

Huge impact seen on political front, not so for city's financial situation

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Page A.1

Mayor Dick Murphy's resignation is playing out in parallel universes -- one political, the other financial -- with different meanings in each.

In the political universe, Murphy's sudden departure is an upheaval of historic proportions.

It's a different story in the financial universe, where cold rationality and steely allegiance to the bottom line are far more important than political dramatics.

In this world, the hasty departure of the mayor of California's second-largest city is being taken -- at least initially -- as an interesting but minor event.

But in the political realm, Murphy's pending departure will create uncertainty and, if the past is prologue, turmoil. Campaign machines are hastily being assembled by the many politicians who hunger to be mayor, stunned though they may be by Murphy's resignation.

San Diego's political world is "in a state of shock and awe," said Lisa Briggs, executive director of the San Diego County Taxpayers Association.

Adding to the drama: talk that key players in San Diego's downtown business establishment, who pushed Murphy to jump-start his re-election bid after he dropped out, were working on drafting a private letter this week urging him to step down.

Briggs called it "darkly ironic" that those who helped shore up Murphy's political base last year were among those prepared to take an ax to it.

The financial markets care little for such political intrigue.

"A mayor resigning doesn't have that much of an impact" in the bond markets, said Miles Benickes, executive vice president and director of municipal trading at M.L. Stern and Co. in Beverly Hills.

San Diego can't even issue bonds right now, that's how bad things have become.

The vast bulk of San Diego bonds already in the portfolios of investors are insured.

Far more important in the capital markets: the outcome of federal investigations into possible financial crimes at City Hall, particularly a fraud investigation by the Securities and Exchange Commission.

The investing world is also interested in what long-overdue audits of the city's books for 2003 and 2004 will reveal. This may be the best indicator of whether San Diego is headed toward bankruptcy, as some observers say. Murphy and City Manager Lamont Ewell insist bankruptcy is not in the future.

But until hard numbers are forthcoming, City Hall's claims of stability can only be taken as a matter of faith.

"Ultimately," said Benickes, "what we have to see is the results of the audits and the SEC investigation and how the rating agencies look at that and how severe the problems of San Diego potentially may be . . . how big a hole they've dug themselves.

"For San Diego, they've got to prove their credibility in the marketplace, and bankruptcy is not a viable option. I think if San Diego were to declare bankruptcy, it would send shock waves through the municipal markets."

Rating agencies used to assign stellar opinions to San Diego's creditworthiness. It was a source of pride at City Hall, trotted out by successive mayors as signs of their financial acumen.

Since last year, though, San Diego has suffered a series of credit-rating downgrades. But even with the slippage, San Diego's debt is still regarded as "investment grade" -- except by Standard & Poor's Ratings Services, which suspended the city's rating in September, citing the lack of audits.

So uncertain is San Diego's financial landscape that the people at Standard & Poor's could not even hazard a guess on the meaning of Murphy's departure yesterday.

"At this point, it'd be premature to comment, given that we don't have a rating on the city," said Paul Dyson, an analyst in Standard & Poor's public finance group in San Francisco.

San Diego still has a rating with Fitch Ratings. Amy Doppelt, a Fitch managing director in San Francisco, said the jury's out on whether Murphy's departure heralds stability, or more trouble ahead.

Like Benickes, she said the stories that are of interest to credit markets concern audits and the federal government.

"Generally, in terms of credit analysis, a change in administration doesn't immediately impact credit quality one way or another," Doppelt said.

But given that earlier this year Fitch cited a leadership problem in San Diego, a change in administration could signal improvement.

"To the extent a new administration would have more credibility . . . more cooperation to take (strong) action, that certainly would be a benefit to the city," Doppelt said.

But she also cast a wary eye at the last mayor's race, which was decided in the courts.

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"Given that the last election was pretty divisive, it's possible that just the whole process of electing a mayor again could polarize rather than bring people together," she said.

For now, San Diego has "credit watch negative" status with Fitch, signaling continued uncertainty and risk of further downgrades.

In the political world, Murphy's departure triggered frenzied speculation, but observers of varying political stripes gave him credit for putting the city above himself.

"He did the honorable thing," said Republican consultant John Dadian, a Murphy supporter. He said Murphy's departure will "absolutely" lead to stability.

"For all the reasons he listed," Dadian explained. "They do need to move on. They need fresh leadership."

Today, the cast of likely candidates for mayor reaches all the way to current and former officeholders in the state Legislature and Congress.

"I guess I'm at least thinking about what needs to happen for San Diego," said former state Sen. Dede Alpert, a Democrat seen as a potential bridge between San Diego's labor and business interests.

Alpert left office last year because of the state's term-limits law. She had been chairwoman of the Senate Appropriations Committee. In recent election cycles, Alpert has brushed aside talk of running for mayor.

Now she says she will seriously consider running -- if a broad enough group of people persuaded her to.

She added that if she decided to run, she would probably do so with the intention of being a transitional figure, perhaps calling it quits after filling out the remainder of Murphy's term, which ends in 2008.

Whoever succeeds Murphy, she said, will have to administer some bitter medicine.

"It's going to take making some difficult decisions and telling people a lot of truths that maybe people haven't been willing to face at this point," she said. "Maybe we could turn the city in the right direction."

Councilwoman Donna Frye, whose write-in campaign for mayor took her to the edge of victory, said she's "absolutely running for mayor" and will push hard to quash talk of the City Council opting to appoint a successor.

"We need to have an election, and we really need to have it as soon as possible," she said.

Several other local political figures are now in the thinking- about-it stage.

"I can safely say I have an interest," said county Supervisor Ron Roberts, who ran in 2004, 2000 and 1992.

Councilman Brian Maienschein is also considering it.

Former Port Commission Chairman Peter Q. Davis, who touted his experience as a banker in runs in 2004 and 2000, said he is not running but did not close the door.

"I would never say never, but have no plans at this point -- other than to work as hard as I can to ensure we get someone who understands financial issues and provides us with a better chance of getting us out of this situation," he said.

Labor unions, as ever, will play a big role in a city where Democrats have a slight registration edge over Republicans.

Jerry Butkiewicz, secretary-treasurer of the San Diego-Imperial Counties Labor Council, said neighborhood issues will swing the coming election, if the council sets one.

"The condition of the neighborhoods, the potholes, the parks not being maintained properly, the beaches not being cleaned. . . . We're tired of the money going to everything other than what the working-class people of this town have a right to expect from their city," Butkiewicz said.

Replacing the mayor: Possible steps in finding a new leader

The City Clerk's Office must receive Murphy's resignation letter before the process of replacing him can begin. As of yesterday, the mayor had not submitted it.

The City Council may appoint a replacement within 30 days after the vacancy, or opt for a special election. If a new mayor is not selected within the 30 days, the council must call a special election.

If a new mayor is appointed, that person will serve through June 2006, when a special mayoral election would be held to fill the term.

If a special election is held, it must occur within 90 days of the council ordinance calling for it. To save money, it could be consolidated with another special election, such as the one Gov. Arnold Schwarzenegger has sought for the fall, if that election falls within 180 days of the vacancy.

The nomination period would open 74 days before the election and continue for two weeks. The winner must receive a majority vote; if not, the top two vote-getters would compete in a runoff. The winner would serve out Murphy's term, through 2008.

Possible contenders for mayor

A vacancy in most elected offices tends to put political maneuvering in overdrive. This one has it in warp speed.

Mayor Dick Murphy's sudden resignation has placed a major decision in the City Council's hands -- whether to appoint a successor or call a special election. In either case, his successor is likely to be found on a relatively short list.

What follows is a longer list: potential replacements whose names have surfaced in recent weeks as speculation grew about Murphy's departure. Some are open about their desire to be mayor; others are lying low, leaving it to their supporters to bang the drum.

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The only certainty is this list will change.

Dede Alpert: Former state senator who specialized in budget and education issues; some see her as calming influence at chaotic City Hall.

Alan Bersin: City schools chief is leaving the post two weeks before Murphy leaves his; has professed an interest in the job before.

Steve Cushman: Port commissioner and auto dealer with strong ties to the business community and organized labor.

Peter Q. Davis: Former port commissioner, banker and two-time mayoral candidate who broke with Murphy over his handling of city finances.

Bob Filner: Former school board trustee and councilman, now a seven-term congressman; could run without giving up his seat.

Donna Frye: The councilwoman who many people believe actually won last year's mayoral election -- a handful of judges disagreed -- is in again.

Brian Maienschein: Second-term councilman from vote-rich Rancho Bernardo was gearing up to run for mayor in three years.

Steve Peace: Longtime legislator and mastermind of energy deregulation and the airport authority; lives outside the city, yet once coveted the job.

Scott Peters: Second-term councilman from La Jolla and a staunch Murphy ally; was also gearing up to run for mayor.

Ron Roberts: County supervisor who lost third bid for mayor last year, an election most felt he would have won but for Frye's late entry.

Jerry Sanders: Red Cross board chairman and former San Diego police chief thought about running before; he's thinking again.

Juan Vargas: State assemblyman and former councilman who was laying groundwork to run for Congress by opposing Filner in next year's Democratic primary.

Pete Wilson: San Diego mayor (1971-1983) who went on to be a U.S. senator and governor; lives in L.A., but has an aging base in San Diego.

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