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Ducking Duty With Chapter 9

COMMENT

By [Charles Crumpley](#)

Monday, April 26, 2010

Lots of businesses know about the magic of bankruptcy court. There, heavy debt can be lifted. Expensive leases can be undone. Burdensome contracts can be erased.

Indeed, a bankruptcy judge can make your bad decisions disappear like magic. You can get a do-over.

Businesses know this, which may explain why some business people are urging the city of Los Angeles to file for bankruptcy. (See the LABJ Forum question, below, and the op-ed by former Mayor Richard J. Riordan on the next page.)

The real appeal of a Chapter 9 filing for Los Angeles is that a bankruptcy judge could make the tough decisions that the City Council and the mayor won't. A judge could declare it's do-over time, and make the city's burdens more or less disappear like magic.

Take pensions. They're generous and rising frighteningly fast. According to reports, the city will have to contribute \$730 million next year to cover pension costs, up nearly 12 percent from this year's \$653 million. And they don't stop after that; projections put that figure at over \$1 billion in a few years.

Those pensions need to be reined in for the city to get back on its financial feet. But the true problem isn't the pensions, per se. The true problem is the lack of political will to do anything about them, the lack of spine to defy the unions that put many of the city's elected people in office.

So some business folks are thinking: Since L.A.'s union-dependent mayor and City Council aren't likely to get medieval on the unions' pensions, maybe a bankruptcy judge could do it for them, eh? That way, L.A. can get its do-over and the elected types can blame it on the judge. Problem solved.

But wait. Not so fast. Take a minute to consider a disturbing little case study.

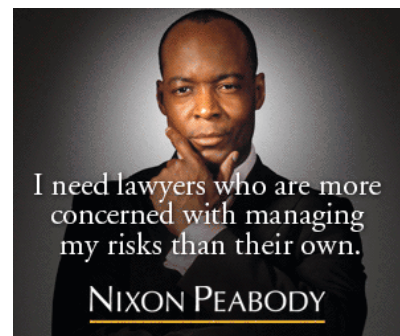
The town of Vallejo, north of San Francisco, declared bankruptcy two years ago. Like Los Angeles and so many other California cities, it became a municipal basket case largely because it gave its unionized workers pay and pensions so astonishing the city eventually could not keep up.

A report by the Cato Institute in the fall pointed out that regular public employees in Vallejo can retire at 55 with 81 percent of their final year's pay guaranteed. It's even better for police and fire officials, who can retire at 50 with a pension that pays them 90 percent of their final year's salary every year for life and for the lives of their spouses. Obviously, as time marches on and more employees retire, the cumulative load on the city's taxpayers gets heavier.

Making matters worse was the generous pay. Firefighters average \$171,000 a year. Police captains earn \$300,000 a year. That implies the captain could retire at 50 and get \$270,000 a year for his life and for the life of his wife.

As you might expect, unions fought Vallejo's bankruptcy. Finally, the bankruptcy judge in the case last year held that the city could void its union contracts.

That's when the disturbing thing happened. You see, the city's elected officials still had to ask the



judge to void the pension contracts. In other words, they still had to reach inside themselves and find the political will to defy the unions. That they could not do.

Steven Greenhut of the Pacific Research Institute in Sacramento, writing in the Wall Street Journal in March, said the Vallejo's workout plan in December called for cuts in services and some employee benefits, but it did not touch the pension contributions the city had to pay. Indeed, the city increased its pension contributions.

Wrote Greenhut: "Other cities will now find it harder to use the threat of bankruptcy (or bankruptcy itself) to get unions to agree to rein in pension costs."

Bankruptcy can wipe away problems like magic. But the true problem is not the burdensome contracts or runaway pension expenses. The true problem is the lack of political will to confront the unions.

Bankruptcy won't give L.A.'s elected leaders the spine to confront them. And until they get the spine, bankruptcy is no solution for Los Angeles.

Charles Crumpley is editor of the Business Journal. He can be reached at ccrumpley@labusinessjournal.com.

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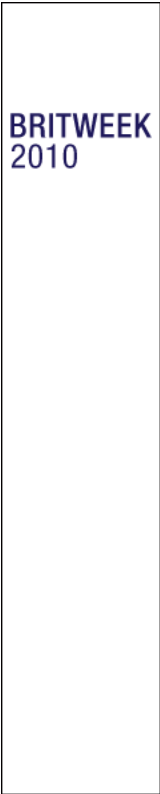
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