankruptcy-court-for-states/>.

⁹ Ian Bauer, *Governor's plan to end redevelopment agencies statewide troubles city officials*, January 19, 2011, available at http://www.mercurynews.com/milpitas/ci_17139355?nclink_check=1.

¹⁰ Judy Lin, *Controller to audit Calif. redevelopment agencies*, (January 25, 2011), available at <http://www.bloomberg.com/news/2011-01-25/controller-to-audit-calif-redevelopment-agencies.html>.

Critics of these agencies say redevelopment has become a cash cow for developers of big box retailers, sports arenas and amusement parks while cities, counties and schools are losing out on billions in property taxes.¹¹ However, cities across the state have angrily denounced Brown's idea to phase out redevelopment agencies and have rushed to shield the funds from any state raids. For example, hours before mayors of the state's nine largest cities met with Brown, the Los Angeles City Council voted to spend up to \$52 million in redevelopment funds on public improvements around a planned downtown museum.¹²

C. States Facing Financial Distress

1. States with the Worst 2012 Budget Gaps & Pension Liabilities

California: California adopted its 2010-2011 fiscal year budget over three months late. The budget included spending cuts of nearly 8.4 billion dollars. California had been without a spending plan since the new budget year began on July 1.¹³ Currently, California is facing a \$25 billion budget gap for the 2011-2012 fiscal year and an unfunded pension liability of \$59.5 billion (13%).¹⁴

Texas: Texas has an estimated 2012 fiscal year budget gap of \$13.4 billion. Additionally, Texas has an unfunded pension liability of \$13.8 billion (9%).

New Jersey: New Jersey has an estimated 2012 fiscal year budget gap of \$10.5 billion. New Jersey's unfunded pension liability is \$34.4 billion (27%).

Nevada: Nevada has an estimated 2012 fiscal year budget shortfall of \$1.5 billion. Nevada is facing an unfunded pension liability of \$7.3 billion (24%).

Illinois: Illinois has an estimated 2012 fiscal year budget gap of \$15 billion. Illinois has an unfunded pension liability of \$54.4 billion (46%). The state's mental-health services will lose \$91 million in funding during the next fiscal year as a result of Illinois' extreme budget gap.

¹¹ *Id.*

¹² Michael J. Mishak, *California Gov. Jerry Brown defends cutting redevelopment agencies*, LOS ANGELES TIMES, January 26, 2011.

¹³ *California passes budget, three months late*, (October 9, 2010), available at <http://www.laredosun.us/notas.asp?id=11174>.

¹⁴ *The Worst 2011 State Budget Gaps*, (April 15, 2010), available at http://www.cnbc.com/id/36510805/The_Worst_2011_State_Budget_Gaps?slide=10; *States most likely to go bankrupt*, (January 26, 2011), available at <http://www.thedailybeast.com/blogs-and-stories/2011-01-26/states-most-likely-to-go-bankrupt/>.

Arizona: Arizona has a projected 2012 budget shortfall of \$974 million. Arizona has an unfunded pension liability of \$7.9 billion (35%). More than 350,000 residents, including 40,000 children, lost a state-subsidized health care program when an \$8.5 billion budget was approved.

Massachusetts: Massachusetts has an estimated 2012 fiscal year budget gap of \$1.8 billion. Massachusetts' unfunded pension liability is \$21.8 billion (37%). MassHealth, the state's health program for low-income residents, has had nearly \$850 million cut from its budget.

Hawaii: Hawaii has a projected 2012 budget shortfall of \$410 million. Hawaii has an unfunded pension liability of \$5.2 billion (31%). In April 2010, the legislature agreed to cut 800 jobs and eliminate tax credits for investment in high-tech in order to compensate for the \$1.2 billion budget gap over the next two years.

Maryland: Maryland has a projected 2012 budget shortfall of \$1.6 billion. The state has an unfunded pension liability of \$11 billion (22%).

New York: New York has an estimated 2012 fiscal year budget shortfall of \$9 billion. The state's unfunded pension liability is \$56.3 billion (100%).

Rhode Island: Rhode Island has a projected 2012 budget shortfall of \$290 million and an unfunded pension liability of \$4.4 billion (39%).

Oklahoma: Oklahoma has an estimated 2012 fiscal year budget shortfall of \$600 million and an unfunded pension liability of \$13.2 billion (39%). The state has postponed state-offered tax credits, instituted a 1% provider fee on insurance claim payments and reduced the budgets of state agencies beyond the 10% cut enacted during the 2010 fiscal year.

Utah: Utah has an estimated 2012 fiscal year budget gap of \$437 million. Utah's unfunded pension liability is \$3.6 billion (16%). Utah employees' defined benefit plan, which guarantees a set income for current employees who retire, is costing up to \$400 million per year.

Maine: Maine has an estimated 2012 fiscal year budget gap of \$436 million. The state has an unfunded pension liability of \$2.8 billion (20%). The state's health service's department is slated to lose \$45 million.

Vermont: Vermont has an estimated 2012 fiscal year budget shortfall of \$150 million and an unfunded pension liability of \$462 million (12%).¹⁵

¹⁵

States most likely to go bankrupt, (January 26, 2011), available at <http://www.thedailybeast.com/blogs-and-stories/2011-01-26/states-most-likely-to-go-bankrupt/>.

2. Gaps States Have Faced in Fiscal Year 2011

State	Pre-Budget Adoption Gap in States with Biennial 09-11 Budgets	Pre-Budget Adoption Gap in States With Annual Budgets/New Gap in Biennial States	Total FY11 Shortfall Closed When Budget Adopted	Total Shortfall as Percent of FY11 Budget
Alabama	0	\$586 million	\$586 million	8.3%
Arizona	0	\$3.1 billion	\$3.1 billion	36.6%
California*	0	\$17.9 billion	\$17.9 billion	21.6%
Colorado	0	\$1.5 billion	\$1.5 billion	21.6%
Connecticut	\$4.4 billion	\$700 million	\$5.1 billion	28.9%
Delaware	0	\$377 million	\$377 million	11.5%
District of Columbia	0	\$104 million	\$104 million	1.7%
Florida	0	\$4.7 billion	\$4.7 billion	20.2%
Georgia	0	\$4.2 billion	\$4.2 billion	26.2%
Hawaii	0	\$594 million	\$594 million	12.0%
Idaho	0	\$84 million	\$84 million	3.4%
Illinois	0	\$13.5 billion	\$13.5 billion	41.5%
Indiana	0	\$1.3 billion	\$1.3 billion	9.4%
Iowa	0	\$1.1 billion	\$1.1 billion	18.9%
Kansas	0	\$510 million	\$510 million	8.7%
Kentucky	0	\$780 million	\$780 million	8.8%
Louisiana	0	\$1.0 billion	\$1.0 billion	12.5%
Maine	\$765 million	\$174 million	\$940 million	34.7%
Maryland	0	\$2.0 billion	\$2.0 billion	14.4%
Massachusetts	0	\$2.7 billion	\$2.7 billion	9.6%
Michigan	0	\$2.0 billion	\$2.0 billion	9.2%
Minnesota	\$2.8 billion	\$1.2 billion	\$4.0 billion	26.0%
Mississippi	0	\$716 million	\$716 million	16.1%
Missouri	0	\$730 million	\$730 million	9.4%
Nebraska	\$150 million	\$179 million	\$329 million	9.6%
Nevada	\$1.3 billion	\$504 million	\$1.8 billion	54.0%
New Hampshire	\$250 million	\$115 million	\$365 million	24.1%
New Jersey	0	\$10.7 billion	\$10.7 billion	38.3%
New Mexico	0	\$333 million	\$333 million	6.2%
New York	0	\$8.5 billion	\$8.5 billion	15.3%
North Carolina	\$4.4 billion	\$1.4 billion	\$5.8 billion	30.3%
Ohio	\$2.5 billion	\$463 million	\$3.0 billion	11.3%
Oklahoma	0	\$725 million	\$725 million	14.8%

Oregon*	Yes	\$577 million	<i>See below: States with Fiscal Year 2011 Mid Year Gaps</i>	See Table 2
Pennsylvania	0	\$4.1 billion	\$4.1 billion	15.6%
Rhode Island	0	\$395 million	\$395 million	13.9%
South Carolina	0	\$1.3 billion	\$1.3 billion	25.6%
South Dakota	0	\$102 million	\$102 million	8.8%
Tennessee	0	\$1.0 billion	\$1.0 billion	9.8%
Texas	\$3.3 billion	\$1.3 billion	\$4.6 billion	10.2%
Utah	0	\$700 million	\$700 million	14.6%
Vermont	0	\$338 million	\$338 million	30.2%
Virginia	0	\$1.3 billion	\$1.3 billion	8.8%
Washington	\$2.1 billion	1.4 billion	\$3.5 billion	21.6%
West Virginia	0	\$134 million	\$134 million	3.6%
Wisconsin	\$3.4 billion	0	\$3.4 billion	23.9%
Wyoming	0	\$147 million	\$147 million	10.3%
States Total	\$25.3 billion	\$97.3 billion	\$122.6 billion	18.9%

Note: When this chart was completed, **California** had not passed its FY 2011 budget so its gap remained open. **California's** shortfall does not include \$1.2 billion in proposed reserve replenishment. **Oregon** has a two-year budget.

Citation: Elizabeth McNichol, Phil Oliff and Nicholas Johnson, *States Continue to Feel Recession's Impact*, (October 7, 2010), available at <http://www.cbpp.org/cms/?fa=view&id=711>.

3. States with Fiscal Year 2011 Mid Year Gaps

State	Mid-Year Shortfall Amount	Shortfall as Percent of FY11 Budget
Arizona	\$206 million	2.4%
Colorado	\$257 million	3.6%
Connecticut	\$45 million	0.3%
New Mexico	\$159 million	3.0%
Oregon	\$378 million	5.4%
Washington	\$770 million	4.8%
District of Columbia	\$175 million	2.9%
Total	2.0 billion	2.9%

Citation: Elizabeth McNichol, Phil Oliff and Nicholas Johnson, *States Continue to Feel Recession's Impact*, (October 7, 2010), available at <http://www.cbpp.org/cms/?fa=view&id=711>

4. States with Projected Fiscal Year 2012 Gaps

State	FY12 Projected Shortfall	Shortfall as Percent of FY11 Budget
Arizona	\$1.4 billion	16.7%
California	\$21.3 billion	25.7%
Colorado	\$1.1 billion	15.4%
Connecticut	\$3.8 billion	21.6%
Florida	\$2.5 billion	10.8%
Georgia	\$1.7 billion	10.6%
Hawaii	Yes, DK Size	N/A
Idaho	\$140 million	5.7%
Illinois	\$17.0 billion	52.3%
Iowa	\$800 million	14.1%
Kansas	\$217 million	3.7%
Kentucky	\$780 million	8.8%
Louisiana	\$1.7 billion	21.2%
Maryland	\$1.5 billion	11.1%
Massachusetts	\$2.0 billion	7.1%
Michigan	\$1.4 billion	6.4%
Minnesota	\$3.8 billion	25.0%
Mississippi	\$1.2 billion	27.6%
Missouri	\$982 million	12.6%
Montana	\$169 million	9.2%
Nebraska	\$221 million	6.5%
Nevada	\$1.3 billion	36.7%
New Jersey	\$10.5 billion	37.5%
New Mexico	\$404 million	7.5%
New York	\$8.2 billion	14.7%
North Carolina	\$3.0 billion	15.7%
Ohio	\$3.0 billion	11.3%
Oklahoma	Yes, DK size	na
Oregon	\$2.5 billion	17.6%
Pennsylvania	\$2.4 billion	9.3%
Rhode Island	\$330 million	11.6%
South Carolina	\$1.3 billion	26.1%
Tennessee	\$374 million	3.7%
Texas	\$10.0 billion	22.3%
Vermont	\$112 million	10.0%
Virginia	\$2.3 billion	15.4%
Washington	\$1.5 billion	9.3%
West Virginia	\$155 million	4.2%
Wisconsin	\$1.2 billion	8.7%
States Total	\$112.3 billion	18.5%

Citation: Elizabeth McNichol, Phil Oliff and Nicholas Johnson, *States Continue to Feel Recession's Impact*, (October 7, 2010), available at <http://www.cbpp.org/cms/?fa=view&id=711>

D. Factors to Evaluate the Financial Health of Municipalities

The following factors can be used to evaluate the financial health of cities, counties and states. If a municipality has implemented or is operating under any of the following conditions then it is likely that the municipality is struggling financially or is facing a serious economic crisis.

- Municipality has a budget deficit or is operating with an unbalanced budget
- Municipality has made budget cuts to its services, departments or programs
- Municipality has laid off employees
- Municipality has implemented furloughs
- Municipality is advocating early retirement for employees
- Municipality has instituted a hiring and/or spending freeze
- Municipality has high pension obligations
- Municipality is spending money from its reserve or “rainy day” fund
- Municipal expenditures exceed revenue
- Municipality has a high unemployment rate
- Property value or population income has decreased within the municipality
- Municipal population has declined
- Sales tax revenue has declined
- Municipal leaders are frequently seen in handcuffs

E. California City and County Municipalities Facing Financial Distress

Antioch, California: The leaders of the City of Antioch announced that bankruptcy could be an option for the cash-strapped city of roughly 100,000 on the eastern fringe of the San Francisco Bay area. City officials have been forced to implement spending cuts, layoffs and furloughs as a result of weak revenues from retail sales and property taxes. Additionally, the city council has been openly discussing bankruptcy as an option to deal with the city’s financial situation.¹⁶

Barstow, California: City officials in Barstow anticipated a \$1.5 million deficit for the 2010-2011 fiscal year.¹⁷

¹⁶ Jim Christie, *Bankruptcy talk spreads among Calif. muni officials, Two years after Vallejo, California, filed for bankruptcy protection, officials in nearby Antioch are also tossing around the 'B' word*, (May 27, 2010), available at <http://www.reuters.com/article /idUSTRE64Q 6CQ20100527>.

¹⁷ Jessica Cejnar Desert Dispatch, *\$1.5 million deficit anticipated for 2010-2011 Barstow budget*, (April 7, 2010), available at <http://www.allbusiness.com/government/ government-bodies-offices-regional/14255168-1.html>.

Bell, California: On July 15, the Los Angeles Times reported that Bell officials were fleecing taxpayers to fund exorbitant salaries, including nearly \$800,000 a year for the city's top executive, almost \$500,000 a year for its police chief and \$100,000 a year for members of the city council. As a result, eight current and former officials in the City of Bell were arrested on September 21, 2010, and the Los Angeles County District Attorney filed charges against the eight officials for fraud, alleging that they misappropriated \$5.5 million in public funds. All have plead not guilty.¹⁸

The city is currently being operated by interim City Manager Pedro Carrillo. The City Council has only met three times in the last five months because the council members who face criminal charges have repeatedly have failed to show up for meetings.¹⁹ A recall election is set to take place on March 8, in order to replace four of the City Council's five members, as well as the mayor and vice mayor.²⁰

Additionally, an investigation by the State Controller's office discovered that, in 2007, the City of Bell had illegally raised taxes, including property taxes and taxes for sewer, trash, recycling and lighting districts, to cover rising pension costs for its employees and fund salary increases for city officials. As a result, the city collected \$5.6 million in illegal taxes. Bell now faces severe budget problems because it has been ordered to immediately reduce the illegal tax rate and repay the funds. Some of the funds will be repaid to residents and businesses. While others by law must go to schools within the city. Bell will draw from a \$5-million reserve fund to repay some of the illegal taxes.²¹

As a result of the corruption in Bell, then-Attorney General Jerry Brown asked Bell city officials to agree to a court-appointed monitor who would have "complete and unfettered access

¹⁸ Jack Leonard, Ruben Vives and Richard Winton, *Bell Officials Arrested as Prosecutors are Set to File Criminal Charges*, (September 21, 2010), available at <http://latimesblogs.latimes.com/lanow/2010/09/bell-officials-arrested-as-prosecutors-are-set-to-file-criminal-charges.html>.

¹⁹ Jeff Gottlieb, *Bell city official threatens to cut budget if council doesn't meet*, (February 3, 2011), available at <http://www.latimes.com/news/local/la-me-adv-bell-paralysis-20110202-1%2C0%2C7285942.story>.

²⁰ John Rogers, *Scandal-tainted city looks at electing new leaders*, (February 2, 2011), available at <http://www.sfgate.com/cgi-bin/article.cgi?f=%2Fn%2Fa%2F2011%2F02%2F02%2Fstate%2Fn151300S03.DTL>.

²¹ Damon Eris, *Maywood and Bell: California's Cautionary Tales*, (July 28, 2010), available at <http://caivn.org/article/2010/07/28/maywood-and-bell-californias-cautionary-tes>, Kim Christensen, Ruben Vives and Evan Halper, *Bell Must Give Up \$2.9 Million in Illegal Property Taxes, by law the money must go to schools in the city*, (August 14, 2010), available at <http://4lakidsnews.blogspot.com/2010/08/bell-must-give-up-29-million-in-illegal.html>, Jeff Gottlieb and Ruben Vives, *Bell raised taxes, used money for higher salaries for officials, audit finds*, (October 14, 2010), available at <http://latimesblogs.latimes.com/lanow/2010/09/bell-raised-taxes-used-money-for-higher-salaries-audit-finds.html>.

to all matters relating to the City." However, in October talks to install a court-appointed monitor broke down and the attorney general's office proceeded with court action against the city. In December, a Los Angeles Superior Court judge rejected the request by the state attorney general's office to put a monitor in charge of Bell's finances and to help run the day-to-day operations of the city.²²

Note: A legal issue that faced the appointment of a receiver in the City of Bell was whether, in California, it is permissible to place cities into receivership.

Update: A recent county review of Bell's finances showed that the city faces a deficit of \$2.16 million unless drastic cuts are made. However, according to calculations by city administrators, that deficit could grow up to \$5 million by the end of June 2011 if the council does not take action.²³ Additionally, the city has also defaulted on a \$35-million bond.²⁴

In the last six months, Interim City Manager Pedro Carrillo has trimmed the city's \$14-million budget by \$3.8 million. The number of full-time employees has dropped 16%, from 82 to 69. Nonetheless, the city's reserves are down to \$300,000. Carrillo recently reported that the city may have to disband its police department or take other drastic action to balance the budget.²⁵

Berkeley, California: Berkeley City Manager Phil Kamlarz previously stated that his city faced a \$14.6 million deficit for the 2010-2011 fiscal year which began July 1, 2010.²⁶

²² Jeff Gottlieb and Ruben Vives, *Legal fight looms over control of Bell*, (October 14, 2010), available at <http://www.latimes.com/news/local/la-me-bell-monitor-10-14-20101014,0,4675906.story>; Ruben Vives, *L.A. Judge Rejects Putting Court-Appointed Monitor in Charge of Bell*, (December 7, 2010), available at <http://latimesblogs.latimes.com/lanow/2010/12/la-judge-rejects-putting-court-appointed-monitor-in-charge-of-bell.html>.

²³ Ruben Vives, *Cash-strapped Bell to Consider Disbanding Police Department, Cutting Salaries and Benefits*, (January 27, 2011), available at <http://latimesblogs.latimes.com/lanow/2011/01/cash-strapped-bell-to-consider-disbanding-police-department-deep-cuts-to-salaries.html>.

²⁴ John Rogers, *Scandal-tainted city looks at electing new leaders*, (February 2, 2011), available at <http://www.sfgate.com/cgi-bin/article.cgi?f=%2Fn%2Fa%2F2011%2F02%2F02%2Fstate%2Fn151300S03.DTL>.

²⁵ Jeff Gottlieb, *Bell city official threatens to cut budget if council doesn't meet*, (February 3, 2011), available at <http://www.latimes.com/news/local/la-me-adv-bell-paralysis-20110202-1%2C0%2C7285942.story>.

²⁶ Kamlarz attributes Berkeley's budget gap to the economy, declining property and sales tax revenues and other factors. *Berkeley now another city facing huge budget deficit*, (March 24, 2010), available at http://www.pleasantonweekly.com/news/show_story.php?id=3736.

Claremont, California: For the 2011-2012 fiscal year, Claremont has a projected budget deficit of more than \$750,000.²⁷

Concord, California: The City of Concord has a \$13 million budget deficit. In order to close the gap, Concord passed a 2010-2011 budget which included cuts of \$5.6 million in city services, and \$2.1 million in wage and compensation concessions from employee groups. While these concessions represent a significant step in reducing the city's budget deficit, they will not completely close the gap. Reductions in sales tax and property tax revenues, as well as \$33 million in State take-aways over the last 10 years, have eroded the city's General Fund and created a structural deficit.²⁸

Crescent City, California: Officials in Crescent City projected a \$86,638 deficit in the general fund budget for the 2010-2011 fiscal year. However, this was nearly eight times less than the 2009-2010 projected shortfall of \$691,619.²⁹

Davis, California: The City of Davis had a 2010 budget deficit of \$1.2 million.³⁰

Dublin, California: The City of Dublin had a projected budget deficit of \$3.1 - \$4.6 million. The City Council of Dublin approved \$1.5 million of administration, public safety and parks and recreation cuts as part of an ongoing effort to reduce the deficit. The city hoped to be able to cover the rest of the deficit with Dublin's economic stability reserve or "rainy day" fund.³¹

El Dorado, California: The City of El Dorado has had to move \$3.4 million from its reserves to cover expenses.³²

²⁷ Wes Woods, *Claremont City Council makes progress on its budget*, (May 22, 2010), available at http://www.dailybulletin.com/news/ci_15143717#ixzz0pZkT3kpw.

²⁸ *Concord passes budget, makes progress in closing \$13 million deficit*, (June 24, 2010), available at http://www.ci.concord.ca.us/about/citynews/releases/2010/06_24_2010.asp.

²⁹ Nick Grube, *A year later, city budget looks rosier*, (May 8, 2010), available at <http://www.triplicate.com/20100508108951/News/Local-News/A-year-later-city-budget-looks-rosier>.

³⁰ Phillip Reese, *Huge deficits stifle local cities, counties*, (May 27, 2010), available at <http://www.sacbee.com/2010/05/25/2776211/interactive-huge-deficits-stifle.html>.

³¹ John M. Zukoski, *Dublin Slashes City Programs to Reduce Budget Deficit*, (May 10, 2010), available at <http://www.arounddublinblog.com/2010/05/dublin-slashes-city-programs-to-reduce-budget-deficit/>.

³² Phillip Reese, *Huge deficits stifle local cities, counties*, (May 27, 2010), available at <http://www.sacbee.com/2010/05/25/2776211/interactive-huge-deficits-stifle.html>.

El Dorado County, California: El Dorado County is facing a projected 2011- 2012 budget deficit of \$7 million. The county recently approved \$4 million in budget reductions, a large amount of which came from law enforcement.³³

Fresno, California: On May 3, 2010, Mayor Ashley Swearengin declared a fiscal emergency for the City of Fresno. The city had a \$30.6 million revenue shortfall during the last fiscal year and is projecting a \$30.7 million deficit by 2015.³⁴

Fresno County, California: Since 2000, unfunded liabilities in Fresno County have increased from less than \$100 million to \$800 million. The county is also facing about \$550 million in outstanding pension obligation bonds. Fresno County expects to pay more than \$140 million into its pension system in the 2010-2011 fiscal year. Additionally, the total number of Fresno County employees has dropped by 700, or 10 percent, from 2008 to 2009.³⁵

Folsom, California: Folsom had a 2009-2010 budget deficit of \$4.1 million. As a result, city officials sought to cut their operating budget by another 5.2 percent starting July 1, 2010, eliminating up to 50 more city jobs. Officials explained that the cuts were necessary due to lower general fund revenue and higher costs in the 2010-2011 fiscal year.³⁶

Fort Bragg, California: The city's general fund ended the 2009-2010 fiscal year with a deficit of approximately \$100,000.³⁷

Healdsburg, California: In 2010, Healdsburg officials identified an extra \$2 million to help cover deficits in the general fund and avoid layoffs in the police and fire departments.

³³ Raheem Hosseini, *New county chief faces huge deficit*, (December 15, 2010), available at <http://edh.telegraph.com/detail/167131.html>.

³⁴ *Mayor Swearengin Declares Fiscal Emergency, Delivers Plan to Deal with Budget Shortfall*, (May 3, 2010), available at <http://www.fresno.gov/News/PressReleases/2010/BudgetEmergency.htm>.

³⁵ Phillip Reese, *Pension Promises Threaten California Cities, Counties*, (April 11, 2010), available at http://krvr.org/index.php?option=com_joomlaboard&Itemid=26&func=view&catid=22&id=17405.

³⁶ Loretta Kalb, *Folsom plans to cut budget, eliminate 50 city jobs*, (April 14, 2010), available at http://www.sacbee.com/2010/04/14/2679223/folsom-plans-to-cut-budgeteliminate.html#mi_rss=Latest%20News#ixzz0pcKSGpmx, Phillip Reese, *Huge deficits stifle local cities, counties*, (May 27, 2010), available at <http://www.sacbee.com/2010/05/25/2776211/interactive-huge-deficits-stifle.html>.

³⁷ *City Council Minutes*, (April 12, 2010), available at <http://city.fortbragg.com/pdf/CCM2010-04-12.pdf>.

However, Mayor Jim Wood cautioned that the city has only managed to push out for another year the “plane crash” that is coming as expenditures outpace revenues.³⁸

Irvine, California: Proposed 2010-2011 fiscal year budgets for the City of Irvine estimated sales tax revenue at its lowest point in 12 years, resulting in a budget hole of at least \$17 million. In order to combat the budget hole, city officials were be forced to cut back on community events, consolidate after-school programs, delay construction of new public facilities, and dip into \$14 million in reserve funds.³⁹

Kern County, California: In May 2010, Kern County supervisors approved the issuance of pink slips to 30 government employees, as well as advocated an overall reduction in county services.⁴⁰

Lake Elsinore, California: The City of Lake Elsinore projected that general fund revenue for the 2010-2011 fiscal year would be down by \$2.8 million and anticipated expenditures of nearly \$1 million over the 2009-2010 fiscal year budget. The city, faced with its fourth straight year of declining revenue, projected a \$3.8 million gap in its 2011 operating budget.⁴¹

Lincoln, California: The City of Lincoln had a 2010 budget deficit of \$2 million.⁴²

Los Alamitos, California: The City of Los Alamitos had a projected budget deficit for the 2010-2011 fiscal year of over \$300,000. In a staff report prepared for the city council, staff members identified \$108,000 in budget cuts, which would reduce the projected deficit to \$209,000.⁴³

³⁸ Clark Mason, ‘*Found*’ money plugs Healdsburg budget deficit, (May 24, 2010), available at <http://www.watchsonomacounty.com/2010/05/cities/found-money-plugs-healdsburg-budget-deficit/>.

³⁹ Sean Emery, *Irvine faces \$17 million budget deficit*, (April 13, 2010), available at <http://www.ocregister.com/news/city-243915-million-community.html>.

⁴⁰ Kern County is facing a budget gap of \$37 million for the 2010-2011 fiscal year. *County cuts will go deeper than dollars*, (May 27, 2010), available at <http://www.bakersfield.com/opinion/editorials/x1008889887/County-cuts-will-go-deeper-than-dollars>.

⁴¹ *Balancing budget means tough decisions ahead*, (May 18, 2010), available at <http://www.lake-elsinore.org/index.aspx?page=26&recordid=304&returnURL=%2Findex.aspx>.

⁴² Phillip Reese, *Huge deficits stifle local cities, counties*, (May 27, 2010), available at <http://www.sacbee.com/2010/05/25/2776211/interactive-huge-deficits-stifle.html>.

⁴³ *Council wrestles with 2010-11 Budget Deficit*, (May 24, 2010), available at <http://letsfixlosal.com/blog/council-wrestles-with-2010-11-budget-deficit/>.

Los Angeles, California: Los Angeles' budget deficit for the 2010-11 fiscal year has ballooned to 87.84 million dollars from 63.7 million two months ago. If no effective measures are taken, the city may have to identify additional solutions beyond those identified in the current operational plan, including layoffs, additional furloughs, instituting a hiring freeze and other reductions.⁴⁴ The city predicts a total budget shortfall of nearly \$1 billion by 2013. The city has already removed 2,400 positions from the city payroll through early retirement, furloughs and other workforce reductions.⁴⁵

Los Angeles County, California: Los Angeles County projected a \$510.5 million budget shortfall for the 2010-2011 fiscal year and may need to lay off about 100 workers to help close the gap.⁴⁶

Manhattan Beach, California: Manhattan Beach is facing a changing fiscal landscape. The city's revenue has dropped as real estate, retail sales and tourism have declined. Finance Director Bruce Moe said that the main drive of the fiscal plan for this year is "balancing the budget, no layoffs, and no use of reserves, which is tremendous in these times." According to the five year forecast for the budget, the city will continue to have a deficit in funds through 2015.⁴⁷

Maywood, California: Facing a \$450,000 shortfall in its \$10 million general fund budget, Maywood became the first American city to outsource all of its city services. Faced with the prospect of bankruptcy, the city fired its entire workforce and outsourced their jobs. It was ultimately the corruption of the city's police department that forced it to take such drastic measures.⁴⁸

⁴⁴ Los Angeles reeling under rising budget deficit, (December 14, 2010), *available at* <http://english.people.com.cn/90001/90778/90858/90864/7230662.html>.

⁴⁵ Steve Gorman, *L.A. Mayor Urges 10 Percent Cut in City Work Force*, (April 19, 2010), *available at* <http://www.reuters.com/article/id USN1921583520100420>, Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2011*, (December 2009), *available at* [http://host.91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL .pdf](http://host.91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf).

⁴⁶ *L.A. County budget shortfall at more than \$500 million, layoffs possible*, (April 19, 2010), *available at* http://capoliticalnews.com/blog_post/show/4886.

⁴⁷ Jonathan Douglas, *City Presents Options to Trim Budget Deficit*, (May 20, 2010), *available at* <http://manhattanbeach.patch.com/articles/city-presents-options-to-trim-budget-deficit>.

⁴⁸ Damon Eris, *Maywood and Bell: California's Cautionary Tales*, (July 28, 2010), *available at* <http://caivn.org/article/2010/07/28/maywood-and-bell-californias-cautionary-tes>, Tami Luhby, *Maywood, Calif., to city cops and employees: You're fired*, (July 1, 2010), *available at* http://money.cnn.com/2010/06/29/news/economy/city_fires_employees/index.htm.

Merced County, California: Merced County's pension bonds and unfunded liabilities equal about 85 percent of its annual general fund budget. Merced County currently can cover just 65 or 70 percent of its future liabilities.⁴⁹

Mendocino County, California: In April 2010, Mendocino County supervisors approved plans to lay off seven employees and rearrange or eliminate funding for 15 other positions. Seventy five other positions were also scheduled to be eliminated as the county's board of supervisors attempted to close a \$7.6 million hole in its \$56 million general fund budget.⁵⁰

Modoc County, California: Modoc County hired a bankruptcy attorney, as well as asked for a \$12.5 million loan from the state of California. For more than a decade, Modoc County had been funding its hospital using money intended for other purposes, such as education and transportation projects. An audit in 2009 by the state controller's office determined that the county was violating state law by shifting dollars away from their intended purpose, prompting the county's current financial crisis.⁵¹

Update: On August 31, voters in Modoc County were able to avoid bankruptcy by approving a \$195-a-year parcel tax in order to fund the county's hospital. The new parcel tax is set to generate \$3.1 million a year for the hospital.⁵²

Monterey, California: The City of Monterey faced a \$3.6 million deficit for the 2010-2011 fiscal year.⁵³

Monterey County, California: In May 2010, the Monterey County Board of Supervisors approved 43 layoff notices. The county has also considered additional layoffs to help eliminate a \$21.9 million deficit in its 2010-2011 fiscal year budget.⁵⁴

⁴⁹ Phillip Reese, *Pension Promises Threaten California Cities, Counties*, (April 11, 2010), available at http://krvr.org/index.php?option=com_joomlaboard&Itemid=26&func=view&catid=22&id=17405.

⁵⁰ Glenda Anderson, *Mendocino County starts cutting jobs to shrink budget deficit*, (April 6, 2010), available at <http://www.pressdemocrat.com/article/20100406/ARTICLES/100409691>.

⁵¹ *Calif. Considers Loan For Troubled Modoc County*, (July 22, 2010), available at <http://cbs13.com/local/modoc.county.schwarzenegger.2.1820435.html>.

⁵² *Hospital Tax Approved in Modoc County; Bankruptcy Averted?* (September 7, 2010), available at http://californiacitynews.typepad.com/california_county_news/2010/09/hospital-tax-approved-in-modoc-county-bankruptcy-averted-.html.

⁵³ *Balancing the City Budget*, (May 2010), available at <http://www.monterey.org/focus/>.

Mountain View, California: There was a projected \$5 million structural deficit in the City of Mountain View's General Operating Fund for the 2010-2011 fiscal year.⁵⁵

Nevada County, California: Due to declining property tax revenues, Nevada County could be facing a budget gap of as much as \$5.5 million for the 2011-2012 fiscal year.⁵⁶

Newark, California: Over the last three years, Newark has cut its budget \$8.1 million and reduced its personnel by 29%, or 90 positions. However, the city continues to operate with a budget deficit.⁵⁷

Oakland, California: In 2010, the Oakland City Council voted to cut \$15.3 million from the city's budget. The council also laid off 80 police officers in an attempt to close the city's \$30.5 million budget gap.⁵⁸

Ojai, California: In May 2010, Ojai City Manager Jere Kersnar presented his 2010-2011 proposed budget, as well as the final revised 2009-2010 budget, to the city council. Kersnar and his staff were able to bring the budget down to a \$116,780 deficit. The city is facing financial difficulties as a result of lower tax revenue.⁵⁹

Orange County, California: Orange County, California, which suffered the biggest municipal bankruptcy in U.S. history, may borrow as much as \$320 million from itself to pay pension costs as its expenses for retiree benefits balloon. The plan is to sell taxable pension-obligation notes maturing in about 16 months to the Orange County Investment Pool. The

⁵⁴ Mike Hornick, *Monterey County Board of Supervisors approves 43 layoff notices*, (May 5, 2010), available at <http://www.thecalifornian.com/article/20100505/NEWS01/5050313/1002/Monterey-County-Board-of-Supervisors-approves-43-layoff-notices>.

⁵⁵ Kevin C. Duggan, *City of Mountain View California Fiscal Year 2010-2011 Budget Workshop*, (April 6, 2010), available at <http://www.ci.mtnview.ca.us/civica/filebank/blobdload.asp?BlobID=6843>.

⁵⁶ Kyle Magin, *Budget bomb: Nevada County could be \$5.5M in the hole next year*, (October 27, 2010), available at <http://www.theunion.com/article/20101027/NEWS/101029782/1001&parentprofile=1053>.

⁵⁷ *2010 State of the City Address*, (April 15, 2010), available at <http://www.newark.org/departments/city-of-newark/2010-state-of-city-address/>.

⁵⁸ *2010 in Oakland: The year's biggest stories*, (January 30, 2011), available at <http://oaklandnorth.net/2010/12/30/2010-in-oakland-the-years-biggest-stories/>.

⁵⁹ Misy Volaski, *Ojai Ponders Proposed 2010-2011 Budget*, (May 28, 2010), available at <http://ovnblog.com/?p=2889>.

proceeds would allow the county to make its annual pension fund payment ahead of schedule, qualifying for a discount of as much as 7.75 percent.⁶⁰

Palo Alto, California: In 2010, Palo Alto faced an approximate \$8.3 million budget gap that had increased from previous estimates of \$6.4 million. The increase was primarily due to a decrease in city tax revenue.⁶¹

Pasadena, California: City officials in Pasadena anticipated running a \$5.7 million deficit for the 2010-2011 fiscal year, making it the second year that the city would run a sizeable deficit. The city has not laid off any employees, but has eliminated 91 positions which were vacated when people left or retired. Additionally, there are nearly 200 jobs being left vacant until the city's financial position improves.⁶²

Placer County, California: Placer County had a 2010 budget deficit of \$24 million.⁶³

Redwood, California: As Redwood prepares its fiscal year 2011-2012 budget, city staff and the city council must deal with an estimated \$6.4 million deficit.⁶⁴

Redlands, California: Redland's City Manager Enrique Martinez wanted every city department to cut its budget by at least 12 percent for the 2010-2011 fiscal year to make up for the sizable budget deficit. The city faced a shortfall of nearly \$8.9 million for the 2010-2011 fiscal year.⁶⁵

⁶⁰ Michael B. Marois, *Orange County Considers \$320 Million Pension-Note Sale to Itself*, (January 27, 2011), available at <http://www.bloomberg.com/news/2011-01-28/once-bankrupt-orange-county-considers-320-million-note-sale-to-itself.html>.

⁶¹ *City of Palo Alto City Manager's Report*, (April 12, 2010), available at <http://www.cityofpaloalto.org/civica/filebank/blobdload.asp?BlobID=19701>.

⁶² City officials also plan to put a freeze on all salary increases for the next year. Dan Abendschein, *Pasadena projected to run another budget deficit next year; city loses \$10.8M to state*, (May 10, 2010), available at http://www.pasadenastarnews.com/ci_15058675.

⁶³ Phillip Reese, *Huge deficits stifle local cities, counties*, (May 27, 2010), available at <http://www.sacbee.com/2010/05/25/2776211/interactive-huge-deficits-stifle.html>.

⁶⁴ *Redwood City Faces Budget Deficit, Focuses on Providing Critical Services to the Community as "Job #1"*, (May 5, 2010), available at http://www.ci.redwood-city.ca.us/manager/news/2010/pr_mgr_budget1.html.

⁶⁵ Jesse B. Gill, *City faces \$8.9 million budget deficit*, (May 25, 2010), available at http://www.sbsun.com/news/ci_15161392#ixzz0pYZ2pBzB, N. Enrique Martinez, *City manager addresses Redlands'*

(continued...)

Riverside County, California: Riverside County is facing a projected 46.7 million budget gap and County Supervisors have committed themselves to cutting spending in order to reduce the gap.⁶⁶

Rocklin, California: Although it operated with no budget deficit in 2009-2010, the City of Rocklin was faced with laying off eleven city employees in order to balance its 2010-2011 fiscal year budget.⁶⁷

Rohnert Park, California: Over the past two years the City of Rohnert Park has had to make nearly \$6 million in budget cuts. However, due to the Sacramento money grabs and the recession, the city still faces a \$6 million deficit annually.⁶⁸

Roseville, California: In Roseville, officials cut 150 of 1,150 staff positions during fiscal 2010, which is more than 10 percent of the city's work force. Additionally, the city faces \$111 million in unfunded pension liabilities. Currently, the city will be able to cover just 75 percent of its future pension expenses.⁶⁹

Sacramento, California: In Sacramento, general fund revenues declined by \$15 million, resulting in the elimination of funding for 387 positions. As of May 2010, the city was forecasted to have a \$30 million deficit for the 2010-2011 fiscal year.⁷⁰

budget issues, (March 23, 2010), available at http://www.pe.com/localnews/politics/stories/PE_News_Local_W_nmartinez_24.2063070.html.

⁶⁶ Duane W. Gang, *RIVERSIDE COUNTY: Supervisors grapple with \$46.7 million gap*, (November 9, 2010), available at http://www.pe.com/localnews/stories/PE_News_Local_D_budget10.44d59f6.html.

⁶⁷ Phillip Reese, *Huge deficits stifle local cities, counties*, (May 27, 2010), available at <http://www.sacbee.com/2010/05/25/2776211/interactive-huge-deficits-stifle.html>.

⁶⁸ *Frequently Asked Questions about Measure "E,"* (May 10, 2010), available at <http://www.ci.rohnert-park.ca.us/index.aspx?page=629>.

⁶⁹ Phillip Reese, *Pension Promises Threaten California Cities, Counties*, (April 11, 2010), available at http://krvr.org/index.php?option=com_joomlaboard&Itemid=26&func=view&catid=22&id=17405.

⁷⁰ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf, Kathleen Haley, *City predicts \$30 million deficit for 2010/2011*, (May 19, 2009), available at http://www.sacramentopress.com/headline/7858/City_predicts_30_million_deficit_for_20102011.

Sacramento County, California: In May 2010, top finance officers for Sacramento County projected a worse-than-expected budget shortfall of \$181 million, which could force more than 1,000 layoffs from the county's payroll.⁷¹

Salinas, California: The City of Salinas faced a \$12.3 million budget deficit for the 2010-2011 fiscal year.⁷²

San Diego, California: In January 2010, the San Diego City Council plugged a \$179 million budget gap. However, tax revenue declines and a larger than expected annual pension payment opened a new gap of \$25 million to \$35 million in the 2010 budget.⁷³ In June, the Grand Jury of San Diego issued a report recommending that the Mayor of the City of San Diego and the San Diego City Council convene a panel of bankruptcy experts to discuss the legal and financial ramifications of a Chapter 9 declaration of bankruptcy.⁷⁴

Santa Clara, California: The budget gap for the City of Santa Clara was estimated to be more than \$20 million for the 2010-2011 fiscal year.⁷⁵

Santa Clara, County: Santa Clara County faced a \$223 million general fund budget deficit for the 2010-2011 fiscal year.⁷⁶

Santa Cruz County, California: In January 2010, the county's top executive, Susan Mauriello, identified a \$12.9 million deficit that the county needed to close over the next 18 months.⁷⁷

⁷¹ Jim Christie, *Bankruptcy talk spreads among Calif. muni officials, Two years after Vallejo, California, filed for bankruptcy protection, officials in nearby Antioch are also tossing around the 'B' word*, (May 27, 2010), available at <http://www.reuters.com/article/idUSTRE64Q6CQ20100527>.

⁷² *Salinas City Council Discusses Budget Deficit*, (May 19, 2010), available at <http://www.youtube.com/watch?v=xd9ZVNhVH9k>.

⁷³ Craig Gustafson, *San Diego faces another \$25 million in cuts*, (March 15, 2010), available at <http://www.signonsandiego.com/news/2010/mar/15/city-hit-with-new-budget-deficit/>.

⁷⁴ Natalie Cohen, *San Diego City's Financial Crisis: The Past, Present and Future*, (June 10, 2010), available at <http://www.thepublicpurse.com/2010/06/09/san-diego-city%E2%80%99s-financial-crisis-the-past-present-and-future/>.

⁷⁵ *Budget Update*, (May 26, 2010), available at <http://santaclaraca.gov/index.aspx?page=50&recordid=560>.

⁷⁶ Tracy Seipel, *Santa Clara County unveils plan to bridge \$200M+ deficit*, (May 3, 2010), available at http://www.mercurynews.com/bay-area-news/ci_15011517?nclink_check=1.

San Luis Obispo County, California: Despite a hiring freeze, consolidating jobs, encouraging early retirement and scaling back capital projects, San Luis Obispo County still had a 2010-2011 projected budget deficit of \$19 million and an annual pension bill that ate 11.2 percent of the total budget.⁷⁸

Santa Rosa, California: In 2010, Santa Rosa's City Council took steps to overcome a projected \$16.2 million deficit by reducing jobs, programs and services. The city council also proposed \$6.9 million in budget cuts to reduce the city deficit by an additional \$1 million.⁷⁹

Update: Santa Rosa's pension task force has revealed that the city has underfunded its pension fund by nearly \$100 million.⁸⁰

San Mateo County, California: San Mateo County's ongoing budget deficit will hit \$82 million during the 2010-2011 fiscal year, not counting backfilling state cuts, replacing the women's jail and future salary hikes. Taken together, the structural deficit will be well over \$100 million by fiscal year 2015. The Board of Supervisors is attempting to combat this deficit by decreasing expenditures by \$50 million, cutting 433 positions, labor negotiations and using approximately \$200 million in reserves.⁸¹

Santa Maria, California: City staff in Santa Maria anticipates budget deficits of historic proportions for both the 2010-2011 and 2011-2012 fiscal years according to City Manager Tim Ness. Projections forecasted an \$8 million deficit for 2010-2011 and a \$7.8 million shortfall in 2011-2012.⁸²

⁷⁷ Kurtis Alexander, *County sounds alarm about another year of mass cuts to welfare, police, transportation*, (January 13, 2010), available at http://www.santacruzsentinel.com/localnews/ci_14177820.

⁷⁸ *Council wrestles with 2010-11 Budget Deficit*, (May 24, 2010), available at <http://letsfixlosal.com/blog/council-wrestles-with-2010-11-budget-deficit/>.

⁷⁹ Ted Appel, *Budget Cuts Coming Sooner to Santa Rosa*, (March 14, 2010), available at <http://www.watchsonomacounty.com/2010/03/featured-articles/budget-cuts-coming-sooner-to-santa-rosa/>.

⁸⁰ Kevin McCallum, *Santa Rosa grapples with \$100 million pension shortage*, (January 26, 2011), available at <http://www.pressdemocrat.com/article/20110126/ARTICLES/110129644/1350>.

⁸¹ Michelle Durand, *County deficit to hit \$82M*, (January 25, 2011), available at [http://www.smdailyjournal.com/article_preview.php?id=151121&title=County%20deficit%20to%20hit%20\\$82M](http://www.smdailyjournal.com/article_preview.php?id=151121&title=County%20deficit%20to%20hit%20$82M).

⁸² Julian J. Ramos, *Santa Maria City Council discuss budget deficit*, (March 17, 2010), available at http://www.santamariatimes.com/news/local/govt-and-politics/article_cadfe238-3191-11df-875a-001cc4c002e0.html.

San Francisco, California: San Francisco has a projected \$380 million deficit in its \$6.6 billion budget.⁸³

San Jose, California: The City of San Jose has projected a \$112 million deficit in its general fund operating budget for the 2011-2012 fiscal year. In December, the city added an additional \$90 million onto its projected deficit, increasing the projected total to \$112 million, as a result of increases in retirement fund contributions.⁸⁴

Siskiyou County, California: In an effort to close a \$3.7 million budget gap, Siskiyou County Board of Supervisors is considering closing the county's libraries. The move would save the county about \$712,000 and mean laying off 10 people.⁸⁵

South El Monte, California: South El Monte faced a \$414,000 shortfall between predicted revenues and expenditures for the 2010-2011 budget year. Additionally, its reserves have plummeted from \$1.7 million two years ago to \$317,000.⁸⁶

Sonoma County, California: Sonoma County is facing a 2011-2012 budget deficit of \$42.3 million. The County Board of Supervisors is considering preliminary proposals to cut county spending at all departments by 25 percent and reduce the 3,700-member workforce by as many as 500 positions.⁸⁷

Stanislaus County, California: Stanislaus County was facing a \$23.5 million general fund budget deficit for the 2010-2011 fiscal year. Additionally, the county's pension fund obligations for 2010-2011 are nearly double this amount. A audit in Stanislaus County found that its former actuarial firm had made mistakes in predicting how many employees would draw pension benefits. The actuary assumed that more employees would opt for retirement cash outs,

⁸³ Heather Ishimaru, *Newsom reviews SF budget deficit*, (December 1, 2010), available at http://abclocal.go.com/kgof/story?section=news/local/san_francisco&id=7819866.

⁸⁴ *Projected \$112 Million Deficit for 2011-2012, Another Year of Tough Choices Ahead*, (December 2010), available at <http://www.sjdistrict1.com/newsletter/NewsletterArticles/2010-December-Budget.pdf>.

⁸⁵ Damon Arthur, *Siskiyou County could close libraries*, (May 27, 2010), available at <http://www.redding.com/news/2010/may/27/siskiyou-could-close-libraries/>.

⁸⁶ Rebecca Kimitch, *South El Monte faces \$414,000 budget deficit*, (May 20, 2010), available at http://www.sgvtribune.com/ci_15128614?IADID=Search-www.sgvtribune.com-www.sgvtribune.com#ixzzOpZyH8WuM.

⁸⁷ Brett Wilkison, *Sonoma County budget: 'From bad, to worse to devastating.'* (January 25, 2011), available at <http://www.pressdemocrat.com/article/20110125/ARTICLES/110129673/1350?Title=Sonoma-County-budget-8216-From-bad-to-worse-to-devastating-&tc=ar>.

which are cheaper to fund, instead of monthly benefits. Based largely on those predictions, the county seriously underfunded its plan.⁸⁸

Stockton, California: In May 2010, the City of Stockton issued layoff notices and ordered service reductions citywide to reduce its own budget deficit, which was expected to reach \$31 million by June 2010.⁸⁹

Sutter County, California: Sutter County had a 2010 budget deficit of \$4 million.⁹⁰

Tracy, California: In 2010, the City of Tracy faced a budget deficit of roughly \$8 million.⁹¹

Tulare County, California: For the 2010-2011 fiscal year, Tulare County was facing a \$6.1 million budget deficit and the Board of Supervisors requested that 8 percent cuts in nonpublic services and 4 percent cuts in public services be made.⁹²

Turlock, California: The City of Turlock faced a 2010-2011 budget deficit of \$4.3 million.⁹³

Vallejo, California: During its bankruptcy proceeding, Vallejo has spent an estimated \$9.4 million on attorneys, including creditors' and retired employees' attorneys, and consultant fees. That cost has been balanced by a rough estimate of \$34 million savings in the first two years of the Chapter 9 filing. Savings were earned through contract rearrangements, employee flight, salary raise elimination, decreased debt repayment, fire station closures, and reductions to

⁸⁸ Phillip Reese, *Pension Promises Threaten California Cities, Counties*, (April 11, 2010), available at http://krvr.org/index.php?option=com_joomlaboard &Itemid=26&func=view&catid=22&id=17405.

⁸⁹ *State's budget shortfall about to hit close to home*, (May 21, 2009), available at http://www.recordnet.com/apps/pbcs.dll/article?AID=/20090521/A_NEWS/905210329/-1/A_NEWS03.

⁹⁰ Phillip Reese, *Huge deficits stifle local cities, counties*, (May 27, 2010), available at <http://www.sacbee.com/2010/05/25/2776211/interactive-huge-deficits-stifle.html>.

⁹¹ *Taxes, fees on council agenda*, (May 30, 2010), available at http://www.tracypress.com/view/full_story/7756276/article-Taxes--fees-on-council-agenda?instance=home_news_lead_story.

⁹² *Supervisor Pete Vander Poel: Tulare County doing better than most*, (May 27, 2010), available at <http://www.visaliatimesdelt.com/article/20100527/NEWS01/5270318>.

⁹³ Alex Cantatore, *City budget proposal to come before council*, (May 28, 2010), available at <http://www.turlockjournal.com/news/article/4270/>.

retiree benefits, among other cutbacks. The city was facing a deficit projected at nearly \$14 million in early 2008.⁹⁴

Update: In January 2011, the City of Vallejo filed its plan of adjustment with the goal of exiting bankruptcy during the summer. Under the plan, general unsecured creditors (including union workers on account of rejected bargaining agreements, retirees on account of reduced health care benefits, and plaintiffs alleging tort and contract claims), would be paid an estimated 5 to 20 percent of their allowed claims from a fund of \$6 million. It also incorporates agreements with lease creditors owed in excess of \$50 million, reamortizing the terms of the leases, and, in some cases, reducing interest obligations. The plan does not impair the City's pension obligations to CalPERS or City retirees. U.S. Bankruptcy Judge Michael S. McManus will conduct a hearing on the adequacy of the disclosure statement on March 7th.⁹⁵

Walnut Creek, California: The City of Walnut Creek faced a \$20 million 2010-2011 budget deficit, which is about 16% of its total current budget. Additionally, property tax and sales tax revenue have dramatically decreased. Sales tax was projected to fall 11 percent during the 2009-2010 fiscal year to \$15.5 million, and another 3 percent in 2010-2011 to \$15 million.⁹⁶

West Covina, California: West Covina faced a \$3.7 million 2010-2011 deficit after the city council agreed to cut \$5 million from the city's \$57.4 million general operating budget. West Covina has lost 14 percent, \$1.7 million, in sales tax revenue. A declining trend which started in 2007 and has continued through the economic recession, according to sales tax data.⁹⁷

Woodland, California: The City of Woodland had a 2010 budget deficit of \$5.8 million.⁹⁸

Yolo County, California: Yolo County had a 2010 budget deficit of \$25 million.⁹⁹

⁹⁴ Jessica York, *Going broke has high price tag, Vallejo learns*, (October 10, 2010), available at http://www.timesheraldonline.com/news/ci_16302741.

⁹⁵ Interview with Marc Levinson, Vallejo's Bankruptcy Attorney, (Feb. 3, 2011).

⁹⁶ Elisabeth Nardi, *Proposed Walnut Creek budget: Layoffs, fee hikes, program cuts*, (May 1, 2010), available at http://www.contracostatimes.com/news/ci_14995929.

⁹⁷ Maria Ines Zamudio, *Decreasing sales tax fuels West Covina's budget deficit, but the decline is slowing*, (May 29, 2010), available at http://www.sgtribune.com/ci_15189038#ixzz0paCCwXBn.

⁹⁸ Phillip Reese, *Huge deficits stifle local cities, counties*, (May 27, 2010), available at <http://www.sacbee.com/2010/05/25/2776211/interactive-huge-deficits-stifle.html>.

⁹⁹ *Id.*

Yuba, California: The City of Yuba had a 2010 budget deficit of \$2.5 million.¹⁰⁰

Yuba County, California: Yuba County faces a deficit of more than \$4 million in its general fund budget for the 2011-2012 fiscal year.¹⁰¹

F. Cities Outside of California Facing Financial Distress

Akron, Ohio: The City of Akron had a 2010 budget shortfall of \$12 million.¹⁰²

Albany, New York: For the 2010-2011 fiscal year, the budget for city operations in Albany is \$163,000,000 with an original deficit of \$20,000,000. The deficit represents 12% of the city's total budget. In order to close the budget gap, the city plans to lay off city employees and firefighters.¹⁰³

Albuquerque, New Mexico: For the 2010-2011 budget year, city officials have identified \$54 million more in expenses than revenue projections support.¹⁰⁴

Augusta, Maine: Augusta faced a mid-year 2010 budget shortfall and a decreased budget for the 2011 fiscal year. This has resulted in layoffs, reduction in city services and decreases in overtime for police and fire personnel.¹⁰⁵

¹⁰⁰ *Id.*

¹⁰¹ *Yuba County looking at \$4 million budget deficit*, (January 16, 2011), available at <http://www.appeal-democrat.com/news/county-103197-budget-deficit.html>.

¹⁰² Robert Vitale, *Cities confront budget deficits*, (December 28, 2009), available at http://www.dispatchpolitics.com/live/content/local_news/stories/2009/12/28/copy/city_taxes.ART_ART_12-28-09_A1_MOG4078.html?sid=101.

¹⁰³ *City of Buffalo, Fiscal Year 2010-2011 Budget Overview*, (May 2010), available at http://www.ci.buffalo.ny.us/files/1_2_1/Mayor/2010-2011RecBudget/2010-11_Budget_Overview.pdf.

¹⁰⁴ Marjorie Childress, *State budget plan worsens ABQ budget deficit*, (March 5, 2010), available at <http://newmexicoindependent.com/49171/state-budget-plan-worsens-abq-budget-deficit>.

¹⁰⁵ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf.

Baltimore, Maryland: Baltimore faced a \$127 million budget shortfall. The city has already eliminated more than 500 employees and will likely have to implement additional layoffs and furloughs days.¹⁰⁶

Bellevue, Washington: For the 2011-2012 fiscal year, the City of Bellevue is facing a projected budget deficit of more than \$750,000. The capital budget is also expected to reach a deficit of \$96 million from 2011-2017. The city has already instituted a hiring freeze on non-critical positions and has cut expenses in all departments to cope with the shortfall for the current budget.¹⁰⁷

Bossier City, Louisiana: Bossier City had a \$6.5 million deficit in the city's 2010 \$50.3 million budget. This deficit resulted in the proposed elimination of 117 out of 897 city positions, including 80 police officer and fire positions.¹⁰⁸

Boston, Massachusetts: The City of Boston had a 2010 \$130 million budget shortfall, which resulted in layoffs of more than 500 municipal employees.¹⁰⁹

Buffalo, New York: For the 2010-2011 fiscal year the budget for city operations in Buffalo is \$461,000,000 with an original deficit of \$24,000,000. The deficit represents 5% of the city's total budget. In order to close the gap, the city plans a work force reduction of 49 positions and an elimination of several city services.¹¹⁰

Central Falls, Rhode Island: Central Falls has an annual operating budget of about \$18 million. The city's deficit for the fiscal year which ended June 30 was more than \$3 million, or

¹⁰⁶ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf.

¹⁰⁷ Nicole Tsong, *Bellevue faces shortfall for 2011-12 budget*, (February 12, 2010), available at [http://seattletimes.nwsources.com/html/bellevueblog/2011059639_bellevuefaces shortfallfor201112budget.html](http://seattletimes.nwsources.com/html/bellevueblog/2011059639_bellevuefaces%20shortfallfor201112budget.html).

¹⁰⁸ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf.

¹⁰⁹ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf.

¹¹⁰ *City of Buffalo, Fiscal Year 2010-2011 Budget Overview*, (May 2010), available at http://www.ci.buffalo.ny.us/files/1_2_1/Mayor/2010-2011RecBudget/2010-11_Budget_Overview.pdf.

nearly 17 percent of its total budget. The shortfall for the 2010-2011 fiscal year is forecast to be more than \$5 million, or 28 percent of the total budget.

In May, Rhode Island Superior Court Justice Michael A. Silverstein placed Central Falls into a receivership. However, the mayor of Central Falls and four city council members have since filed suit claiming that the law which put the city under the control of a state-appointed receiver is unconstitutional.¹¹¹

Update: In October 2010, the Superior Court upheld the constitutionality of the law permitting a receiver to take over the powers of government in Central Falls. Superior Court Justice Michael A. Silverstein issued the ruling, saying that the receivership law passed earlier in the year "does not have a permanent effect on a municipality's form of government." The attorney who represented Central Falls, plans to appeal the ruling.¹¹²

Chicago, Illinois: The City of Chicago faced a 2010-2011 budget deficit of \$520,000,000. This deficit would have been much higher if the mayor had not pocketed \$1.15 billion for the city in 2009 for privatizing parking meters. However, most of this windfall payment will be used up within the next several years. The city's major has also ordered a general hiring and spending freeze.¹¹³

Cincinnati, Ohio: Cincinnati faced a \$51 million 2010 projected budget shortfall of its \$322 million general fund.¹¹⁴

¹¹¹ Ted Nesi, *Bankrupt Central Falls gets receiver*, (May 19, 2010), available at <http://www.pbn.com/Bankrupt-Central-Falls-gets-receiver,49958>, *Central Falls mayor challenges receiver in court*, (September 29, 2010), available at http://www.boston.com/news/local/rhode_island/articles/2010/09/29/central_falls_mayor_challenges_receiver_in_court/?rss_id=Boston.com+--+Rhode+Island+news.

¹¹² Thomas J. Morgan, *Update: Court upholds Central Falls receivership law*, (October 18, 2010), available at <http://newsblog.projo.com/2010/10/court-upholds-central-falls-re.html>.

¹¹¹ Gus Lubin, *15 Mayors Who Must Shred The Budget To Save Their Bankrupt Cities*, (April 12, 2010), available at <http://www.businessinsider.com/americas-most-bankrupt-cities-2010-4#mayor-paul-frain-norfolk-2#ixzz0pkEYaqb5>.

¹¹² Robert Vitale, *Cities confront budget deficits*, (December 28, 2009), available at http://www.dispatchpolitics.com/live/content/local_news/stories/2009/12/28/copy/city_taxes.ART_ART_12-28-09_A1_MOG4078.html?sid=101.

¹¹³ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf.

Cleveland, Ohio: Cleveland had a 2010 \$23 million budget shortfall and the city has estimated that for every \$1 million roughly 20 general city employees or 12 police and firefighters will need to be laid off.¹¹⁵

Columbia, Missouri: The City of Columbia had a \$4 million budget shortfall in 2010, which was covered through cutbacks in personnel and city programs.¹¹⁶

Dallas, Texas: Dallas faced a \$190 million budget shortfall for the 2010-2011 fiscal year. The city planned to eliminate 637 full-time positions, which included 347 layoffs and cuts to street repairs, libraries and senior services.¹¹⁷

Dayton, Ohio: The City of Dayton faced a \$20 million 2010-2011 projected budget shortfall of the city's \$152.8 million general fund budget.¹¹⁸

Denver, Colorado: Denver faced a \$120 million 2010-2011 budget shortfall which has resulted in the layoffs of 80 positions and early retirement of 322 city workers.¹¹⁹

Detroit, Michigan: To make up for a 2010 budget shortfall of \$280 million, Detroit issued \$250 million of 20-year municipal notes in March. The issuance followed on the heels of a warning from city officials that if its financial state did not improve, the city could be forced to declare bankruptcy. Nonetheless, demand for the bonds was high due to a guarantee that the state would make the payments if the city became insolvent.¹²⁰

¹¹⁶ *Id.*

¹¹⁷ *Id.*

¹¹⁸ Robert Vitale, *Cities confront budget deficits*, (December 28, 2009), available at http://www.dispatchpolitics.com/live/content/local_news/stories/2009/12/28/copy/city_taxes.ART_ART_12-28-09_A1_MOG4078.html?sid=101.

¹¹⁹ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf.

¹²⁰ Sara Behunek, *Three American cities on the brink of broke*, (May 28, 2010), available at http://money.cnn.com/2010/05/28/news/economy/american_cities_broke.fortune/index.htm.

Update: The city recently had its municipal bonds downgraded below investment grade.¹²¹

Dunmore, Pennsylvania: Dunmore is mired in about \$14.5 million in long-term debt and faces roughly \$550,000 in 2011 expenditure increases. City Council President Timothy Burke has confirmed that the council is seriously looking into distressed or bankrupt status and has instructed solicitor Thomas Cummings to contact the state Department of Community and Economic Development.¹²²

East Lansing, Michigan: Due to state revenue sharing reductions combined with a decline in property tax revenue, the City of East Lansing has been left with a two-year, \$5 million budget deficit. In 2010, the city reduced the shortfall by about \$2 million with the use of voluntary furlough days, eliminating positions and various reductions.¹²³

East Providence, Rhode Island: The City of East Providence has had to reduced city positions by 55, including 16 reductions in the police department and 28 reductions in the fire department in order to deal with city budget shortfalls.¹²⁴

Grand Rapids, Michigan: City officials have had add another \$3.7 million in debt to the cities already \$17 million deficit due to police and firefighter pension costs.¹²⁵

Harrisburg, Pennsylvania: The Harrisburg Authority owes \$288 million in debt due to a failed 2004 retrofit of its trash burning facility. The Authority owed \$68 million in bond interest payments in 2010 alone, which is approximately \$3 million more than its entire annual budget. Harrisburg narrowly avoided default on a \$3.3 million bond payment in September, when Pennsylvania governor, Ed Rendell, pledged to resolve the problem with \$4.4 million from

¹²¹ Hibah Yousuf, *America's 7 junkiest cities*, (June 1, 2010), available at http://money.cnn.com/2010/06/01/news/economy/junkiest_cities/.

¹²² Megan Reiter, *Distressed status wouldn't be easy for Dunmore*, (May 30, 2010), available at <http://thetimes-tribune.com/distressed-status-wouldn-t-be-easy-for-dunmore-1.821884?localLinksEnabled=false>.

¹²³ Pat Evans, *E.L. residents, city officials discuss 2011 budget, cuts*, (April 28, 2010), available at http://www.statenews.com/index.php/article/2010/04/el_residents_city_officials_discuss_2011_budget_cuts.

¹²⁴ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at [http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/Budget Short Falls_FINAL.pdf](http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/Budget%20Short%20Falls_FINAL.pdf).

¹²⁵ Monica Scott, *Pension costs swell Grand Rapids city budget deficit*, (April 15, 2010), available at http://www.mlive.com/news/grandrapids/index.ssf/2010/04/pension_costs_balloon_grand_ra.html.

the state. Since then, Mayor Linda Thompson has applied for state protection under the commonwealth's Act 47 program for distressed municipalities.¹²⁶

Update: Harrisburg was granted Act 47 status in December 2010. The state Department of Community and Economic Development announced that the Novak Consulting Group would lead the team designated to develop a plan to pull the city out of its budgetary crisis.¹²⁷

Harvey, Illinois: The city recently had its municipal bonds downgraded below investment grade.¹²⁸

Littlefield, Texas: The city recently had its municipal bonds downgraded below investment grade.¹²⁹

Honolulu, Hawaii: The City of Honolulu had a projected deficit for the 2010-2011 fiscal year of \$140,000,000. In April, Mayor Mufi Hannemann proposed a budget which included a controversial rental tax hike as well as overall tax increases and spending decreases across the board, with two-day-a-month furloughs for government workers.¹³⁰

Greensboro, Alabama: Greensboro had a projected budget deficit of \$11.2 million for the 2010-2011 fiscal year. The city is also facing debt payments for \$96 million worth of bond projects.¹³¹

¹²⁶ Dunstan McNichol, *State aid advance helps Pennsylvania city avoid debt default*, (September 12, 2010), available at <http://www.washingtonpost.com/wp-dyn/content/article/2010/09/12/AR2010091204315.html>, Eric Veronikis, *Harrisburg applies for Act 47 protection*, (October 1, 2010), available at <http://www.centralpennbusiness.com/component/content/article/35-breaking-news/84021-harrisburg-applies-for-act-47-protection>.

¹²⁷ *Harrisburg gets Act 47 team*, (January 12, 2011), available at <http://www.whptv.com/news/local/story/Harrisburg-gets-Act-47-team/c1c0bGy3IU6nrVxnyqIHOG.csp>.

¹²⁸ Hibah Yousuf, *America's 7 junkiest cities*, (June 1, 2010), available at http://money.cnn.com/2010/06/01/news/economy/junkiest_cities/.

¹²⁹ *Id.*

¹³⁰ Gus Lubin, *15 Mayors Who Must Shred The Budget To Save Their Bankrupt Cities*, (April 12, 2010), available at <http://www.businessinsider.com/americas-most-bankrupt-cities-2010-4#mayor-paul-frain-norfolk-2#ixzz0pkEYaqb5>.

¹³¹ Amanda Lehmert, *City faces \$11.2 million budget deficit*, (January 27, 2010), available at http://www.news-record.com/content/2010/01/26/article/city_faces_112_million_budget_deficit.

Jackson, Michigan: In Jackson, city officials asked municipal workers to take pay cuts in order to help close a \$900,000 budget deficit.¹³²

Jefferson County, Alabama: Jefferson County, with some 665,000 residents, is shouldering about \$5 billion of debt, most of which was issued to overhaul the county's sewer system in the mid-1990s. The county's major problems however, stem from a 2003 refinancing of the original fixed-rate bonds and a corrupt local government which accepted kickbacks in exchange for mangling the county's portfolio.¹³³

Update: Officials from Jefferson County, Alabama are meeting with representatives from PricewaterhouseCoopers and Alvarez & Marsal, the first step in the county's nationwide search to hire financial turnaround firm.¹³⁴

Jersey City, New Jersey: Jersey City laid off 278 employees to combat a budget deficit in the millions. The layoffs included 240 seasonal workers, 36 provisional employees and 2 unclassified employees. These layoffs are projected to save Jersey City \$1.3 million in 2010 and \$4.3 million in 2011.¹³⁵

Las Vegas, Nevada: The City of Las Vegas had a projected 2010-2011 deficit of \$79,700,000. The mayor planned to take \$53 million from a rainy day fund, which would leave the fund at ten percent full. According to the City Manager Betsy Fretwell, the depleted reserves would give the city about five weeks of cash flow in case of an emergency.¹³⁶

¹³² Matthew Leiphon, *Municipal Budget Mess*, (January 15, 2010), available at <http://www.newgeography.com/content/001342-municipal-budget-mess>.

¹³³ Sara Behunek, *Three American cities on the brink of broke*, (May 28, 2010), available at http://money.cnn.com/2010/05/28/news/economy/american_cities_broke.fortune/index.htm.

¹³⁴ Kelly Nolan, *Jefferson County, Ala., Looks To Hire Financial Turnaround Firm*, (January 27, 2011), available at <http://www.automatedtrader.net/real-time-dow-jones/43356/jefferson-county--ala--looks-to-hire-financial-turnaround-firm>.

¹³⁵ *Jersey City Cuts 278 Jobs*, (February 12, 2010), available at <http://www.employmentspectator.com/2010/02/jersey-city-cuts-278-jobs/>.

¹³⁶ Gus Lubin, *15 Mayors Who Must Shred The Budget To Save Their Bankrupt Cities*, (April 12, 2010), available at <http://www.businessinsider.com/americas-most-bankrupt-cities-2010-4#mayor-paul-frain-norfolk-2#ixzz0pkEYaQb5>, Alan Choate, *Larger than expected city budget deficit raises prospect of more layoffs, service cuts*, (May 3, 2010), available at <http://www.lvrj.com/news/larger-than-expected-city-budget-deficit-raises-prospect-of-more-layoffs--service-cuts-92730509.html>.

Little Rock, Arkansas: The City of Little Rock had a \$2.8 million budget shortfall in 2010, which resulted in a \$200,000 cut in police services and a \$450,000 cut in fire services.¹³⁷

Miami, Florida: Miami is considering filing for Chapter 9 bankruptcy due to increases in public safety workers salaries and employee pension payouts.¹³⁸

Update: Miami's city council recently used emergency powers to slash city salaries and pensions and is now instituting hefty traffic fines and garbage fees.¹³⁹

Monroe, North Carolina: The City of Monroe had a budget deficit of \$3.07 million for the 2009-2010 fiscal year and anticipated the deficit to be near \$4.9 million for the 2010-2011 fiscal year. The city proposed a property tax increase to help reduce the deficit.¹⁴⁰

Norfolk, Virginia: Norfolk's deficit through 2011 is \$26,000,000. City Manager Regina Williams has been able to whittle down the deficit from \$46 million. However, city departments have dismissed her request for 20% budget reductions and schools continue to request budget increases.¹⁴¹

New York, New York: New York City's projected budget deficit for fiscal 2012 may widen by \$2 billion, to \$4.5 billion, because cuts in state aid may be greater than forecasted. Additionally, Mayor Michael Bloomberg's proposal to cut the city workforce by 10,000 as part of a plan to save \$1.6 billion during the next 18 months may not be enough to close the gap.¹⁴²

¹³⁷ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf.

¹³⁸ *Miami Budget Begging for Bankruptcy*, (May 25, 2010), available at http://www.nbcmiami.com/news/politics/Miami_Budget_Crisis_Miami.html.

¹³⁹ Kit R. Roane, *Bankrupt, USA: Why Our Cities Aren't Too Big to Fail*, (September 15, 2010), available at http://money.cnn.com/2010/09/14/markets/muni_bonds_default.fortune/index.htm.

¹⁴⁰ *Budget Message - Fiscal Year 2010-2011 Budget*, (May 18, 2010), available at <http://www.monroenc.org/pdf/BudgetMessageFY2010-2011.pdf>.

¹⁴¹ Gus Lubin, *15 Mayors Who Must Shred The Budget To Save Their Bankrupt Cities*, (April 12, 2010), available at <http://www.businessinsider.com/americas-most-bankrupt-cities-2010-4#mayor-paul-frain-norfolk-2#ixzz0pkEYaQb5>.

¹⁴² Henry Goldman, *New York City Budget Deficit Next Year May Widen by \$2 Billion, Page Says*, (December 6, 2010), available at <http://www.bloomberg.com/news/2010-12-06/new-york-city-budget-gap-may-widen-by-2-billion-next-year-official-says.html>.

Philadelphia, Pennsylvania: Philadelphia has a \$179 million budget shortfall for 2011. The city is imposing new taxes and raising existing taxes, including a new tobacco-products tax, a property tax increase and a higher commercial trash fee.¹⁴³

Phoenix, Arizona: Phoenix's deficit through 2011 is \$241,000,000. Although Phil Gordon, the mayor of Phoenix, passed a balanced 2011 fiscal year budget, the city is still cutting 520 jobs, forcing 3.2% pay cuts on union members, and cutting \$64 million out of city services.¹⁴⁴

Pontiac, Michigan: The city recently had its municipal bonds downgraded below investment grade.¹⁴⁵

Reno, Nevada: Reno's deficit through 2011 is \$35,200,000. Reno's \$15 million deficit surged to \$35 million due to below-estimate tax receipts.¹⁴⁶

Rochester, New York: For the 2010-2011 fiscal year, the budget for city operations in Rochester is \$440,000,000 with an original deficit of \$36,000,000. The deficit represents 8% of the city's total budget.¹⁴⁷

Santa Fe, New Mexico: City Manager Robert Romero predicted that the city would end the 2009-2010 year with a gap of about \$1 million between general-fund spending and tax collections.¹⁴⁸

¹⁴³ Nancy Kaffer, *Detroit not only major city with budget shortfall, Pew Charitable Trust study shows*, (May 26, 2010), available at <http://www.crainsdetroit.com/article/20100526/FREE/100529900#>.

¹⁴⁴ Gus Lubin, *15 Mayors Who Must Shred The Budget To Save Their Bankrupt Cities*, (April 12, 2010), available at <http://www.businessinsider.com/americas-most-bankrupt-cities-2010-4#mayor-paul-fraim-norfolk-2#ixzz0pkEYaqb5>.

¹⁴⁵ Hibah Yousuf, *America's 7 junkiest cities*, (June 1, 2010), available at http://money.cnn.com/2010/06/01/news/economy/junkiest_cities/.

¹⁴⁶ Gus Lubin, *15 Mayors Who Must Shred The Budget To Save Their Bankrupt Cities*, (April 12, 2010), available at <http://www.businessinsider.com/americas-most-bankrupt-cities-2010-4#mayor-paul-fraim-norfolk-2#ixzz0pkEYaqb5>.

¹⁴⁷ *City of Buffalo, Fiscal Year 2010-2011 Budget Overview*, (May 2010), available at http://www.ci.buffalo.ny.us/files/1_2_1/Mayor/2010-2011RecBudget/2010-11_Budget_Overview.pdf.

¹⁴⁸ Julie Ann Grimm, *City mulls 2010-2011 budget options*, (May 3, 2010), available at <http://www.santafenewmexican.com/localnews/City-mulls-2010-2011-budget-options>.

Seattle, Washington: Seattle had a \$72 million 2010 budget shortfall, which resulted in the elimination of 310 positions and the city using \$25.4 million of a \$30.6 million fiscal stabilization fund.¹⁴⁹

Springfield, Illinois: Springfield had a projected \$8.5 to \$12 million budget shortfall for the 2010-2011 fiscal year. The city would need to eliminate approximately 136 to 192 city positions in order to balance the budget.¹⁵⁰

Springfield, Missouri: Springfield made \$13.7 million in budget cuts in 2010, resulting in four positions being eliminated and furloughs of 158 employees.¹⁵¹

Syracuse, New York: For the 2010-2011 fiscal year, the budget for city operations in Syracuse is \$278,693,857 with an original deficit of \$35,000,000. The deficit represents 12% of the city's total budget. In order to close the budget gap, the city plans to decrease spending and increase property taxes.¹⁵²

Toledo, Ohio: In 2010, the City of Toledo faced a \$40 million projected budget shortfall to the city's general fund of \$241 million. The city was forced to consider mid-contract union concessions, cutting city spending, and possibly asking voters to increase the city's 2.25 percent income tax in order to close the budget gap.¹⁵³

Woonsocket, Rhode Island: The city recently had its municipal bonds downgraded below investment grade.¹⁵⁴

¹⁴⁹ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf.

¹⁵⁰ Christopher W. Hoene, *City Budget Shortfalls and Responses: Projections for 2010-2010*, (December 2009), available at http://host-91.10floor.com/ASSETS/0149CE492F8C49D095160195306B6E08/BudgetShortFalls_FINAL.pdf.

¹⁵¹ *Id.*

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¹⁵⁵

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