

SFGate.com

Bankruptcy looking more likely for Vallejo

Carolyn Jones, Chronicle Staff Writer

Monday, April 21, 2008

Vallejo will inch closer to financial ruin Tuesday when the City Council lets pass its do-or-die date to avert bankruptcy.

City staff members have been unable to come up with a detailed, long-term financial plan because negotiations with the police and fire unions are still ongoing. The city is asking for steep concessions from the unions, whose members are among the highest paid in the Bay Area and whose salaries comprise about 74 percent of the city's budget.

"We had hoped to have an agreement by April 22 to give to the council," said Mayor Osby Davis, who has sat in on the negotiations. "But I'm optimistic. There's always room for a resolution if people are willing to give and take."

Vallejo has been slammed by the crumbling housing market and its escalating public safety salaries. In March, faced with a \$9 million deficit and no reserves, the city slashed funding to senior centers, the arts, museums, libraries and public works, and laid off 16 city workers. Police and firefighters took a 6.5 percent pay cut, and the city closed two fire stations.

The cuts are intended to keep Vallejo afloat through June 30. But the city needed to come up with a long-term solution to its financial woes by April 22, allowing it the minimum amount of time to declare bankruptcy if necessary. The city heads into the 2008-09 fiscal year with a projected deficit of \$13 million.

If it declares Chapter 9 federal bankruptcy, it will be the biggest city in California to go that route, and the only one to do so because of long-term financial problems. Desert Hot Springs (Riverside County) declared bankruptcy in 2001 after it lost a lawsuit from a developer. Orange County declared bankruptcy in 1994 because of bad investments.

Negotiations with the unions are not going well, according to city officials. The parties met three times last week and the city is expected to look at a proposal from the unions on Monday, but no meetings are scheduled after that, Davis said.

Cutting police and fire salaries is critical to curing Vallejo of its financial mess, City Councilwoman Joanne Schivley said.

"We've already made many cuts, but those cuts don't get us to the root of the problem," she said. "The root of the problem is the contracts the city simply cannot afford."

The unions have said the city has revenues stashed in other accounts, and has shifted money from

the general fund to distort the public safety apportionment.

The salaries - in some cases topping \$200,000 a year - are due largely to overtime. The Fire Department has been short-staffed for years, forcing many firefighters to work mandatory overtime to comply with minimum staffing requirements.

Union leaders have said the long hours have taken a toll on the staff, resulting in divorces, loss of child custody and an increase in job- and stress-related injuries. The union wants the city to hire more firefighters rather than rely on existing staff to work overtime.

Calls to the fire union, city manager, finance director, auditor and several City Council members were not returned Friday.

Davis said he's hopeful the city can reach an agreement with the unions that will allow a balanced budget for 2008-09. If no agreement is reached, the city will be unable to pay all its bills after June 30.

The City Council is split on declaring bankruptcy. Some, including the mayor, think bankruptcy should be avoided at all costs because of the expense, stigma and harm to the city's credit rating and economic development.

Others on the council see it as the only way to restructure the contracts and protect the city from lawsuits and creditors.

Because municipal bankruptcy is a largely untested area, no one is quite sure how it would affect the union contracts, Davis said.

"Bankruptcy is not a panacea," he said. "We need to do absolutely everything we can to avoid it. The unions will fight it, for starters."

Councilwoman Stephanie Gomes was not hopeful.

"We've been negotiating with these guys for two years," she said. "It's crazy to think we're going to come up with a resolution in the next few days. It's like a dog chasing its tail."

What's next?

The Vallejo City Council meets at 7 p.m. Tuesday at City Hall, 555 Santa Clara St., Vallejo. For more information, go to <http://www.ci.vallejo.ca.us/>.

E-mail Carolyn Jones at carolynjones@sfchronicle.com.

<http://sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/04/21/BADG108NOD.DTL>

This article appeared on page **B - 1** of the San Francisco Chronicle