Council Urges Stockton City Manager to File for Municipal Bankruptcy

by Joel R. Glucksman on June 14, 2012

Stockton, California, may join the short list of cities that have filed for municipal bankruptcy protection amid growing economic strain.

In a 6 to 1 vote, the Stockton City Council will permit City Manager Bob Deis to file for Chapter 9 protection under federal bankruptcy law if state-required mediation discussions with creditors do not produce a financial alternative, according to Bloomberg News. This could happen as early as June 26 if the city does not win concessions from creditors, including Wells Fargo and the California Employees' Retirement System, the news source adds. Talks with creditors will end on June 25.

In total, 18 creditors are involved in mediation discussions with the city.

Stockton is currently facing a $26 million deficit as a result of several financial factors. The most immediate cause of the city's insolvency surrounds the financial burden resulting from rising pension and retiree health benefit costs, Bloomberg explains. This was exacerbated by a steep decline in sales and property taxes that resulted from the recession. The source also names accounting errors, high amounts of borrowing and other financial mistakes as a contributing factor.

"We have hit the wall," Mayor Ann Johnston said at the council's meeting, according to Bloomberg. "There are no quick fixes, there are no silver bullets."

Filing for municipal bankruptcy may be the only recourse the city has left, as months of financial struggles have hit the town hard and led to a downgrade of its credit rating by Moody's Investor Services. If the city does file for bankruptcy, it will join the ranks of Cranston, Rhode Island, and Jefferson County, Alabama, which both filed for Chapter 9 protection when faced with severe budget shortfalls.