



# CITY OF STOCKTON

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## OFFICE OF THE CITY MANAGER

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February 24, 2012

Subject: **Recommendation to Start AB 506 Process to Attempt to Prevent Insolvency and Bankruptcy**

Dear City of Stockton Retiree,

The City has changed pay and benefits and reduced its workforce by 25% to cope with shrinking revenues and rising costs. As you know, these service reductions were made to an organization that was already moderately staffed for the City needs. We have been forced to make many unpopular and painful decisions to reduce services and reduce compensation of employees who work for this community. Unfortunately, those cost reductions have not been enough. We cannot cut anymore in public safety without putting the citizenry at unacceptable risk. The City Manager's Office will be advising the City Council on the City's extremely weak fiscal condition on February 28, 2012. That agenda item is available on the City's website for your review.

You are receiving this letter as a courtesy because you are a City retiree. Given the City's deteriorating fiscal condition, and its inability to finance current services, debts and obligations, I am recommending to the City Council that they approve actions to begin a voluntary evaluation and mediation process approved by the State Legislature this year (the AB 506 process). This letter explains the reasons for this, what AB 506 is, and how a retiree representative will be invited to participate.

### **City's Eroding Fiscal Condition**

The City has serious financial problems due to a combination of falling revenues and rising costs including employee benefits, losses in the CalPERS retirement portfolio, payments for debt issued between 2003 and 2009, and rapidly growing retiree medical expenditures. Next year, we expect to pay more for retiree health insurance than for active employees. The Great Recession, dropping property values and foreclosures, the loss of our construction industry and the collapse of the financial markets have hit Stockton very hard. After two decades of losing revenues to the state, this year we lost redevelopment, our main economic development tool.

Despite reductions in the General Fund budget of \$60 million in the last two years, the City still faces costs and obligations, including retiree medical and bonded debt payments, greater than its revenues. Our forecasts indicate the situation will persist this year and into the foreseeable future. A deficit as high as \$39 million is projected in FY 2012/13, and the City has no unrestricted available reserves to make up the gap. A well respected outside financial consulting firm has reviewed the City's finances and has confirmed the City's deteriorating fiscal condition. It has told us that steps are urgently needed now to correct the situation. The City Council believes that further service reductions would jeopardize public health and safety for Stockton's citizens.

### **AB 506 Process**

AB 506 is a new law creating a process to attempt to reach a mediated solution to restructure a local government's finances short of bankruptcy. It calls for a confidential neutral evaluation process between the City and interested parties using the services of an independent neutral evaluator.

"Interested parties" include the City's major creditors, employee bargaining units, debt holders and guarantors, and pension funds. These "Interested Parties" are invited to participate in a confidential process. The process is designed to offer an opportunity for the Interested Parties and the City to agree voluntarily on a plan to reduce and restructure the City obligations so that the City can remain solvent and functioning. If the parties cannot agree, or if the City reaches a point in its fiscal emergency when "it is or will be unable to pay its obligations within 60 days," then the City could be forced to file for chapter 9 bankruptcy and seek to obtain a court approved plan of adjustment that could bind all creditors.

Only creditors with a non-contingent claim in excess of \$5,000,000 are considered "Interested Parties" for purposes of AB 506; however, AB 506 also defines an "Interested Party" to include a "representative selected by an association of retired employees of the public entity who receive income" from the City. Individual retirees are not permitted to participate directly in the AB 506 process. The City has received communication from the ASSOCIATION OF RETIRED EMPLOYEES OF THE CITY OF STOCKTON indicating they have incorporated to represent the interests of the City retirees. The City will be an inviting representative of this Association to represent your interests in the AB 506 processes. If you have questions, you should contact them at:

**Association of Retired Employees of the City of Stockton  
1620 Lucerne Ave.  
Stockton, CA 95203  
Phone: (209) 467-0224**

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The City will also be establishing a web page with information regarding the City's fiscal condition and the AB 506 process in the next few weeks to keep both the Interested Parties and the City's citizens informed as to developments in the City's efforts to develop a sustainable financial plan for the future.

It is unfortunate that despite all of the City's efforts in the past few years that the City's finances have weakened such that this is the only option available. We are asking for all the parties that are interested in the welfare of the City and its citizens to work together to successfully meet this challenge, avoiding the protracted and expensive process associated with bankruptcy.

Thank you in advance for your cooperation in these efforts.

Sincerely,

A handwritten signature in black ink, appearing to read "B. Deis".

Bob Deis  
City Manager

CC: Stockton City Council  
City Management Executive Team  
Dwane Milnes, President, Association of Retired Employees  
All Employee Organizations