Bankruptcy and the City of Vallejo, CA
BANKRUPTCY

On May 23, 2008 the City of Vallejo filed for chapter 9 bankruptcy protection with the U.S. Bankruptcy Court in Sacramento, CA
BANKRUPTCY

Why did Vallejo take this dramatic action that caused shock waves to rumble through the financial community?
Vallejo lost control of their destiny

During the previous decade Vallejo’s:

- contractual obligations exceeded available revenues
- relationships with potential creditors were not built upon trust
In the 3 years leading to bankruptcy Vallejo’s expenditures exceeded revenues by more than $11 million.
Once reserves were depleted, Vallejo could no longer meet their:

- debt service obligations on $51 million in outstanding issues
- self insurance funding requirements
- labor contract obligations
- accrued vacation and sick leave payouts
- need to reduce unfunded liabilities for pensions and retiree health care
Entering into bankruptcy did not relieve the City of Vallejo from the obligation to:

- balance the budget
- settle with claimants
- pay legal fees
- reduce unfunded liabilities
- get their financial house in order
DEBT SERVICE OBLIGATIONS
BONDS/LEASES

Vallejo’s Bankruptcy Plan provided for:

- significant reductions in interest rates
- extended maturity dates by 10 years
- no interest accruals for 4 years
- no payments for 3 years
- general fund savings that created a pool for unsecured general creditors
LABOR CONTRACT OBLIGATIONS
82% of Vallejo’s 2010-11 Budget was allocated for Salaries and Benefits

**Total Expenditures**
(before interfund reimbursements)
$75,407,865

**Salaries & Benefits**
$62,008,182

- **Salaries & Benefits** 82%
- **Utilities** 2%
- **Services & Supplies** 11%
- **Infrastructure** 1%
- **Bankruptcy Costs** 1%
- **Vehicle Maint/Repl** 3%
- **Pension** 22%
- **Workers Comp** 7%
- **Health Benefits** 6%
- **Retiree Health** 5%
- **SS/Other** 3%
- **Compensated Absences** 3%
- **Retiree Health** 5%

City of Vallejo
LABOR CONTRACT OBLIGATIONS

- Multi-year labor contract commitments
- Abdication of responsibility for wage adjustments
- Costly minimum staffing levels
- Unsustainable defined benefit pensions
- Lifetime retiree medical coverage
Skyrocketing costs collide with plummeting revenues
THE GREAT RECESSION HITS VALLEJO

- Home prices plummet
- Sales tax revenues dive
- Unemployment rates soar
- The City files for Bankruptcy
Public Safety costs constitute 73% of Vallejo’s 2010-11 Budget

Expenditures
$65,716,141

Police 45%
Fire 28%
Community Development 5%
Public Works 6%
Administration 7%
Infrastructure 1%
Bonds/Leases 0%
Compensated Absences 2%
Other 6%
All Discretionary Programs were Eliminated

- Other Governmental Agencies
  - Solano County Library
  - Greater Vallejo Recreation District
- Community Based Organizations
  - Police Athletic League
  - Convention & Visitors Bureau
  - Vallejo Symphony
  - Youth & Family Services
  - Naval & Historical Museum
  - Florence Douglas Senior Center
  - Boys & Girls Club
  - Community Arts Foundation

City of Vallejo

Vallejo Police Activities League
Fire Department
Three Fire Stations Close

FY 2003/04
8

FIRE STATIONS

FY 2010/11
5
Fire Department service calls increase while staffing decreases

FY 2003/04  FY 2010/11

FIRE DEPARTMENT SERVICE CALLS

10,361  13,500

30% INCREASE IN CALLS
Fire Department staffing decreased by 42%

FY 2003/04 | FY 2010/11
---|---
122 | 70.5

FIRE DEPARTMENT STAFFING
Police Department
Police Department
non sworn staffing reduced by 58%

FY 2003/04 FY 2010/11

TOTAL STAFFING – NON SWORN

73 31

Example: Communications Center Staffing decreased from 27 to 16
Police Officers reduced by 65 positions or 42% 

FY 2003/04     FY 2010/11

TOTAL STAFFING – SWORN OFFICERS

155     90

Example:  Traffic Enforcement decreased from 13 to 6
THE PEOPLE STORY

Many of the employees felt:

- **embarrassed** that the City was in bankruptcy
- **devastated** by the loss of coworkers
- **stressed** and **insecure**
- **angry, bitter** and **resentful**
- **unappreciated** and **unrecognized**
A NEW CULTURE HAD TO BE CREATED FOR VALLEJO

- Met with all employees
- Prepared 297 Recommended Action Items in an Assessment Report
- Produced 33 City Manager Communication Bulletins
- Conducted a Training Program for all employees