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What Bankruptcy has done for Vallejo

The city of Vallejo in California filed for bankruptcy protection in 2008.

What has happened since then? How has the city fared financially? Let's take a look.

There are four labor unions in Vallejo that represent city employees.

They claimed that California law protects their agreements with the municipality. But the bankruptcy court disagrees and granted permission to the city to cancel its collective bargaining agreements. This resulted in the unions having to accept terms they would not have otherwise agreed to.

One of the changes made by the city was slashing the retiree health benefit from \$1,500 to \$300 per month and stopping the payouts on accrued leave time. However, pension plans for retirees and current city employees, including one that allows policemen to retire at 50 years of age and receive up to 90% of their last drawn salary goes unchanged.

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This means the city has to bear this cost that amounts to \$195 million in pension payments.

Most of the time, the way the city has cut costs in the renegotiated union agreements is by its reducing staff. For example, the police force has been reduced by 65 sworn officers from 155 in 2003. It currently has only 90. Likewise, the fire department has been drastically downsized from 122 personnel in 8 firehouses to 70 people in 5 firehouses. Are the citizens happy that there are fewer police and fire personnel in their city? I don't think so.

Another notable point is that bankruptcy did not significantly reduce the debt in Vallejo's books that amounts to \$225 million. This amount stems mainly from the water authority that is not affected by the bankruptcy case. Only about \$50 million in city obligations, mainly lease payments on buildings, will actually be restructured, with a net "present value" savings of around 40%.

A major portion of the problem has nothing to do with payrolls, pensions or bond liabilities. It has to do with plummeting revenue. The city collected \$87 million in taxes in 2007-2008 but only \$65 million in the latest fiscal year mainly due to the recession and the mortgage crisis. The values of houses have fallen by an average of 67%.

Despite all this, Vallejo has submitted its formal restructuring plan for court approval and hopes to exit bankruptcy by summer this year.

Just like municipalities, you may also file for bankruptcy to give yourself a fresh start financially. Call us at (813) 200-4133 for a free consultation.

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