The City of Vallejo Bankruptcy: Lessons Learned

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December 3, 2015
City of Vallejo: Community Setting

• Incorporated in 1867 – one of the first State Capitols
• Located in the Northern Bay Area, 30 miles from San Francisco across San Pablo Bay
• Population 120,000
• Median household income $68,000, unemployment rate 7.9%
• Former home to the Mare Island Naval Shipyard, now undergoing redevelopment
• Home to Cal State University Maritime Academy, Touro University, Six Flags Discovery Kingdom, and corporate headquarters of Meyer Cookware and Blu Homes
• 500 employees: Police, Fire, Public Works, Economic Development, Administrative
Bankruptcy: Causes

• Weak tax base – largely residential community
• Closure of Mare Island Naval Shipyard in 1997
• Labor agreements through 1990’s guaranteed top of market compensation based on inappropriate benchmarks
• Minimum staffing provisions in fire and police contracts
• Overly generous retiree medical and pension benefits
• Binding arbitration
• Inability to renegotiate labor agreements
The Bankruptcy Experience

- City entered Chapter 9 bankruptcy proceedings May 2008
- Difficult and expensive: more than $12 million expended
- Labor unions and retirees challenged City during all proceedings:
  - Eligibility for Chapter 9
  - Ability to reject labor contracts
  - Impact of modified contracts on retiree medical benefits
- Bankruptcy Court rejected the final labor contract, rejection withstood appeal
- Plan of Adjustment approved by the Court; City exited bankruptcy November 2011
Bankruptcy Impacts on Employees

• Renegotiated police, management and fire contracts; new compensation and benefits.
• Salary reductions/frozen pay/furloughs.
• Dramatic reduction of retiree medical benefit for both active and retired employees.
• Requirement for greater employee cost share for benefits, including pensions.
• Long periods of little-to-no adjustment in salaries and benefits – continues to this day despite improving economy.
• Morale
Recovery – Key Actions

1. Financial forecasting/planning
2. Voter approved structural changes
3. Commitment to communication
4. Rebuilding trust with the community
5. Fiscal discipline even as economy has improved
Financial Forecasting/Planning

- Confidence in data provided by Finance Department – highest priority
- Accurate year-to-date/projected year-end expenditures and revenues
- Minimum five year forecast, including unfunded liabilities.
- Quarterly City Council budget updates
- Regular discussions with actuaries to ensure future costs are accurately projected
- Balanced budgets/timely financial reporting
Voter Approved Structural Changes

• Voters reauthorized Utility User Tax in November, 2009
• Voters approved removal of binding arbitration from City Charter in June, 2010
• Voters approved a 1-cent sales and use tax for 10 years in November, 2011
• Voters approved a 10% Medical Marijuana Tax in November, 2011
Commitment to Communication

• Pre-bankruptcy: little communication with residents
• Beginning in 2012:
  – Vallejo News – weekly newsletter (7,800 recipients)
  – City Manager’s Biweekly Report (1,800 recipients)
  – Facebook page (3,600 likes)
  – Open City Hall tool (73 topics to date/470+ subscribers)
  – SeeClickFix (750+ issues resolved to date)
  – NextDoor (9,200 participants)
• Neighborhood Watch:
  – Pre-bankruptcy: just 8 organized neighborhood watch groups
  – Today: 258 recognized groups
Rebuilding Trust

• Participatory Budgeting – provides residents with an opportunity to vote for a portion of the budget
• Process includes a Steering Committee, budget assemblies, development of project proposals and vote of residents.
• Three cycles completed to date – more than $6 million invested on projects
• Twenty projects approved in first two cycles: street repair, security cameras, student loans, park improvements, free spay/neuters, homeless services, band instruments, technology tools in classrooms.
Fiscal Discipline

• Commitment to Structurally Balanced Budgets
• Full payment towards unfunded liabilities (OPEB/PERS)
• Rebuilding reserves
• Imposed contract on Police when Great Recession proved deeper than expected (still in litigation)
• Use of 1-cent Sales and Use Tax:
  – Used only for restoring services, rebuilding reserves
  – None used for existing employee salaries or benefits
• Timely financial reporting
• Quarterly updates on fiscal condition – Council and unions
Lessons Learned

1. Chapter 9 Bankruptcy is difficult, expensive and its impacts on the organization long-lasting.
2. Rebuilding and maintaining trust with the community is essential.
3. Accurate financial data, recognizing all current and future costs, is critical.
Lessons Learned

4. Strong leadership and political courage is required – to deal with the aftermath of bankruptcy, and address future fiscal challenges.

5. Deal with hard choices now, but be prepared for harder choices in the future.
Ongoing Challenges

• Slow recovery from Great Recession/Proposition 13’s impact
• Future increases in PERS rates will squeeze other services without new revenues
• Lack of stable revenue growth – inability to make long term commitments to employees
• Difficult recruiting environment for some positions
• Infrastructure investment – far behind
• Bankruptcy’s stigma
City of Vallejo - Today

- **Police Staffing:**
  - 2006: 152 sworn
  - 2013: 78 (!)
  - 2015: 116 authorized, 102 hired

- **Fire Stations:**
  - During bankruptcy: 4 operating stations
  - 2015: 6, with 1 to reopen next year

- **Street Maintenance:** $3.4 million in last Fiscal Year

- **General Fund Reserves:** 14.4%

- **Major economic development projects on the horizon**
www.cityofvallejo.net

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