



# CITY OF STOCKTON

OFFICE OF THE CITY MANAGER

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June 20, 2012

Dear City of Stockton Employee,

## **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.

We have few options left to close the General Fund gap for next year. We have no choice but to propose major changes in retiree medical benefits that would impact you upon retirement. 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 current and future retirees. In order to meet that goal, we have to cut elsewhere. As a result, we are recommending a large reduction in the City-paid retiree health insurance program for next year, along with a phase out of the City paid program in Fiscal Year 13-14 and thereafter. The reason for the elimination in one year is due to an expected substantial increase in our employer PERS costs in that same year.

The Pendency Plan is also proposing selective changes in the compensation practices for current employees. Since all employees experienced rather large compensation reductions these past two years, you will see the proposed additional changes are very selective and are much less severe than in the past. The parameters for seeking any more changes are embedded in our compensation surveys of other cities. We are seeking selective pay changes only in those areas where we are different than the labor market. The details of these changes can be found in the June 26, 2012, Council Agenda Item.

When evaluating these additional compensation changes, I highly recommend you consider what we are proposing to do with other affected parties (bond holders, current retirees, other creditors, etc.).

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 service to Stockton. These actions are due to poor decisions by the City in the past, the great recession, the continued rise in PERS costs and the need to balance a budget. 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 on top of our PERS costs that will be approximately 42 percent of payroll for Safety members. We simply do not have the funds to

City of Stockton Employee

June 20, 2012

Page 3

continue past practices. However, the Council is committed to maintaining the PERS program and a compensation package that is reflective of the labor market.

In the near future, you will receive additional communications from the Human Resources Department about how you may be impacted as an employee. Even though we may be filing for protection under chapter 9, you will continue to get paid on time, receive the same medical benefits and will still have an important job for the City of Stockton. For further information, I recommend you read the City Council Agenda for June 26, 2012. I also recommend that you get in touch with your employee group representative.

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

I am both sorry for these changes and hopeful the Pendency Plan represents the last of these during your City employment. I further hope that, should a chapter 9 filing become necessary, it represents the pause that allows for our financial restructuring and rebuilding for the future.

Sincerely,

A handwritten signature in black ink, appearing to read 'Bob Deis', written in a cursive style.

BOB DEIS  
CITY MANAGER

cc: City Council