



CITY OF STOCKTON

OFFICE OF THE CITY MANAGER

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June 20, 2012

Dear City of Stockton Retiree,

CITY OF STOCKTON FISCAL YEAR 2012-13 BUDGET ADOPTION AND BANKRUPTCY PENDENCY PLAN – CITY COUNCIL MEETING AGENDA ITEM, JUNE 26, 2012

The City has held numerous meetings with its creditors, unions and retiree representatives during the nearly 90 days of the State-mandated AB 506 pre-bankruptcy mediation process. While all of the participants have worked very hard to achieve an agreement that will prevent insolvency, the outcome of mediation, which will conclude on June 25, 2012, must produce agreements that result in sufficient savings that will allow the City to avoid filing for protection under chapter 9 of the Bankruptcy Code.

The City, by law, must adopt a balanced budget by July 1, 2012. As you know, the City's General Fund is projected to have a deficit of \$26 million for the next fiscal year. This despite the fact that the City Council eliminated over \$90 million in deficits in the last three years. The City has reduced its police officer ranks by 25 percent, the Fire Department has lost 30 percent of its staff, and all non-safety staff has been reduced by 43 percent. Finally, City staff has experienced pay reductions ranging from 9 to 22 percent. Yet, this is not enough to balance next year's budget. The Council has indicated that we cannot cut more services.

The City Council must now adopt a Final Budget on June 26, 2012, and make expenditure reductions that enable the City to live within its available revenue. The budget that I am recommending assumes that we may have to file for bankruptcy before July 1, 2012; therefore, this Final Budget also will be referred to as the Pendency Plan. If the City Council concurs, this will be the budget for the City while its bankruptcy case is pending with the court. Municipal bankruptcies can take many years to resolve, but I am hopeful that our bankruptcy would be much shorter. After filing for chapter 9 protection and before "exiting" bankruptcy, a City adopts a budget pending the outcome of the bankruptcy. The proposed "Pendency Plan" for Stockton will be on the City Council agenda on June 26, 2012, for the



City Council to consider. The details of the proposed Pendency Plan are publicly available on the City website.

Unfortunately, we have few options left to close the General Fund gap for next year. As a result, we have no choice but to propose changes in retiree medical benefits that may impact you. We currently have 2,400 retirees, 1,100 of whom receive retiree medical insurance paid by the City. The Council feels a top priority is to protect the PERS retirement benefits for all retirees. In order to meet that goal, we have to cut elsewhere.

If you as a retiree do not receive City-paid retiree medical benefits, you are not impacted by the City's June 26, 2012 actions. The City has not made any changes in employee CalPERS pension benefits, and is committed to preserving pensions for existing retirees and existing employees. The City is implementing a new lower retirement tier for new hires.

For retirees currently receiving retiree medical coverage from the City, we are proposing the following stipend towards the cost of retiree medical insurance, effective July 1, 2012:

- For those retirees who served Stockton 30 years or more \$450/month
- For those retirees who served Stockton 20 years or more \$300/month
- For those retirees who served Stockton 10 years or more \$150/month

Retirees who served less than 10 years with Stockton would not receive a stipend. Even with these cuts, the program will cost the City's General Fund \$2.1 million in Fiscal Year 12-13. Given that PERS employer costs are scheduled to radically increase again in Fiscal Year 13-14, we are proposing to eliminate the retiree medical program in that year and thereafter.

I am sure everyone is disappointed that after many difficult years of budget and compensation reductions, lay offs and service reductions, the City's financial commitments are still far beyond its available revenue, and that the final resort of retiree medical cuts and a Pendency Plan are now necessary. At this point, the City must make plans to move forward and use the services and protections in bankruptcy to preserve basic public health and safety services for the citizens of Stockton.

I feel it is important that you know that these cuts are not a statement about your worth and past service to Stockton. These actions are due to poor decisions by the City in the past, the great recession and the continued rise in PERS costs. The City simply did not set aside any funds to properly finance the retiree medical benefit. In order to catch up and fund the current program going forward, we would have to set aside 30 percent of our payroll each year for the next 30 years. This is

City of Stockton Retiree
June 20, 2012
Page 3

on top of our PERS costs that will be approximately 42 percent of payroll for Safety members. We simply do not have the funds.

In the near future, you will receive additional communications from the City Human Resources Department about the process and how you may be impacted as a retiree receiving a City-paid retiree medical benefit.

Again, I am very sorry for these changes. I recommend you read the City Council Agenda for June 26, 2012 for further information.

We are still negotiating with all parties. As a result, there may be adjustments to our recommendations by the June 26, 2012, Council Meeting.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bob Deis', with a stylized flourish at the end.

BOB DEIS
CITY MANAGER

cc: City Council