

The City of Vallejo: Bankruptcy and Beyond

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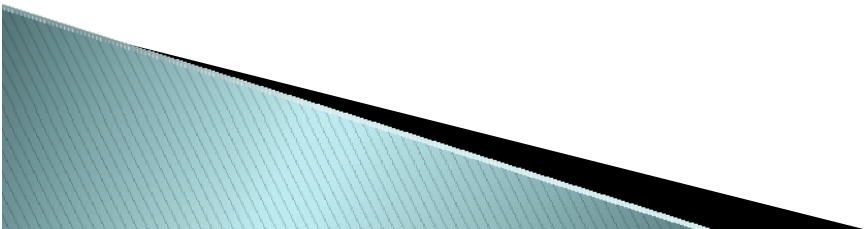
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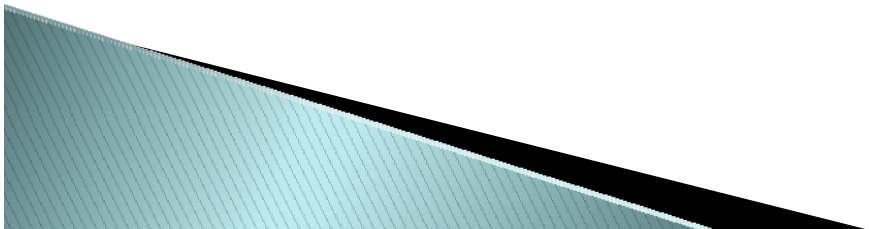
Vallejo Demographic Info

- ▶ NE San Pablo Bay
- ▶ Ex-Navy town, Mare Island NB closed 1998
- ▶ Population: 121,000
- ▶ Per capita personal income: \$35,000
- ▶ Unemployment: 8%



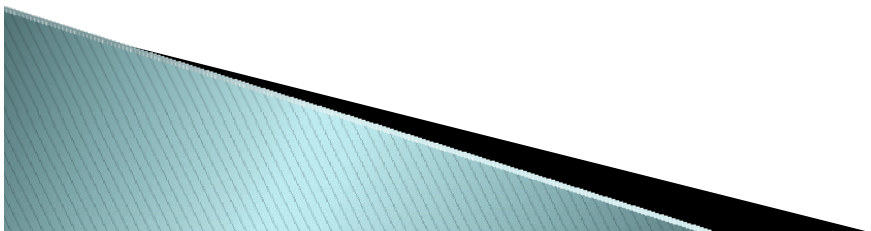
Vallejo Financial Information

- ▶ Total FY 2009 Budget: \$ 223.1
- ▶ Total General Fund FY 2009 Budget: \$ 77.5
- ▶ Revenues:
 - ▶ Property tax: \$ 18.0
 - ▶ Sales: \$ 11.2
 - ▶ MVL: \$ 11.5
 - ▶ UUT: \$ 14.0
- ▶ Expenditures:
 - ▶ Police: \$ 33.5
 - ▶ Fire: \$ 21.1



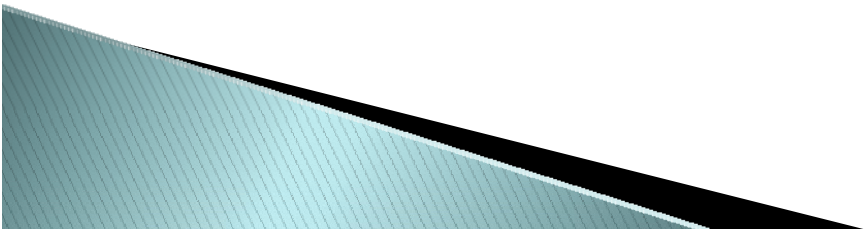
Vallejo Background

	FY04	FY09	Net
▶ Police			
▶ Sworn	155	116	- 39
▶ Other	73	43	- 30
▶ Fire			
▶ Sworn	109	78	- 31
▶ Other	13	5	- 8
▶ City	494	379	- 115



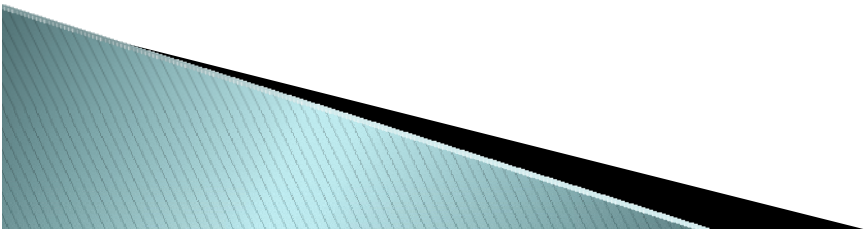
Vallejo Background

- ▶ Relatively low per capita income
- ▶ Binding arbitration in Charter
- ▶ One of the first cities in CA to implement
 - ▶ 3% at 50 for public safety employees
 - ▶ 2.7% at 55 for miscellaneous employees
- ▶ Very generous employee and retiree health program



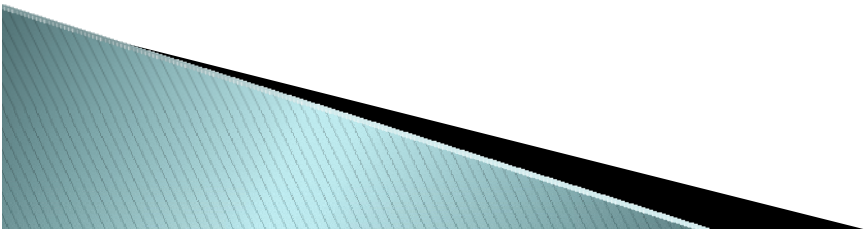
Vallejo Background

- ▶ Current Finance Director started July, 2004
- ▶ By March, 2007, Vallejo had 6 City Managers
- ▶ No consistency in budgeting or labor negotiation approach



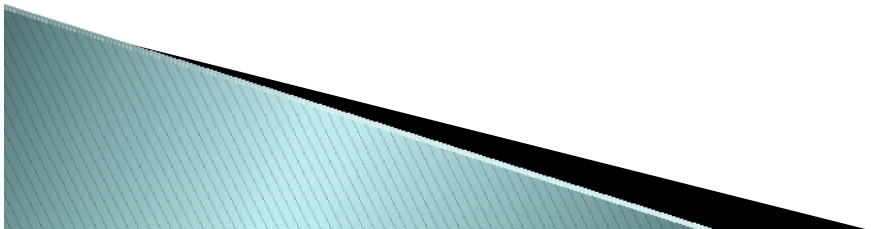
Vallejo Background

- ▶ FY 05 Budget
 - ▶ Interim City Manager and Finance Director
 - ▶ Slashed spending (operating and capital)
 - ▶ Deferred pay raises for years
 - ▶ “You’ve got two years!” Interim FD
 - ▶ Three major development projects forecast



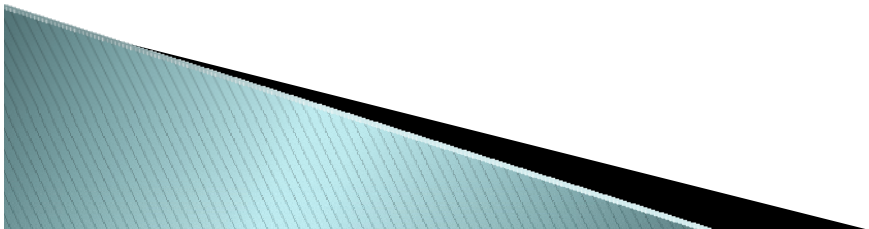
Vallejo Background

- ▶ FY 06 Budget
 - ▶ New City Manager
 - ▶ Assumed new taxes and fees to balance budget
 - ▶ Council rejected both, slashed expenditures
 - ▶ Depleted reserves
- ▶ FY 07 Budget
 - ▶ Interim City Manager
 - ▶ Assumed \$4.0 million unallocated personnel cost reductions
 - ▶ Labor talks failed, slashed spending in December
 - ▶ Depleted reserves



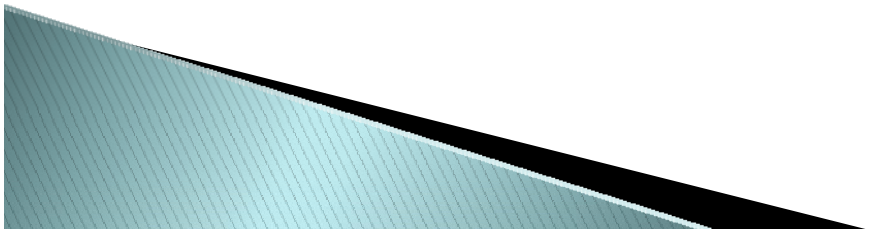
Vallejo Background

- ▶ FY 08 Budget
 - ▶ New City Manager
 - ▶ Assumed ability to reduce 2 truck companies
 - ▶ Lost arbitration, Cost: \$4 million
 - ▶ Economy tanked, revenue loss: \$4 million
 - ▶ Employee flight, pay out cost: \$4 million
 - ▶ Negotiation
 - ▶ Mediation
 - ▶ Bankruptcy



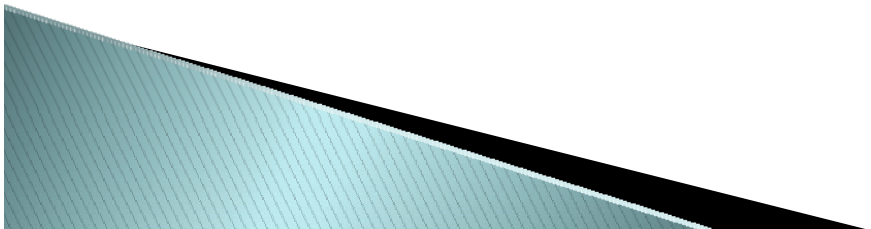
Vallejo Background

- ▶ FY 09 Budget
 - ▶ Pendency plan
 - ▶ Bankruptcy protection
 - ▶ 1st Quarter Report – cut additional \$2,500,000
 - ▶ Further cuts in March
 - ▶ Estimated ending fund balance \$500,000
- ▶ FY 10 Budget
 - ▶ Preliminary estimate - \$12.6 million deficit



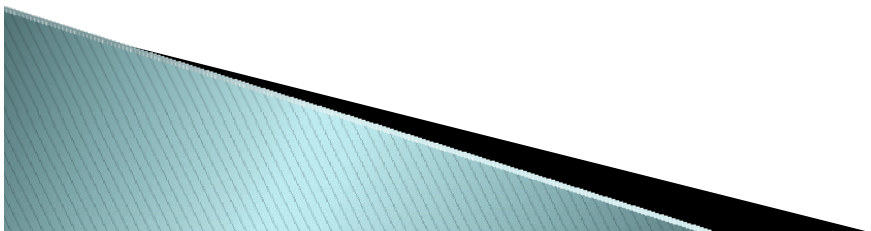
Vallejo – Union View

- ▶ Revenue “bad faith” issues:
 - ▶ Denied LNG plant on Mare Island
 - ▶ Denied Casino
 - ▶ No revenue ballot initiatives
- ▶ Artificial fund distinctions, plenty of dollars
- ▶ City gives dollars to:
 - ▶ Redevelopment Agency
 - ▶ Transportation
 - ▶ Water
- ▶ Given wage deferrals, City comes back for more
- ▶ Doesn't meet commitments



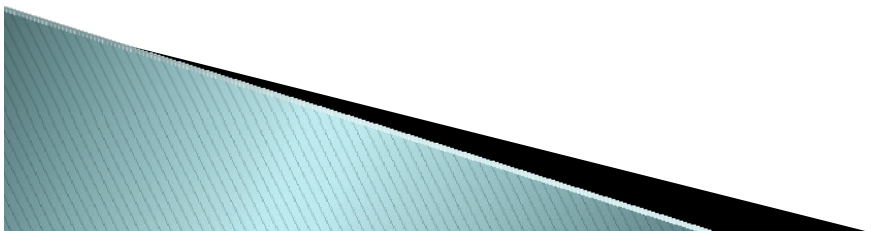
Vallejo Bankruptcy – Pendency Plan

- ▶ Revenues:
 - ▶ \$400,000 pay back from RDA
 - ▶ \$1,000,000 “one time” from Risk Management
- ▶ Salaries – rolled back two years
- ▶ Close two fire stations (6 left)
- ▶ Reduced leave payouts
- ▶ Eliminated CBO payments - \$900,000



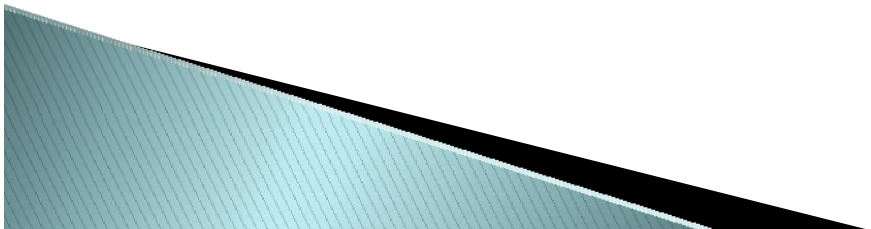
Vallejo Bankruptcy – Pendency Plan

- ▶ Debt service – General Fund bonds tendered
- ▶ Pay vendors
- ▶ Vehicles – replace only PD cruisers (\$2.5 m)
- ▶ Maintain \$1.0 million GF reserves



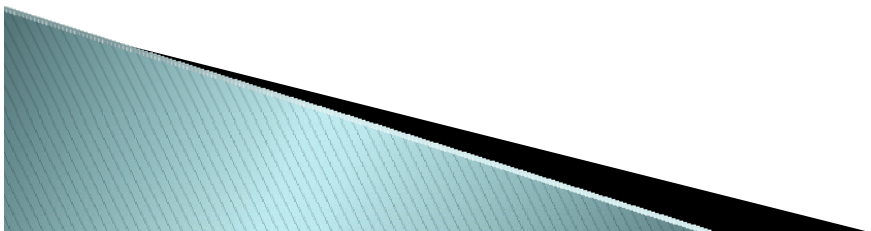
Vallejo Bankruptcy – Status

- ▶ Judge has ruled City is “eligible”
- ▶ Employees have appealed – Hearing 2/19/09
- ▶ Hearing to void contracts – 2/3/09
- ▶ Appointed a “Retirees Creditor Committee”

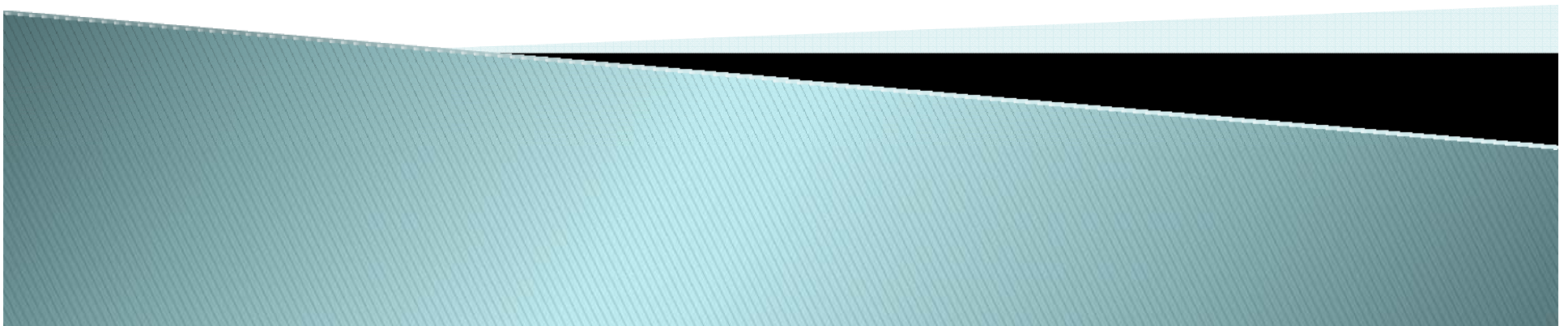


Vallejo Risk/Issues – Looking Forward

- ▶ National economy (Stimulus?)
- ▶ State budget process
- ▶ Mare Island CFD
- ▶ Local economy – housing, development
- ▶ CalPERS losses
- ▶ Transportation System
- ▶ Bankruptcy
- ▶ Labor negotiations

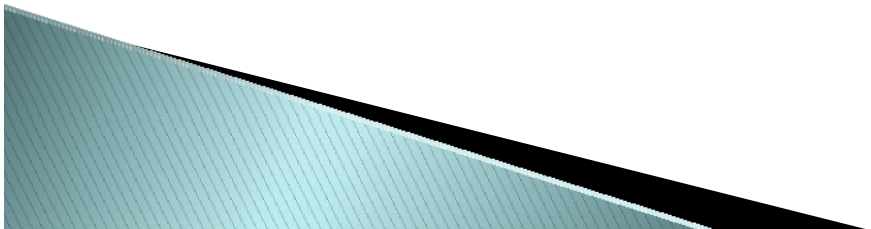


*Municipal Bankruptcy and Bonds:
Impacts and Considerations*



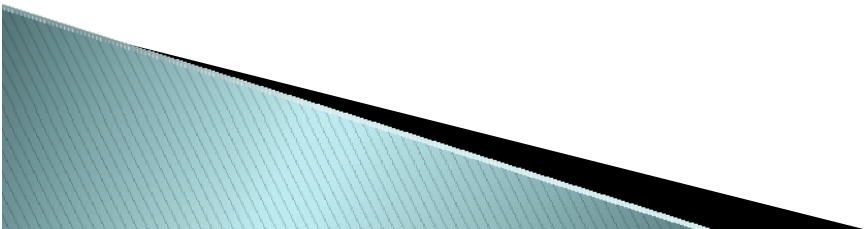
The Pre-Filing Phase

- ▶ Managing Information and Disclosure
- ▶ Managing Credit Markets Relationships
- ▶ Understanding your Documents
- ▶ Managing Communications with Council and Public



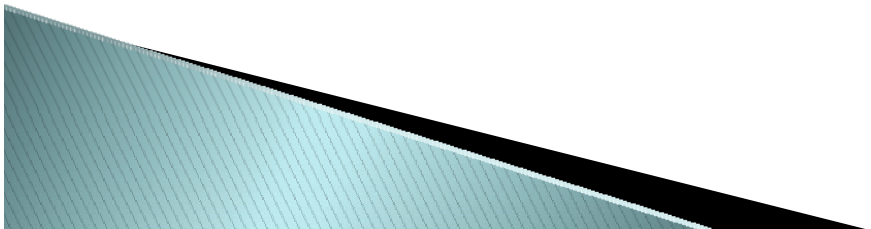
The Pre-Filing Phase

- ▶ Managing Information and Disclosure
 - ▶ The rumor mill vs. official information
 - ▶ Identifying a spokesperson
 - ▶ Avoiding speculation
 - ▶ The importance of accurate financial information



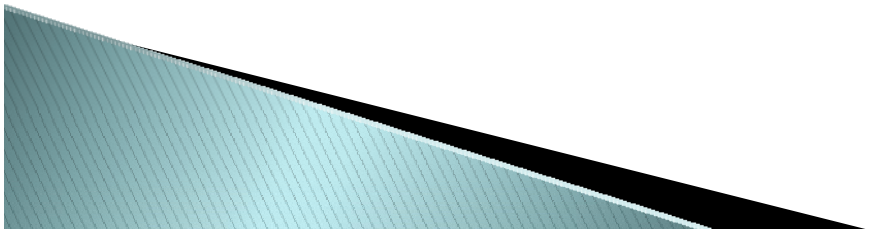
The Pre-Filing Phase

- ▶ Managing Credit Market Relationships
 - ▶ Be pro-active with rating agencies and credit enhancers
 - ▶ Investor relations
 - ▶ Trustees
 - ▶ Financing team(s)



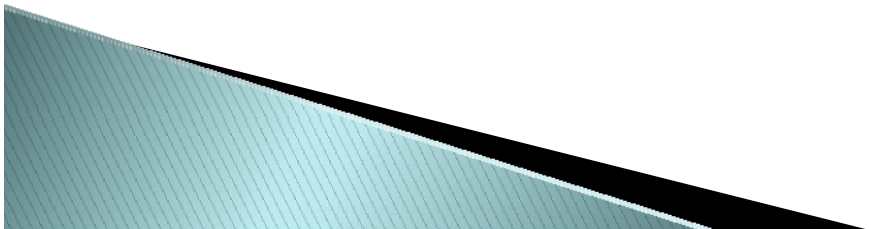
The Pre-Filing Phase

- ▶ Understanding Your Documents
 - ▶ Review all principal bond documents
 - ▶ Security and sources of payment
 - ▶ Key covenants
 - ▶ Rating and other financial triggers
 - ▶ Check reserve fund surety provisions
 - ▶ Interest rate swaps and credit enhancement documents



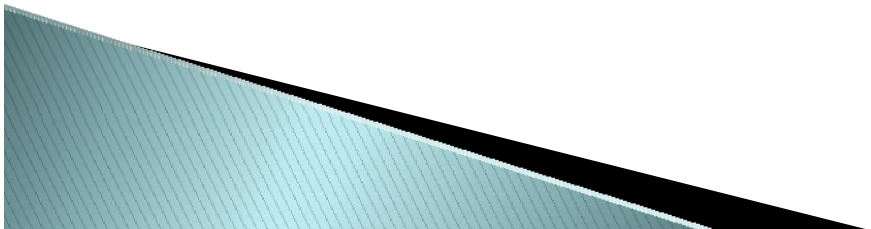
The Pre-Filing Phase

- ▶ Managing Communications with Council and Public
 - ▶ Educate council (if necessary) on securities laws issues
 - ▶ Closed session discussions
 - ▶ Open session discussions
 - ▶ Designate a spokesperson



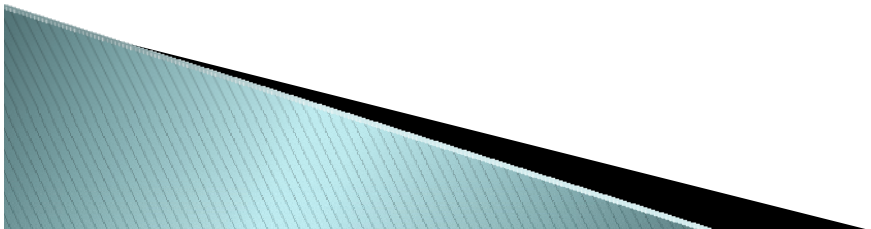
Decision Time: What Happens When the Council Votes to File?

- ▶ Credit Rating Impacts
 - ▶ Expect immediate suspension/downgrade
 - ▶ Expect requests for information
 - ▶ Potential restoration of secured debt



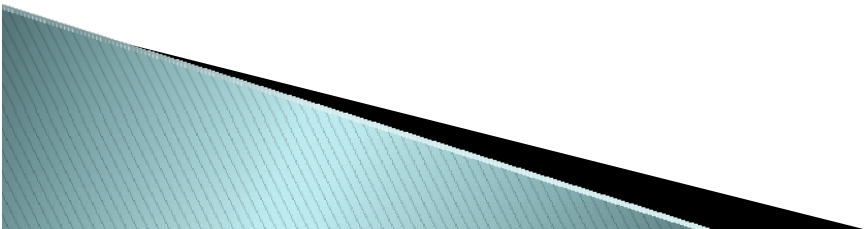
Decision Time: What Happens When the Council Votes to File?

- ▶ Bankruptcy Proceedings
 - ▶ Establishing eligibility
 - ▶ Creditors list
 - ▶ Creditor representatives



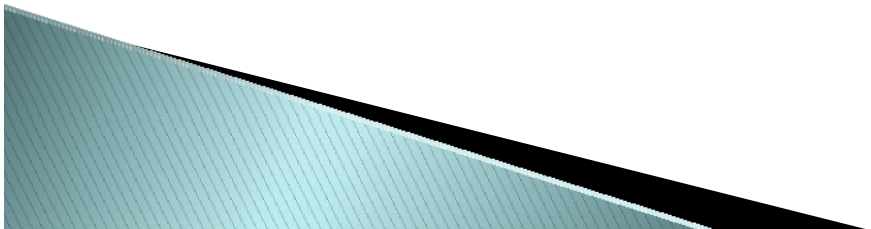
You're Bankrupt: Now What?

- ▶ The Automatic Stay
 - ▶ Protection for staff, elected officials and citizens
 - ▶ No separate lawsuits or collection actions



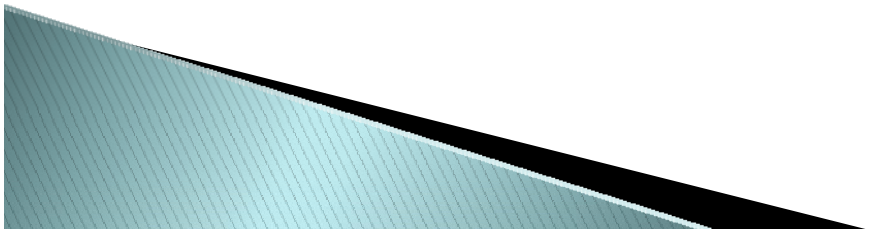
You're Bankrupt: Now What?

- ▶ The Court's Role and the 10th Amendment
 - ▶ No "trustee" or "receiver"
 - ▶ Court cannot order actions and need not approve actions
 - ▶ Free to make payments



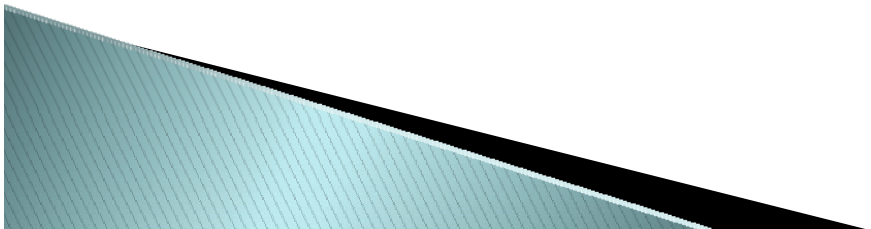
You're Bankrupt: Now What?

- ▶ Disclosure Obligations
 - ▶ 15c2-12 notices and reports
 - ▶ Public statements by officials
 - ▶ Financial statements



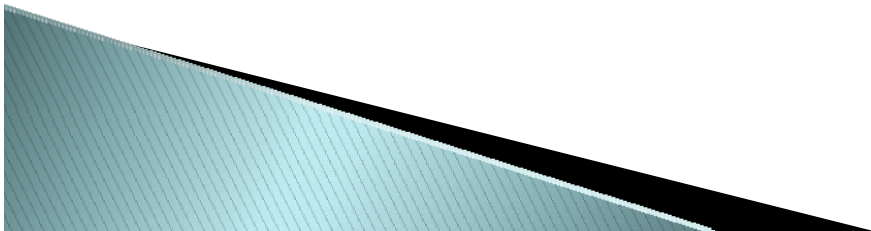
You're Bankrupt: Now What?

- ▶ Payments and Defaults
 - ▶ Ipso facto clauses
 - ▶ Payment issues
 - ▶ Covenant defaults



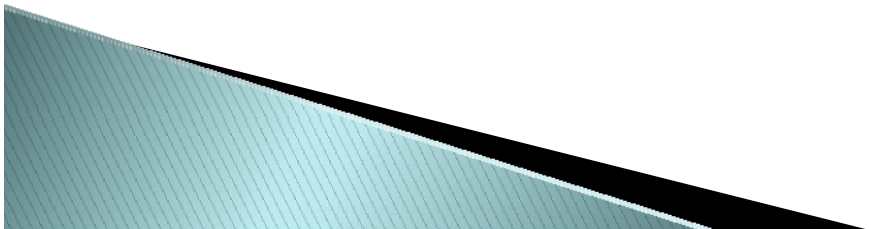
You're Bankrupt: Now What?

- ▶ Secured Debt
 - ▶ Special revenues
 - ▶ Land secured debt
 - ▶ Mortgages



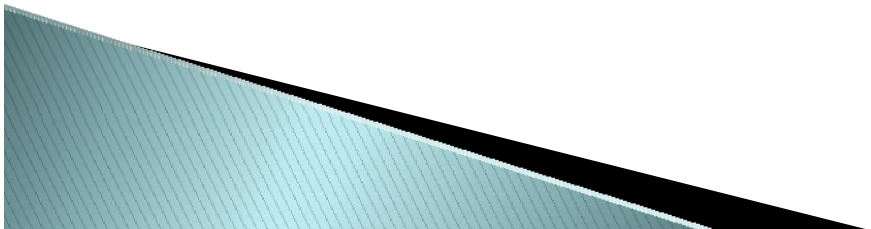
You're Bankrupt: Now What?

- ▶ Leases
 - ▶ Operating leases
 - ▶ Accept or Reject within 120 days
 - ▶ If rejected, maximum damages are 1 year's rent
 - ▶ Capital leases
 - ▶ Treated like Debt
 - ▶ Offner-Dean Leases
 - ▶ No acceleration



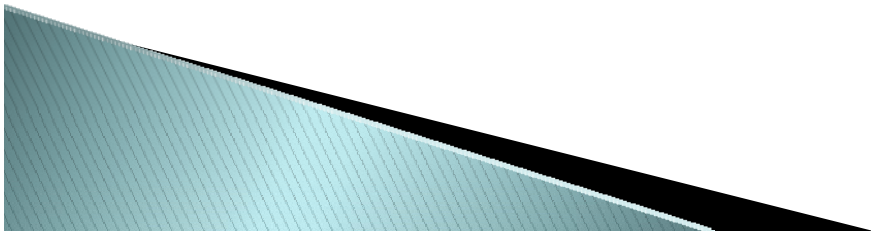
You're Bankrupt: Now What?

- ▶ Negotiations with Capital Markets Creditors
 - ▶ Credit Enhancers vs. Bondholders
 - ▶ Interplay with other parts of case/other creditors
 - ▶ Interim relief vs. long-term workout
 - ▶ Negotiated settlement versus plan of adjustment
 - ▶ Bankruptcy Claims



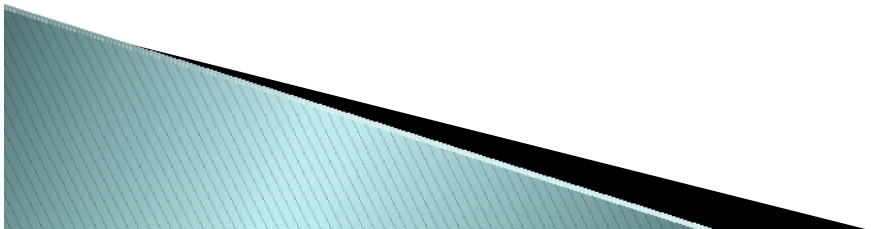
Life After Bankruptcy

- ▶ Exit Financing/Restructuring
 - ▶ Long term working capital borrowing
 - ▶ Refunding/restructuring considerations
 - ▶ Credit sources



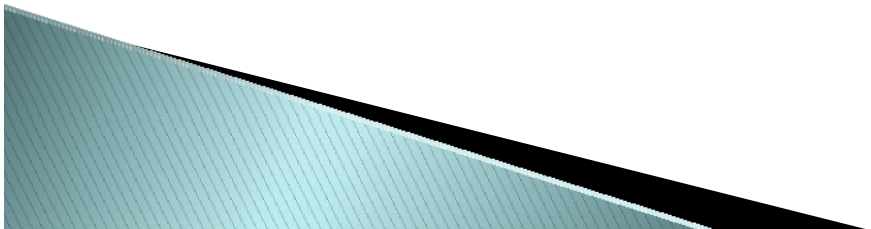
Life After Bankruptcy

- ▶ The Importance of Sticking to the Plan
 - ▶ Long term structural balance
 - ▶ Monitoring and Accountability
 - ▶ Avoiding “Chapter 18”

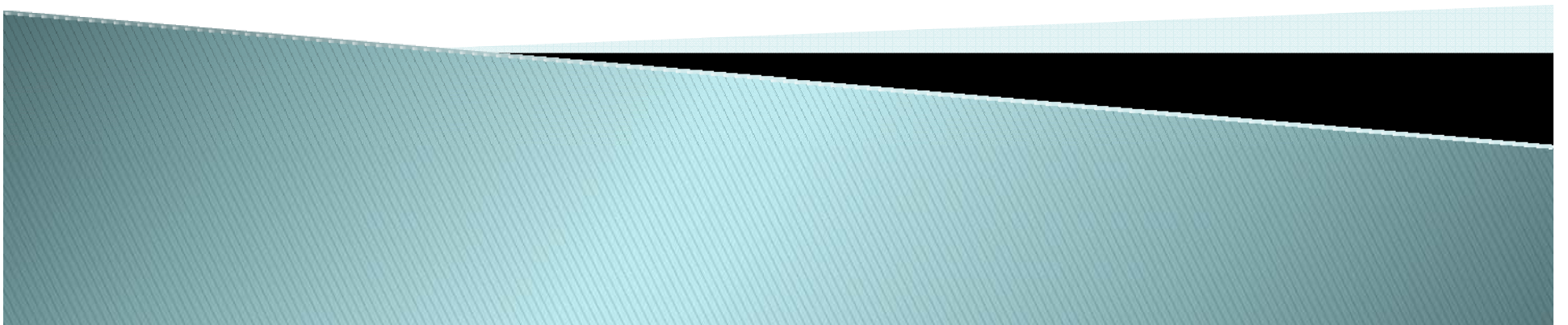


Life After Bankruptcy

- ▶ Communication and Transparency
 - ▶ Regular and comprehensive market communication
 - ▶ Transparent and timely financial reporting
 - ▶ Responding to inquiries from capital markets participants

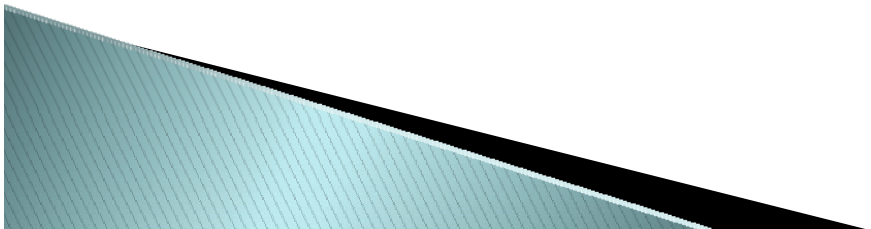


*Labor Negotiations in
Bankruptcy*



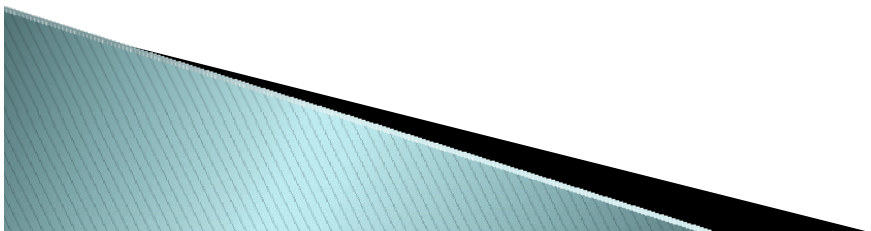
Impact of Labor Negotiations

- ▶ Public Employers are Service Providers
- ▶ Wages and Benefits Constitute 50-75% of General Fund Expenditures



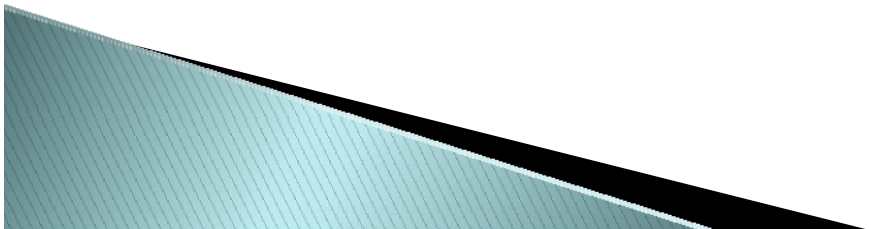
Impact of Labor Negotiations

- ▶ Surveys and Wage Formulae Lead to Increased Salaries
- ▶ Recent Increases in Benefit Levels (Retirement and Retiree Medical) have led to significant unfunded liabilities



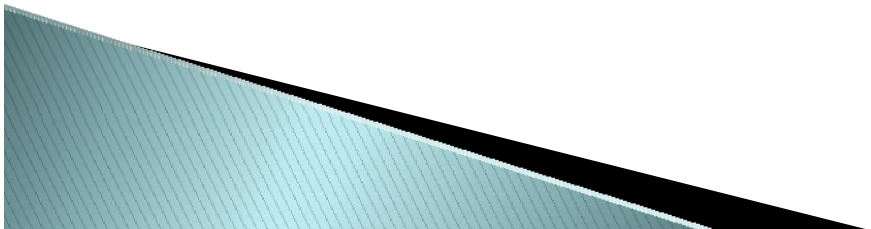
Bargaining Under Chapter 9

- ▶ “Normal” Concession Bargaining
 - ▶ Absent an open agreement or reopener, there is no obligation to bargain and no option for unilateral implementation
 - ▶ Threat of Layoffs/Furloughs Create Incentive to Bargain



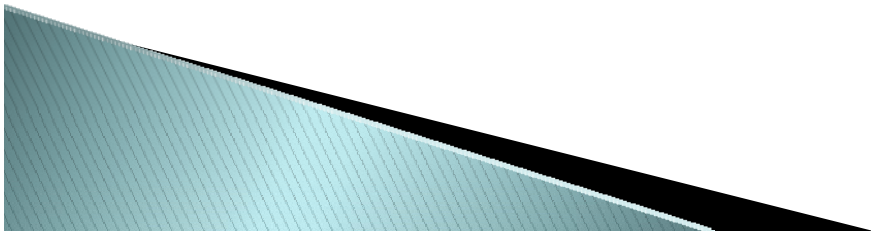
Bargaining Under Chapter 9

- ▶ Bankruptcy Changes
 - ▶ Unilateral Implementation Under Pendency Plan
 - ▶ Motion for Approval to Reject Collective Bargaining Agreements



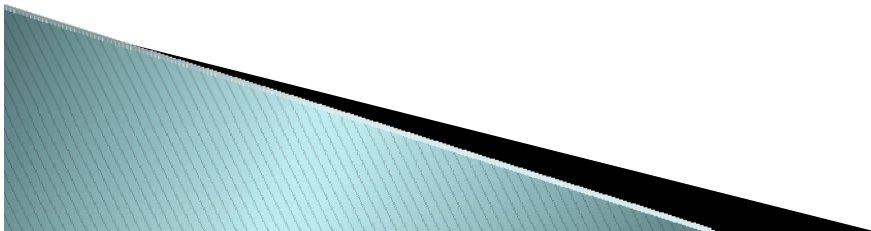
Bargaining Under Chapter 9

- ▶ Rejecting CBA's
 - ▶ Pre-Rejection Bargaining Under *Bildisco*
 - ▶ Post-Rejection Bargaining



Bargaining Under Chapter 9

- ▶ Endgame
 - ▶ Mutual Agreement
 - ▶ Unilateral Implementation
 - ▶ Interest Arbitration
 - ▶ Impact of Bankruptcy Stay



Questions and Comments