



# CITY OF STOCKTON

OFFICE OF THE CITY MANAGER

City Hall • 425 N. El Dorado Street • Stockton, CA 95202-1997 • 209/937-8212 • Fax 209/937-7149  
www.stocktongov.com

May 30, 2012

Dear City of Stockton Retiree,

As you know, despite making huge staffing and heart-wrenching compensation reductions, three months ago the City Council directed staff to enter the confidential AB 506 mediation process in order to avoid insolvency and get us back on track to be financially healthy again. The City and its creditors (employee organizations, retirees, bond insurers, etc.) have held several meetings and continue to meet. The majority of creditors and the City have agreed to an extension of the mediation period to June 25th, as allowed under AB 506. City staff and our advisors are continuing to meet with various members of the creditor groups in order to see if an agreement can be reached.

However, the City must by law adopt a balanced budget before July 1. If agreement to resolve the City's \$26 million dollar deficit for fiscal year 2012/13 is not reached, the City would need to: 1) make massive staffing reductions that would jeopardize public health and safety; 2) ask for massive and we think unfair compensation reductions for current employees; or, 3) reluctantly, file for bankruptcy protection. The City Council has already indicated its reluctance to make any more staffing reductions in a City that has already seen major reductions in services to its community and where its crime rate is too high. Massive active employee compensation reductions, in addition to what has already been implemented, would make us an undesirable employer.

In order to preserve the City's options if agreement is not reached to avert bankruptcy, I, as City Manager, along with the City Attorney will be asking the City Council for authorization to have the City's attorneys start the preparation work necessary to file for bankruptcy protection before July 1, 2012. If the mediation process ends up producing a result that makes bankruptcy unnecessary, no filing would be needed. Specifically on June 5<sup>th</sup>, the City Council will be requested to authorize preparations for bankruptcy and the actual filing for Chapter 9 protection in the event it becomes necessary before July 1. The June 5<sup>th</sup> Council agenda item is not a bankruptcy filing per se, it is a contingency plan that may result in a Chapter 9 filing if we find ourselves at the end of this fiscal year with no viable means to balance the FY12-13 budget.

As a City retiree you are sure to be interested in how a bankruptcy filing might impact you. In a municipal bankruptcy, Stockton would continue to operate and provide services to the Stockton residents as we have before. Municipal Bankruptcies can take many years to resolve, and while that occurs, the City operates under the "Pendency Plan". That Plan makes expenditure adjustments in the City's obligations to allow it to function within its available revenue. Within those reduced expenditures the City continues to operate and employees would continue to provide services to the public.



As a retiree you may or may not be impacted by any changes in the City contribution for retiree medical if the City is operating under a "Pendency Plan". Retirees receiving PERS pensions but not retiree medical would likely **not** be impacted by any City "Pendency Plan". While the City has a strong interest in PERS pension reform for new hires, it just as strongly is committed to preserving the pension benefits of retirees. However, in order to provide room in our fragile budget and leave PERS pensions untouched, the retiree medical benefits received by 1100 of the 2400 Stockton retirees needs to be addressed. It simply is unsustainable and by necessity, changes in that benefit will likely be included in any "Pendency Plan".

I encourage you to read a recent comprehensive assessment of the retiree health plan found in the City Council Agenda for May 22, 2012. As you probably know, when this program was dramatically expanded in the 1990's, it simply was not funded properly. Similar to when one gets behind in making payments on bills, the accumulated interest on the past due account becomes enormous. If we were to properly fund the program and make it available to everyone, we need to immediately set aside 30 percent of our payroll now and into the next 30 years. Our general fund costs for next year will be \$9 million just to pay premiums; but the actuary says we should be setting aside double that, in order to catch up on past underfunding and guarantee its viability for everyone now eligible in the future. We simply cannot pay either of these amounts and maintain our current fragile service system.

If the City does need to file for bankruptcy protection at the end of June there would be a public hearing (most likely on June 26<sup>th</sup>) and a copy of the Pendency Plan would be part of the public record approved by the City Council. The City would provide you with information on how you might be impacted and other information about municipal bankruptcies by utilizing the City internet site.

The City is undergoing a very stressful time. I know this news adds to your stress, and for that I am very sorry. Poor financial planning in the past and a deep but long recession has put us into this predicament. The City Council and I cannot undo the past and we only have certain uncomfortable choices going forward.

I encourage you to keep up with the developments at the City during these unprecedented times.

Sincerely,



BOB DEIS  
CITY MANAGER

cc: City Council