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April 21, 2010

The Honorable Tony Mendoza  
Member of the Assembly  
State Capitol, Room 2188  
Sacramento, CA 95814  
Fax: 916-319-2156

**RE: AB 155 (Mendoza) Municipal Bankruptcy—Inserts Politics Into the Bankruptcy Process.**  
**NOTICE OF OPPOSITION** *(As Amended 07/01/2009)*

Dear Assembly Member Mendoza:

The City of Sausalito regrets to inform you that the City strongly opposes any attempt to remove our ability to make our own financial decisions. That is exactly why we oppose AB 155—the bill attempts to prevent any local government from filing for bankruptcy under Chapter 9 of the Federal Bankruptcy Code without first receiving the permission of the State of California.

**This On Top of the State Budget?** This past year, the State adopted a budget that borrowed \$2 billion in property taxes from local governments, confiscated more than \$2 billion in local redevelopment revenues, and included a variety of delays, cost shifts, and program cuts to locals. Like the State, this economic recession has had a profound impact on revenues of all local governments. The very local agencies that may need to seek the protections of the Federal Bankruptcy Court are likely ones that the State has helped put in that circumstance.

**Inserts Politics Into a Financial Decision.** AB 155 inserts politics into the bankruptcy process. This bill gives a State-appointed commission the authority to deny, approve, or set conditions on a city's application to proceed into bankruptcy. This is a process that is currently conducted by neutral and expert bankruptcy judges who are not subject to political pressure. AB 155 substitutes a deliberative process for what will become a political one.

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**State Liability Question Still Unanswered.** The State cannot afford to be liable to a local agency's creditors in the event CDIAC denies an entity's petition. Who will provide the services that a city will no longer be able to provide if CDIAC denies or imposes erroneous conditions on a city's legitimate petition to file for bankruptcy? What will happen to a city that cannot restructure its debt under Chapter 9? *This bill puts all local services dangerously at risk by denying or restricting a local agency's ability to restructure debt through the bankruptcy process.*

**Municipal Bankruptcy is Rarely Used.** The record shows that cities will use any means necessary to avoid bankruptcy. Since the adoption of Chapter 9 of the State Bankruptcy Code in 1949—60 years ago—only two cities have petitioned for its use: the City of Desert Hot Springs in 1994 and the City of Vallejo in 2008. Bankruptcy is not an attractive alternative for local communities, nor is it an easy process. In fact, it is an option of last resort.

For these reasons, the City of Sausalito is opposed to your AB 155.

Sincerely,

Jonathan Leone, Mayor  
City of Sausalito

cc: Brian Weinberger, Consultant, Senate Local Government Committee; FAX: 916-322-0298  
Michael Prozio, Secretary & Deputy Chief of Staff, Governor's Office; FAX: 916-445-4633  
Natasha Karl, Legislative Representative, League of California Cities, FAX: 916-658-8240

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