

# THE RECORDER

133RD YEAR NO. 138

www.callaw.com

MONDAY, JULY 20, 2009

An incisivemedia publication

## Firms bank on cities' distress

### Bankruptcy, labor lawyers line up for Chapter 9 work

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**A** parade of law firms big and small have responded to Pacific Grove's call for help as the city works to get a handle on its growing budget deficit.

While Pacific Grove is not ready to file for Chapter 9, under which municipalities seek bankruptcy protection, it is exploring the legal costs and potential consequences of such a move. It has recently received eight pitches, from behemoths like Orrick, Herrington & Sutcliffe, Cooley Godward Kronish and Morrison & Foerster, and from smaller, more regional shops such as Best Best & Krieger, McNutt Law Group and Renne Sloan Holtzman Sakai. Responding to the city's request for qualifications, the firms outlined costs for pre-filing consultation and representation in bankruptcy and post-bankruptcy proceedings.

"It's a small community with limited revenue, so they're trying to make certain they're aware of their options," said City Attorney David Laredo, who collected the proposals. The city is still deciding whether to go ahead and seek advice on the pros and cons of filing for Chapter 9, he said. If it does, he guesses the legal fees could reach seven figures.

Despite the dire financial outlook for California's cities, most lawyers don't expect the economic downturn to let loose a flood of municipal bankruptcies. But many are preparing for an uptick in Chapter 9-related work.

Cities will need all sorts of advice, they say, to help maneuver drops in revenue, from tax collections to investment funds and rocketing labor costs. Pacific Grove is far from the only city known to be struggling — press reports have also named others such



SHELLEY EADES

**PUBLIC INTEREST:** Michael Sweet, a partner at San Francisco insolvency boutique McNutt Law Group, sees financially struggling California cities as an area of opportunity for his practice.

as Rio Vista and Isleton. A year ago, the city of Vallejo made national headlines when it filed for Chapter 9.

Michael Sweet, who until now has mostly focused on commercial bankruptcy work, sees an opportunity to expand his practice. "We expect a lot of local elected officials, city staff and city attorneys to be asking for help understanding what a Chapter 9 filing might look like, what its impacts could be, and whether it can be avoided," said Sweet, a partner at San Francisco insolvency boutique McNutt Law Group.

In his firm's pitch to Pacific Grove, Sweet describes himself as part of a team (when he was at Winston & Strawn) that helped the city of Richmond negotiate modifications to its collective bargaining agreements in 2004, thereby avoiding a bankruptcy filing. McNutt Law Group is teaming up with Friedman Dumas & Springwater, a San Francisco boutique that has some experience with Chapter 9.

"I don't know whether there will be a lot of bankruptcy filings under Chapter 9. That remains to be seen," Sweet said.

"But the dire fiscal situation in the state is going to have an impact on local governments."

The most high-profile municipal bankruptcy in California right now is Vallejo, which is represented by Orrick. The Ninth Circuit's Bankruptcy Appellate Panel confirmed last month that Vallejo was eligible for Chapter 9. City unions (represented by Farella Braun & Martel) have appealed to the Ninth Circuit.

Orrick has "received well over \$2 million" in the Vallejo matter, partner Marc Levinson said Friday. "We're trying to restructure the city's debt to enable it to be solvent in the future," he said, "cutting deals with unions ... and restructuring bond debt."

Municipal attorneys are predicting that Vallejo will be the exception more than the rule.

David Fleishman, a municipal attorney with Hanley & Fleishman in Atascadero, said bankruptcy is a drastic measure that cities want to avoid. "I don't think you're going to see a significant uptick in actual filings," he said. "California cities are very good at

getting by with less and less.” But he says there will be more work for bankruptcy lawyers as more cities consult them on how to avoid it, and that “could lead to substantial billable hours.”

Michael Colantuono, a municipal lawyer with Colantuono & Levin, which has offices in Penn Valley and Los Angeles, agreed.

“I certainly see some Chapter 9 activity, and it’s so rare that seeing any is newsworthy,” Colantuono said. But he noted there aren’t many cities facing as much trouble as Vallejo, which was struggling under “onerous labor contracts” combined with a “sudden freefall in the underlying economics of their community.”

But a city might seek lawyers with experience negotiating with labor unions or bond-

holders, Colantuono added. “Every city and county is going to the table for salary concessions,” he said. “That is provoking a lot of defensive behavior by unions.”

Renne Sloan isn’t a bankruptcy firm, but partner Charles Sakai said his firm is handling labor negotiations for a number of cities and counties in Northern California that are in some form of fiscal distress. Most recently, he said, he helped negotiate a near 13 percent reduction in personnel costs for the city of Gilroy.

“A year ago, more places were looking at small increases or no increases in wages and benefits,” he said. “This year, almost everyone we’re working for is looking for significant reductions in wages and benefits.”

He sent a proposal to Pacific Grove be-

cause he sees an opportunity for a firm like his to help cities and counties reduce costs, and in some cases even increase revenues, through advice and labor negotiations.

And even if the fees don’t get Vallejo-high, Colantuono said, Chapter 9 bankruptcy work can have high marketing value. “Chapter 9’s are like albino elephants — so rare, so high-profile, that landing one is a trophy,” he said. “Even if you break even on the file, you will be in the newspaper across the country on a daily basis, for weeks if not months.”

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