

FROM USA TODAY 5/15/13

Since a federal judge ruled in April that Stockton, Calif., can pursue bankruptcy protection, the question has been which of the state's fiscally troubled cities will be next. These 10 are facing the kind of serious financial stress that sent Stockton and several other cities toward bankruptcy.

**STORY:** [Calif. cities looking for economic recovery](#)

- **Atwater.** This farm city in the Central Valley declared a fiscal emergency in October with a \$3 million deficit and appeared poised for a bankruptcy filing. City leaders say they pulled the city back from the brink after winning concessions from unions to cut costs. The deal cuts pay 5% for city workers, including police. Last month, voters approved a half-point sales tax increase to 8%. The city has cut jobs but struggled as costs on a new water treatment plant exceeded \$85 million in bond financing.

- **Azusa.** This city east of Los Angeles saw its credit rating downgraded in 2012 by Moody's and branded with a negative outlook by Standard & Poor's. Analysts cited low general fund reserves, which fell to \$50,000, or 0.17% of expenses, last August. A 2011 audit found the city's general fund balance was almost entirely in restricted land assets.

- **Compton.** Bond-rating agency Standard & Poor's downgraded, then stopped rating, this Los Angeles County city's credit, citing the lack of an independent auditor's opinion, structural deficits and weakened finances. The city has run annual deficits that reached \$40 million and are still projected at more than \$9 million this year, and borrowed from dedicated accounts when its general fund ran short. It has laid off 15% of its employees and reduced services, from law enforcement to canceling a popular annual gospel concert. Standard & Poor's said a 2011 audit was incomplete because of allegations of fraud and abuse of public money and a lack of response from the city to auditors' questions. The city once known for crime disbanded its police force and now relies on Los Angeles County sheriff's deputies — and was saddled with \$369,000 in late fees for falling behind on payments to the county for those police services.

- **Fresno.** This Central Valley agricultural hub has been beset by annual deficits despite big cuts in spending and services, including a 25% reduction in the city workforce since 2009. Its credit rating was downgraded in 2012. The city has a \$16 million deficit this year. In January, Standard & Poor's gave Fresno's credit a negative outlook "due to our view of the city's significantly deteriorated financial position." The city faces bigger annual payments for retired public workers because of poor investment returns for its defined benefit plan, the agency said. Fresno, like neighboring Stockton, has seen its financial stress compounded by

double-digit unemployment in the region. The city is asking voters in June to approve privatizing garbage collection, which would produce a cash windfall of more than \$10 million plus \$2.4 million a year in franchise fees. City workers are fighting the change and petitioned to force a public vote on the plan.

- **Hercules.** This Contra Costa County city near San Francisco saw its credit ratings collapse seven grades to non-investment quality in 2012 as finances weakened and analysts questioned the city's future willingness to repay debts. The city notified creditors last September that it "does not anticipate there will be any available funds" for debt payments "in the foreseeable future." S&P says the city plans to use \$4.5 million in unspent bond proceeds to pay debt service on other bonds but questions whether payments will be made when that money is exhausted. State Controller John Chiang issued audit reports in March saying, "The city's books were so poorly managed that I must question their use of every single federal and state dollar." Hercules has laid off 40% of public workers and last year defaulted on a bond payment, triggering a lawsuit.

- **Mammoth Lakes.** The mountain resort city filed for bankruptcy protection, then withdrew its petition last year after agreeing to a budget restructuring plan making settlement payments on a lawsuit that it lost. A developer, Mammoth Lakes Land Acquisition, filed suit charging that the city had breached a 1997 agreement to develop a hotel and condo project. The Hot Creek project stalled over federal objections that it would be too close to a planned airport runway expansion. A \$30 million judgment, plus legal fees, against the city was upheld on appeal, and the city's liability grew to \$42 million, 2½ times its general fund budget. Standard & Poor's says the city remains under financial pressure and rates its bonds at junk status.

- **Monrovia.** Standard & Poor's sharply downgraded the city's credit rating, citing a "substantially weakened general fund and liquidity position" coupled with the possibility it could lose pending litigation with a developer. It said the city's general fund consisted "entirely of restricted and non-spendable assets." Faced with declining tax and other revenue sources, the city cut staff 17% and reduced services, including street repaving, to balance its budget. Monrovia is 20 miles east of Los Angeles and one of several small cities along the foothills of the San Gabriel Mountains.

- **Oakland.** Plagued by high crime and lower revenue, this city on the east side of San Francisco Bay has cut police and other services while struggling to stay solvent. It has endured budget shortfalls of \$318 million over the past six years and since 2008 has eliminated 16% of its workforce, or 720 jobs, while reducing pay and giving workers unpaid furloughs. Even with a recovering economy, the city is facing a \$19 million shortfall in the coming year and projects a deficit of \$35 million or more in 2015 as financial concessions made by public-employee unions expire and pension and retiree health benefits climb. The city has reduced

its police force by 25% since 2009, to 626 officers, and the California Highway Patrol is helping police the city.

- **San Jose.** Being home to much of Silicon Valley's tech riches has not spared the nation's 10th-largest city from financial stress. The city has run 11 consecutive general fund deficits, and though it still has reserves, Standard & Poor's downgraded San Jose's credit rating in 2012 and branded it with a negative outlook, saying it still faces "long-term structural pressures." The city has cut workers' pay 10% and outsourced jobs but still foresees a \$5.5 million deficit next year and nearly \$14 million the year after. City officials say their biggest problem is retirement costs, which soared from \$73 million in 2001 to \$245 million last year. Cuts in public pensions approved by voters last fall are being challenged in court by unions. "Long-term budget obligations have outgrown the current revenue structure," Standard & Poor's said in January.

- **Vernon.** The smallest incorporated city in the state, with a population barely over 100, is an industrial center neighboring Los Angeles with 1,800 businesses and 55,000 jobs in 5 square miles. Vernon has a history of corruption and was the subject of a scathing report by the state auditor last July that said the city doesn't have enough revenue to pay for the services it provides. The audit found Vernon operated with annual deficits in its general fund for more than 20 years, increasing spending and salaries while tapping dedicated funds, reserves, asset sales and other transfers. The audit said Vernon engaged in speculative investments without effective risk evaluation, including an "unreasonable" natural gas deal that has cost it millions. It cited loose contracting practices and found problems in 21 of 25 city contracts examined, including lack of competitive bidding. It said Vernon had weak internal financial controls and "may have provided legally questionable retirement benefits to certain current and past executives." The city turned back efforts in the Legislature to disincorporate it last year and adopted reforms, but the auditor said some policy changes have not been implemented and others will take years to achieve.