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By Rick Rojas

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Desert Hot Springs declares fiscal emergency to avoid bankruptcy



Desert Hot Springs has declared a fiscal emergency as it seeks to avert a second bankruptcy filing. (Glenn Koenig / Los Angeles Times / November 20, 2013)

Officials in Desert Hot Springs have declared a fiscal emergency in an attempt to avert a second bankruptcy as the Palm Springs-area city approaches insolvency.

The City Council voted unanimously Tuesday to approve the emergency declaration, with revenues expected to fall short of covering the city's expenses by a significant margin.

A report prepared by Desert Hot Springs' interim city manager, Robert Adams, said that the city suffers from a "serious structural imbalance" brought about by the economic downturn and decreased development, among other factors.

The city has budgeted expenses of close to \$20 million despite revenues of just under \$14 million, according to the report. The city is projected to deplete its reserves within the next five months, which would prompt officials to have to file for bankruptcy for the second time in its history.

Desert Hot Springs, a city of about 27,000 people in the Coachella Valley, had been known as a comfortable area with spas and award-winning drinking water. But over the past decade, its struggles have become more prominent, including filing for [Chapter 9 protection in 2001](#).

The bankruptcy — from which the city emerged in 2004 — came after the city lost a costly court battle with a developer who sued the city for blocking a manufactured housing community for low-income residents. The developer successfully argued that the city violated the federal Fair Housing Act.

In recent years, the city has reduced its staff by 66%, or 53 full-time positions and one part-time position, according to the city manager's report, cuts that have already caused a reduction in the quality and quantity of city services. But it hasn't been enough to match the decreasing revenue.

A second bankruptcy, Adams cautioned, could mean "significant service disruptions that would have a negative impact upon the public peace, health, safety and welfare of the community."