

Stockton, CA to become largest to file bankruptcy

Written by Lucky

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The California city of Stockton approved a special budget Tuesday night, paving the way for it to become the largest American city to declare bankruptcy.

From [LA Times](#) :

Stockton has been in negotiations with its creditors since late March under AB 506, a new California law requiring mediation before a municipality can file for reorganization of debt. It was the first use of the law, and policy analysts who watched its torturous and tedious progress have titled their report on it "Death by a Thousand Meetings." Mediations ended Monday at midnight.

Recent council meetings have been contentious. Tuesday night's meeting was quieter, with an evident sadness on faces in the packed audience. Many residents said they were there mostly to hear for themselves that the day so long expected had finally come.

"It's a seminal moment in this city's history and I needed to be here," said Dwight Williams, who runs a nonprofit housing organization. "I can't just read about this in tomorrow's paper. I need to hear for myself if there is some inkling as to where we go from here."

La Vonne Belli, 84, said she was there to hear what people had to say.

"I don't mean those people up there on the dais in their comfortable chairs. I mean the little people, the real people," she said. "The ones who have to keep muddling through somehow."

Almost all who spoke to the council began with some version of: "I was born and raised here."

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Although a city of almost 300,000, Stockton is a place where many families have known one another for generations. The most impassioned speakers argued on behalf of others, with the main rallying cry a plea to keep health insurance for retirees with illnesses. A high school student spoke of his aunt, a retired city worker with cancer, and a retired fire chief spoke of his former secretary who cares for her ill husband.

"People look at me and say, 'Well he can afford his own insurance,' and I can," said Gary Gillis, the retired chief. "But how about the ones who mowed the lawns, went in the sewers, typed my letters? We have to protect the most vulnerable among us."

Experts say there are no clear answers to what comes next for Stockton or how its fall will affect the rest of the state. Other cities hit hard by the housing bust and state budget crisis are negotiating with employee unions for concessions and are watching to see if municipal bankruptcy proves medicine or poison.

The stated purpose of AB 506 — to forestall a municipal bankruptcy — failed, but several bankruptcy attorneys said the mediation may help Stockton avoid the string of lawsuits that faced the smaller city of Vallejo, which recently emerged from a bankruptcy case filed in 2008.

How Stockton found itself so mired in debt can be seen everywhere in the city's core. There is a sparkling marina, high-rise hotel and promenade financed by credit in the mid-2000s, mere blocks from where mothers won't let their children play in the yard because of violence.

During the economic boom, this working-class city with pockets of entrenched poverty tried to reinvent itself as a draw to Bay Area refugees and a popular site for conventions. It offered generous city employee pension plans and benefits.

Vast housing tracts of two-story homes were built at the city's edges. Private citizens, like the city, bought on credit. Those neighborhoods would soon have among the highest rates of foreclosures in the nation.

Indeed, when the bust came, few places fell as hard as Stockton. The city has the second-highest rate of foreclosures in the country and the second-highest rate of violent crime in the state.

The city made \$90 million in drastic cuts from the general fund in the last three years, including

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reducing the Police Department by 25%, the Fire Department by 30%, and cutting pay and benefits to all employees. There is a state investigation into whether Stockton's financial devastation was entirely due to shortsighted optimism or if there was corruption. The state mediation law requires assigning blame.