



CITY OF STOCKTON NEWS RELEASE

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STOCKTON TO CONSIDER ADOPTING BUDGET PENDENCY PLAN PROPOSED

(Stockton, CA) - On Tuesday, June 26, 2012, the Stockton City Council will consider adopting a budget and a Pendency Plan proposed by the City Manager. The Pendency Plan assumes the City will file for protection under chapter 9 federal bankruptcy laws. While creditors are still negotiating with the City up to June 25, the City must prepare for budget adoption at their last meeting on June 26.

“This recommendation is about two things. First, we wish to protect and maintain the modest level of services that we provide now. Second, this is another big step in the City’s plan to get our fiscal house in order,” said Bob Deis, City Manager.

The overall proposed expenditure plan was originally presented on May 15, 2012, that amounted to \$521 million for all funds, but with a \$26 million deficit in the General Fund portion of the budget. The General Fund was to be balanced by either deep service reductions or reductions in financial obligations through the AB 506 mediation process, or

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by filing for Chapter 9 protection.

The City Council has already indicated that continued service reductions will harm the health and safety of its citizens. On June 26, the City Manager will be reporting to the City Council on whether the \$26 million deficit will be eliminated by a deal with its creditors or through filing for chapter 9 protection. The Pendency Plan, which is essentially the budget while in bankruptcy, would be followed for the day-to-day operations of the City. It will identify what expenditures will be reduced or suspended in order to plug the \$26 million gap.

The City and its largest creditors have been engaged in confidential mediation that began nearly 3 months ago. The mediation has allowed the City to work with its largest creditors to restructure debt and agreements through a process established by state legislation under AB 506. The legislation provides for a 60-day period of negotiations with an option to extend for an additional 30 days. The City and most mediation participants extended the mediation period through June 25. Should the City and a sufficient number of its creditors be unsuccessful in reaching agreements that prevent insolvency and restore the fiscal health of the City, the City may need to seek chapter 9 bankruptcy protection.

“We have to be prepared for any potential outcome of the confidential mediation,” said Mayor Ann Johnston. “If we don’t reach agreements with our creditors that help us avoid insolvency, we have to be prepared with the alternatives that we have worked so hard to avoid. We cannot sacrifice the health, safety and welfare of our community.”

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The City Council has addressed \$90 million in deficits over the last 3 years and is faced with a \$26 million deficit in the fiscal year that begins July 1. The state constitution requires cities to adopt a balanced budget by July 1 of each year.

“This is not where any of us wanted to be, but, absent restructuring agreements with our creditors, any other options would decimate the City,” said City Manager Bob Deis. “The Pendency Plan allows us to operate until we can get a long-term Plan of Adjustment negotiated and approved through bankruptcy. The important thing to remember is that if we file for chapter 9 protection, it’s because the City Council wants to protect services. In other words, **Stocktonians will not see any measurable change in service levels come July 1.**”

The majority of the City’s budget is not impacted by the City’s fiscal crisis. The total budget of \$521 million includes \$366 million in restricted funds, which cannot be used to resolve the General Fund crisis. The \$155 million General Fund provides for services such as police, fire, libraries, parks maintenance and administrative functions. This funding comes from property tax, sales tax, utility user’s tax, business license tax and other sources, all of which have experienced significant declines for the past four years.

The Pendency Plan includes no measurable service reductions. The City has already eliminated 25% of its police officers, 30% of its fire staff and 43% of all other employees. It includes increased revenue through Code Enforcement and parking citations; eliminating

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payment of bonds, contracts and claims paid by the General Fund; shifting some funds to other sources; modifications to terms and conditions of labor and employee agreements; and salary and benefit reductions, including reduction and potential elimination of City contributions to retiree medical.

“This Council has been extremely courageous,” continued Deis. “They have taken on more than any elected body that I have worked with in over 30 years of working in local government, by making difficult decisions that were created over the past 20 years. I know that, whatever they are faced with, they will do the right thing to protect services and our community.”

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