STOCKTON’S AB 506 PROCESS CLARIFIED

(Stockton, CA) - On February 28, 2012, the Stockton City Council approved moving forward with a confidential neutral evaluation process recently adopted through state legislation, AB 506. The process gives municipalities that are in fiscal distress an opportunity for financial restructuring, not unlike what goes on in the private sector. The City has not declared bankruptcy.

The City has suspended debt payment from unrestricted funds on three bond issues for the remainder of this Fiscal Year (March through June 2012) and temporarily suspended cashing out vacation and sick leave balances for separating employees to preserve cash and avoid significant large-dollar-value cash-outs occurring at once. The City Council resolution does not otherwise affect the City’s continuing payment of its bills, payroll and other bond and debt payments, and the City intends to pay such obligations in the ordinary course of business.

The City’s total annual budget is $600 million including all funds and operations;

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the financial restructuring involves only a small portion of the City’s total budget – the General Fund – which represents approximately $165 million of the larger budget. The General Fund contains unrestricted funds that are used for many day-to-day operations of the City, including police, fire, libraries, parks maintenance and administration. The sources of funds for the General Fund are primarily sales tax, property tax, business license tax and utility users tax. Due to the current recession, which has hit the Central Valley particularly hard, all of the sources of funding for the City’s General Fund have declined.

The remaining amount of funds in the City’s total budget, approximately $435 million, is dedicated for specific purposes. These other dedicated, special funds legally cannot and will not be used to resolve the City’s General Fund fiscal needs. A legal “firewall” exists between the General Fund and these other special funds. Goods, services and other debt, including bonds, paid from these dedicated special funds, such as the City’s municipal water and wastewater utilities and public works transportation funds, are not impacted by the City’s fiscal emergency.

This financial restructuring process is designed to protect and maintain public safety services going forward, not to reduce them, as has been the focus of past efforts to balance the budget. There are many private sector examples of financial restructuring that led to healthy futures. We plan to do the same.

The City is still open for business, as it was before the AB 506 process was
approved. In fact, the City is still aggressively pursuing its four main goals: 1) getting its fiscal house in order, 2) improving public safety, 3) increasing economic development and 4) increasing organizational capacity.

To these ends, numerous initiatives are in the works, including: re-engineering our Community Development Department; implementing the Urban Land Institute’s recommendations to revitalize our downtown; designing a new “Marshall Plan” on crime; among many others.

The City of Stockton will continue to provide basic services, solve community problems, protect our citizens and pay our bills, as we strive to create a healthier financial future for our City.

For additional information or questions, please visit www.stocktongov.com or call (209) 937-8827.

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