

California city on verge of declaring bankruptcy

STOCKTON, Calif. (AP) – Officials in Stockton said Tuesday that mediation with creditors has failed, meaning the Central California city is set to become the largest American city ever to declare bankruptcy.

City Manager Bob Deis said officials were unable to reach a deal to restructure hundreds of millions of dollars of debt under a new state law designed to help municipalities avoid bankruptcy.

Monday marked the three-month deadline for negotiations.

“Unfortunately we have no comprehensive set of agreements with our creditors that would eliminate the deficit and avoid insolvency,” Deis said at a City Council meeting. He said, however, that the city was still negotiating with some creditors and could reach deals with as many as one-third of them.

“We think Chapter 9 protection is the only choice left. If we get any agreements, those will be honored in Chapter 9,” Deis said.

The Council was expected to vote later Tuesday on a special bankruptcy budget to plug next year’s anticipated \$26 million deficit, and city lawyers could file for Chapter 9 protection in court as soon as Wednesday.

The river port city of 290,000 in Central California has seen its property taxes and other revenues decline, while expensive investments and generous retiree benefits drained city coffers.

In the past three years, officials in the city that was slammed by the collapse of the housing market dealt with \$90 million in deficits through a series of drastic cuts.

They eliminated one-fourth of the city’s police officers, one-third of the fire staff, and 40 percent of all other employees. They also cut wages and medical benefits.

To plug next year’s antici-

pated \$26 million shortfall, the proposed budget would suspend payments for debts and legal claims, reduce payments for retiree medical benefits, further cut some pay and benefits, and increase revenue through code enforcement and parking citations.

The proposed budget includes no major service reductions, Deis said earlier.

“The whole purpose of filing Chapter 9 is to avoid an uncon-

trolled chaotic situation,” he said. “Bankruptcy provides the equivalent of a pause button. It retains services and provides structure so you don’t have a bunch of lawsuits.”

In a standing-room only chambers Tuesday, former city employees told council members about their life-threatening medical conditions and said benefit cuts meant they would effectively lose their health insurance.