

THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

Vallejo, Calif., Reaches Agreement With Unions, Avoids Chapter 9 Filing

Bond Buyer | Monday, March 3, 2008

By [Rich Saskal](#)

SAN FRANCISCO - Vallejo, Calif., stepped back from the brink of bankruptcy last week.

Ahead of a meeting Thursday night at which the City Council was to consider authorizing the city to file for Chapter 9 bankruptcy, Mayor Osby Davis said that the vote would not be necessary.

"Based upon the conclusion of positive discussions with the public safety unions, a tentative agreement has been reached," he said.

The city had been seeking concessions from the police and fire unions to avert the potential cash crunch that led officials to consider filing for bankruptcy under Chapter 9, the portion of federal bankruptcy code for municipalities.

Details of the agreements were not immediately available. Davis said staff would be working to put it in writing before another special meeting of the City Council that is scheduled this evening.

Vallejo's general fund was on pace to run out of cash by April, according to a staff report prepared by city manager Joseph Tanner before the concession deal was

reached.

The city of 120,000, located about 30 miles north of San Francisco, adopted a fiscal 2008 general fund budget with \$85.8 million in revenues and expenses.

Since the budget was adopted last summer, revenue projections have been cut by \$5 million, largely because the real estate crunch has impacted property transfer tax receipts, sales taxes, and development fees.

The city also lost an arbitrator's ruling on fire department staffing levels that was projected to cost more than \$4 million.

Reports of Vallejo's budget problems created even more budget problems, as more than 20 employees, trying to lock in their pensions, filed for retirement in the latter half of February alone, which is projected to cost the city more than \$2.5 million in payouts for their unused leave.

The city government and its related enterprises had \$201.1 million of outstanding bonds and certificates of participation as of June 30, according to Vallejo's most recent comprehensive annual financial report.

More local governments are likely to contemplate Chapter 9 filings as the fallout from the credit crisis spreads, according to an [article](#) published on a law firm Web site co-authored this year by Lee Buchwald, a restructuring specialist who is founder and president of Buchwald Capital Advisors LLC, and Nicholas Kajon, a bankruptcy attorney and shareholder in the firm Stevens & Lee PC.

"There hasn't been much to do in the restructuring world for municipalities," Buchwald said Friday. "One of the reason Nicholas and I put that article together

is we both think that's going to change."

Many local governments are likely to come under pressure from falling property values and sales tax revenues, which will exacerbate ongoing problems those governments have with mandates and rising costs for employee and retiree compensation, the article said.

Municipal bankruptcies, or even defaults in need of restructuring, could make municipal bonds an "interesting play" for investors in distressed credits, the article said.

"There's just a lot of things all at once," Buchwald said. "It may not be that there's a flood of Chapter 9s, but there will be some, and I think there will be a lot more out there in the way of potential defaults."

© 2008 The Bond Buyer and SourceMedia Inc., All rights reserved. Use, duplication, or sale of this service, or data contained herein, except as described in the subscription agreement, is strictly prohibited. Trademarks page.

Client Services 1-800-221-1809, 8:30am - 5:30pm, ET

For information regarding Reprint Services please visit: <http://license.icopyright.net/3.7745?>

icx_id=20080229UKDBJQN6