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## City of Vallejo Emerges from Bankruptcy

After 3 financially nightmarish years, the city of Vallejo has been given the all-clear to exit bankruptcy. US bankruptcy judge Michael McManus confirmed the city's plan to emerge from Chapter 9 bankruptcy, effectively bringing to a close the incident of one of the most high-profile municipal bankruptcies in the country. The city of Vallejo, located in Solano County, filed for bankruptcy protection in 2008 under heavy debts and miniscule revenue projections.

Vallejo Mayor Osby Davis said, "It's a culmination of a lot of hard work, tough decisions and a lot of courage for the council to do what had to be done, and now it's come out. Everyday citizens—they don't have to be characterized as 'your city's in bankruptcy.' We've gone through that. We have been successful doing what we need to do to establish a stable financial base for our city."

In its efforts to deal with its huge deficit, the city made firefighter pensions less generous, closed fire stations, reduced costs by getting workers to pay more toward their health benefits and eliminated minimum fire staffing rules. The city also got a reprieve from creditors while it sorted itself out financially while it worked to find more sources of revenue.

There are plusses and minuses to the exit from bankruptcy. One plus point is that real estate agents no longer have to reveal that the city is in bankruptcy when showing

property to prospective buyers of property. On the flip side, the exit from bankruptcy means the city is once again liable for the \$225 million debts that it has outstanding. But this amount will inevitably decrease as most creditors are set to receive only a portion of what they are owed (some as low as 5%).

Observers blame the public sector pensions for the city's economic woes. Michael Lewis writes in *Vanity Fair*, "80% of the city's budget—and the lion's share of the claims that had thrown it into bankruptcy – were wrapped up in the pay and benefits of public-safety workers."

In the city's renegotiated employee contracts, city workers now contribute more to their health insurance, new firefighters enjoy lower pensions and the fire department no longer has minimum staffing requirements.

The most recent municipal bankruptcy in California before Vallejo was Orange County in 1994 that suffered millions of dollars in losses from risky investments made by Los Angeles suburb's longtime treasurer and the county's conservative electorate that rejected a tax hike to make up for the shortfall.