

Stockton Faces Municipal Bankruptcy Vote

Written by Lucky
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The city of Stockton, Calif., will decide Tuesday whether to give city leadership the authority to declare bankruptcy if the city can't reach a deal with its creditors by the end of the month.

In February, Stockton entered negotiations with creditors under a new California law that requires municipalities to hold mediations before filing for Chapter 9 bankruptcy protection. In a meeting Tuesday, Stockton's city council will vote on a resolution that would allow its city manager to declare the city bankrupt.

From Wall Street Journal:

The city is in negotiations with 19 parties, including retirees, city workers, bondholders and bond insurers, as well as a tax organization that won a lawsuit against the city in 2003. The mediation process is set to expire on June 25, and city officials are under pressure to reach an agreement with creditors or declare bankruptcy by the end of the fiscal year on June 30.

The city of Stockton, about 80 miles east of San Francisco, is fighting to avert bankruptcy.

"The city is in a very dire situation," said Marc Levinson, a bankruptcy attorney for Stockton who declined to discuss details of the mediation process.

Chapter 9 bankruptcy protection provides a financially distressed municipality protection from its creditors while it develops a plan for adjusting its debts. Creditors can't demand a liquidation of assets to force the municipality, while under protection, to repay debts.

Stockton, population 300,000, has struggled over recent years to get a hold of its finances after suffering losses from the real-estate crash and recession.

After slashing more than \$90 million from its budget since 2009—including cutting salaries, laying off workers and depleting cash reserves—Stockton faces a \$26-million budget deficit for the current fiscal year. The deficit is expected to grow to \$40 million annually by 2016, according to city records.

Retiree costs and worker compensation helped contribute to the city's plight, according to city records. The city also made an aggressive push to build up its downtown, taking on more than \$100 million in debt since 2003.

Overall, Stockton owes more than \$700 million in long-term debt to its creditors. City officials didn't return phone calls seeking comment Friday.

The city has already defaulted on three sets of bonds, a move city officials decided to make in order to continue city operations. The defaults resulted in Stockton's losing control of three parking garages and an eight-story office building slated to be the city's new city hall.

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A report prepared by city staff, which is expected to be presented at the city council meeting next week, reports that Stockton is already insolvent and won't be able to adopt a balanced budget by July 1, as required by California law.

The report, which Mr. Levinson helped write, says the city must prepare for bankruptcy to file documents before the beginning of the fiscal year in order to insure the continuation of city operations such as fire and police.

The report also says retiree costs must be reined in if the city is to reach solvency. Retiree health costs are expected to increase by 115% and pension costs by 94% by 2022, the report says. Retiree costs represent nearly 20% of the city's budget, while another 50% goes toward salaries and benefits, the report says.

Stockton is one of several California cities facing financial crisis. Vallejo, north of San Francisco, recently emerged from bankruptcy protection that it entered in 2008.

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