

California's 'Charter' Cities are Under the Microscope

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The last three large California cities to seek bankruptcy protection or announce they plan to had seen their housing values, tax revenue and employment crumble. They also have something else in common: They all are so-called charter cities.

Now another California city, Compton, says it may have to file for bankruptcy by September. It, too, is a charter city. Some say that's no coincidence.

Of the state's 482 cities, 121 have their own constitutions, or charters. That gives them more leeway in governing their affairs, including the freedom to set their own rules about elections, salaries and contracts.

But that autonomy may be at the root of some of their problems, some say. Charter cities are exempt from state laws that mandate salary limits for elected officials. These cities also were free during good times to include generous pay and staffing agreements in their charters for workers that can be difficult to alter quickly during financial duress.



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San Bernardino, Calif., officials have voted to seek bankruptcy protection.

Perhaps the most infamous example is Bell, a tiny, working-class city outside Los Angeles. It gained notoriety in 2010 when it was revealed that it paid its city manager \$800,000 a year, and some City Council members \$100,000 a year. As a charter city, its officials didn't face state salary limits.

Last week, San Bernardino, a medium-size charter city 60 miles east of Los Angeles, voted to seek bankruptcy protection. In another step toward the Chapter 9 filing, its city council late Wednesday voted to declare a fiscal emergency, letting the city circumvent a state law that requires negotiating with creditors before filing for bankruptcy. The city plans to file within 30 days.

San Bernardino would join Stockton, in Northern California, which filed for bankruptcy last month, and Vallejo, also in Northern

California, which emerged from bankruptcy last year. All three have city charters.

Economists say that simply being a charter city isn't an automatic signal of concern. Some of the state's largest cities are charters, including Los Angeles and San Francisco. While those cities have their share of economic challenges, their large populations, diverse economic bases and high property-tax revenue make them more stable.

And not all California cities facing difficulties are charter cities; noncharter cities are laying off employees and struggling to fund pensions.

Charter supporters say charters can give cities greater flexibility in cutting costs. This month, the California Supreme Court ruled that charter cities are exempt from paying prevailing union rates to contractors for municipal projects that are funded with local tax dollars.

"When you give a city more control, it can go one of two ways," said Jessica Levinson, a professor at Loyola Law School and a local-government expert. "One way is the leaders are very successful in running that city; the other way is, you get Bell, you get San Bernardino, you get Stockton."

Charter cities were established in the 1870s when, amid bad economic times and criticism of state interference, California rewrote its constitution to give municipalities that option.

States including New Jersey, Texas and Colorado and Ohio offer their cities greater independence under what generally is called home rule. It is unclear how many home-rule cities there are or

whether they tend to show greater financial strains, said Bruce Calvin, a manager with the National League of Cities.

In other states, courts sometimes have limited the power of home-rule cities. But in California, the state Supreme Court has often sided with the cities when questions arise about how far city power extends.

Wednesday, Mayor Eric Perrodin of Compton, a medium-size city southeast of Los Angeles that faces a budget gap, said the municipality will have to decide within the next month whether it needs to file for bankruptcy protection—a step he hopes it can avoid by eliminating some city departments.

Mr. Perrodin said he fears the effects of a bankruptcy stigma on the city. "No businesses will come to the city. Property [values] will go down," he said.

Compton's charter, with its seniority rules and restrictions on using private contractors for administrative and maintenance workers, limits the city's ability to lay off employees and outsource services to cut costs.

In San Bernardino, a voter-approved amendment to the charter took the power to impose salary cuts on police and fire out of the hands of city officials. Instead, the salaries are based on police and fire pay in similar-sized cities, though city officials say those cities are more affluent than San Bernardino.

In Stockton, the charter allowed for binding arbitration with its fire department—meaning the city couldn't rely on a state law that gives cities ultimate authority to impose cuts on workers when the two parties cannot come to an agreement. In 2010, Stockton

voters changed the charter to abolish binding arbitration for firefighters.

Financial difficulties in Vallejo, a city of 120,000 about 30 miles northeast of San Francisco, were exacerbated by a charter provision that mandated binding arbitration for all of its unions. The city filed for bankruptcy protection in 2008. In 2010, residents voted to remove mandatory arbitration from its charter.

At a packed city-council meeting Monday night, San Bernardino city employees and residents criticized the government for what several called mismanagement. Resident Jim Smith suggested that the city do away with its "broken" charter, and asked the council to put it to a vote this November. "We don't have any future as a charter city," said Mr. Smith.

Others say there is another side to city charters.

"People have thought that having a charter is part of the problem when it can also be part of the solution," said JoAnne Speers, executive director of the Institute for Local Government, a nonprofit that promotes good-government practices.

Costa Mesa, 40 miles south of Los Angeles, is looking to become a charter city to gain more control over its finances, said Jim Righeimer, mayor pro-tem. Under state law, the city must employ municipal workers for certain services such as printing and information technology, he said. But as a charter city it should be able to cut costs by outsourcing some of those services, he said.

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