Case Study Overview: San Bernardino

City Snapshot. The City of San Bernardino once was the key gateway from the East and Midwest to Los Angeles basin. In 1980, it was home to Norton Air Force Base, Kaiser Steel, and the Santa Fe Railroad. Many middle class, blue-collar employees in those industries chose San Bernardino as their home. With the opening of a new stretch of Interstate highway in the 1980s and the closure of all three of those major industries in the 1990s, the economic base of San Bernardino began its decline—before it was hit again by the Great Recession. 46% of its residents are on some form of public assistance, 29% are below the official poverty line and English is not the primary language spoken at home for 47% of its residents.

Fiscal Circumstances. The city was faced with a $45 million deficit in its $128 million budget for 2012-13. All of its fund balance and other reserves were exhausted. Questions were raised at a council meeting in mid-July 2012 about cash flow—particularly relating to the ability to meet its payroll the following month. The city's credit cards had been cancelled and vendors were requiring payments in cash only for expenses like fuel for police cars and fire trucks. Sensing the increasing fiscal peril, 25 employees of the city's 1,200 employees rushed for the exits in just the first two weeks of July—putting additional pressure on the budget as these employees collected their pay for accumulated vacation time. [A total of 262 employees—about 22% of the city's work force—would follow over the next seven months, with only 938 remaining as of February 2013.] The city filed for protection under Chapter 9 of the federal bankruptcy code on August 1, 2012, which was subsequently upheld. For FY 2012-13, the city suspended payments to CalPERS as well as for its pension obligation bonds and legal claims. The city reduced salary and compensation to employees and deferred payments for accumulated vacation time upon separation of service.

Role of the State. Several actions—in recent years, as well as over several decades—have had negative impacts on San Bernardino. The most recent action of the state—in the form of CalPERS—has been to file suit against the city for non-payment of the city's prescribed contribution to the state's public retirement system for its employees. Although defensible from the point of view of CalPERS and other local and state employees, this has placed an additional burden on San Bernardino. CalPERS action has been one of several key factors is delaying the decision by the U.S. District Court regarding the city's bankruptcy petition as the issues related to solvency are addressed by the Court. Another action of the State was the takeover and dissolution of local redevelopment agencies in 2012. Although there is some disagreement as to whether cities were consistently using the revenues from these redevelopment agencies as originally intended, the state takeover of these redevelopment agencies had a significant negative impact on San Bernardino. More broadly, the withdrawal of most state direct financial aid to cities began in the 1980s following the passage of Proposition 13 has had a negative impact on most cities, but especially poorer cities like San Bernardino. Furthermore, the state redirected some non-state revenues to specific programs including education and public safety, thereby shifting the expenditure burden from the state to cities. A recent example of this occurred in 2011, when the state redirected local motor vehicle license fees to replace law enforcement grants previously funded by the State—which had nearly a $1 million impact on San Bernardino. Although the state is not the primary cause of San Bernardino's severe fiscal problems, the state has taken a number actions—both recently and over the past several decades—to exacerbate the situation.

City Charter. In the estimation of most individuals, a key challenge for the city is in its charter. Decision-making authority over budgets, personnel, development and other matters is fragmented between and among the mayor, city manager, city council and city attorney—as well as several boards and commissions. Elected officials do not have the power to alter the salary calculations resulting from these provisions (except through voluntary negotiations with the representatives of that set of employees). These provisions greatly reduce the ability and flexibility of the city to adapt to economic and fiscal conditions as they change over time.

Political Culture. This is the most a most difficult factor to nail down or describe. But it contributes significantly to San Bernardino's fiscal situation. This factor was noted in a 1981 report and thus predates any of the current roster of elected and appointed officials—but it has managed to survive and, in the opinion of most, worsen in recent years. By most accounts, it suffuses the politics, operations and decision-making of the city. The political culture amplifies the impact of the deficiencies in the charter. Yet the same political culture also makes it all the more difficult to make substantive amendments to the charter. This negative, reinforcing cycle between the charter and the political culture increases the challenge for San Bernardino to put itself on a path for long-term fiscal sustainability.

Role of the State. State aid constitutes a very small percentage of revenue for cities in California—2% in the case of San Bernardino. This meager amount does little to even out disparities in fiscal capacity and need for cities like San Bernardino. State actions in recent years—including changes in the motor vehicle license taxes and redevelopment agencies—have served to only exacerbate rather than ameliorate San Bernardino's fiscal problems. State law has no provision for the appointment of an emergency manager, so it will remain up to the elected officials—operating under the same city charter and in the same political culture—to find a way out of its bankruptcy situation (with only broad oversight by the U.S. District Court). Yet, the vast majority of California cities have managed to cope with these changes. So, while the charter and political culture play a far larger role in the plight of San Bernardino, state actions also have hurt the city.

Conclusion. By most accounts, four key factors have contributed to San Bernardino's fiscal situation: the charter, political culture, state actions (or inactions) and economic shocks. The last two factors caused have caused many cities across the U.S. to stumble in recent years or even in recent decades, but the vast majority of them have been able to regain their footing. A weak charter combined with a negative political culture made overcoming the economic shocks and state actions too steep a hill for San Bernardino to climb. Most likely, it will be several years—as the city works its way through the bankruptcy process—before we know the extent to which San Bernardino stabilizes and regains its fiscal footing.