U.S.

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How Stockton went broke: A 15-year spending binge

Jim Christie

SAN FRANCISCO (Reuters) - The man in charge of the biggest U.S. city ever to file for bankruptcy is clear about the root of the crisis.

Shuttered and padlocked businesses line Main Street in Stockton, California June 27, 2012. REUTERS/Kevin Bartram

It was a decision that gave firefighters full healthcare in retirement starting on January 1, 1996, said Bob Deis, the city manager of Stockton, California.

At the time, the move seemed cheaper than giving pay raises sought by unions, officials involved in the decision said. When other Stockton employees demanded the same healthcare deal in following years, the city agreed.

Deis, who signed Stockton's bankruptcy filing last Thursday, slammed the decision to provide free healthcare to retirees as a "Ponzi scheme" that eventually left the city with a whopping $417 million liability.

Before the turn of the millennium, things looked very different in California.

The U.S. stock market was booming, bolstering Stockton's pension funds. Real estate values were about to soar, too, bringing a flood of new tax revenue to the once quiet farming town of about 300,000 people - about 85 miles east of San Francisco - in California's Central Valley.

THE TRADE-OFF

To counter demands for wage hikes from city workers in the 1990s, Stockton offered to extend their health insurance in retirement past age 65 - a benefit they embraced and assumed to be rock solid until the insolvent city's officials put it on the chopping block in a bankruptcy plan last week.

"It was a balancing act," said Dwane Milnes, Stockton's city manager at the time. "The unions wanted retiree medical ... We said if you want to continue your medical for current employees and retirees, you'll have to do it through wage containment."

Milnes, who represented Stockton's retirees in recent talks with City Hall, said the strategy was sound at the time.

"We were satisfied that based on a conservative view of the economy and based on the medical inflation rate we were experiencing in the 1990s, the city could adequately fund retiree medical."

Detective Mark McLaughlin said Stockton's labor unions embraced the trade-off, which in the police department's case helped with recruiting and retention.

"It was an easy sell," he said, adding that city workers believed the money they gave up in pay increases would be able to pay for the health benefit.

SPEND, SPEND, SPEND

Other U.S. cities have also experienced boom and bust like Stockton.

But analysts and investors generally see Stockton as an extreme case of fiscal mismanagement over the past two decades.

Daniel Berger, a senior market analyst at Municipal Market Data, a unit of Thomson Reuters, said last week, before the bankruptcy filing, that the municipal bond market had viewed Stockton's fiscal problems as "a slow-moving train wreck." The possible bankruptcy filing, he said at the time, was seen as an "isolated occurrence."

As the 2000s advanced, Stockton continued to spend freely with the support of voters, politicians from both parties, employees and bondholders. Rating agencies were quiet about any risks and only started to downgrade the city's creditworthiness two years ago.

Generous pension deals were offered in the early 2000s.

City officials, looking to transform their sleepy downtown, approved spending on large projects to raise Stockton's profile and turn it into a bedroom community for San Francisco and the Bay Area.

Homebuilding went into overdrive. Home prices skyrocketed to a median of nearly $400,000 in 2006 from a median of $110,000 in 2000.

Stockton's revenues jumped, too. Its general fund, which pays the city's operating costs, swelled to $186.4 million in 2007 from $139.1 million in the 2001 fiscal year.

ROYAL PENSIONS

Like other cities in California, Stockton chose to offer many public safety workers the same benefits as those mandated by a state law for highway patrol officers. The change allowed police officers to retire at 50 with pensions based on 3 percent of final pay for each year in service, up from 2 percent before.

City employees in other unions also received more generous pensions with eligibility to retire at age 55 - with 2 percent of final pay multiplied by the number of years of service.

This is in contrast to the vast majority of private-sector workers who cannot receive Social Security payments before they are at least 62.

By the 2000s, Stockton's full-time employees were also entitled to free healthcare for life.

Still, there seemed little cause for concern.

This video is currently unavailable.

With huge stock market gains from the 1990s, city officials were confident about meeting pension costs. After all, the Standard & Poor's 500 Index index quadrupled between early January 1990 and late March 2000.

Police and firefighters continued to win further concessions. Generous allowances were offered to police officers to buy their uniforms, bonuses were introduced based on years of service, and retiring officers claimed cash payments for unused vacation days - accumulated over years in some cases.

Warning signs grew that retiree healthcare costs were rising fast. The city miscalculated the rate of inflation for medical costs during the 2000s.

But Stockton's leaders burned through their reserves and began planning new construction projects to make the city more appealing to new residents.

A $47 million bond issue in 2004 was meant to finance construction of a sports and concert arena to revitalize the city's downtown. The arena was built, but it ended up losing money.

A downtown high-rise building was acquired for a new City Hall. A revamp of Stockton's downtown riverfront was financed, along with other projects, by more than $100 million in debt between 2004 and 2006 by the city's redevelopment agency.

Stockton ended up absorbing that debt after California's governor eliminated local redevelopment agencies last year.

It seems unlikely that Stockton will be able to sell those real estate assets at a gain.

"Most of the assets that look nice are under water," said Deis, the city manager.

A $125 million pension obligation bond sold by Stockton in 2007 also backfired. Stockton passed the proceeds to the California Public Employees' Retirement System, or Calpers, to pay down unfunded liabilities at the pension fund. Then the fund suffered steep losses when financial markets plunged in 2008 and early 2009 and left Stockton with a 23 percent loss on its invested proceeds and in debt to investors who bought the bonds.

HOUSING BUST'S TRAIL OF PAIN

The worst damage was done by the housing crash. Median home prices in Stockton slumped to $110,000 in 2009, erasing nearly a decade's gains. General fund revenues in the current fiscal year are projected at $155 million, just above their level in 2001.

The real estate bust made Stockton one of the foreclosure capitals of the United States. Property-tax revenues tumbled. The city began its new fiscal year on July 1 with its 1,420-strong workforce down by a quarter from three years earlier.

Debt service has ballooned to $17.2 million a year from $3 million just six years ago.

Stockton has already defaulted on about $2 million in bond payments since February.

Recriminations about Stockton's budget need to be set aside to avoid the kind of lengthy bankruptcy suffered by Vallejo, another California casualty of the boom-to-bust cycle. It emerged from bankruptcy last year after three years in Chapter 9 that cost it $10 million in legal fees.

Stockton has earmarked $3.5 million for bankruptcy court expenses because it hopes for a quick exit from Chapter 9.

Bondholders, employees and retirees will be hurt in the process. Axing retiree medical benefits is now central to efforts to restructure Stockton's finances, Deis said.

Many retirees are in a state of shock about that.

“I believed the city would honor its commitments,” said Geri Ridge, 56.

The former clerk retired last year after 26 years with Stockton’s police following a second heart attack.

Ridge lives off a monthly pension of $1,895. She learned on Friday that she now faces a $576 monthly premium for her health coverage - or $1,277 a month if she keeps her daughter on her plan.

She has no idea of how to pay for the coverage, which the city will fully eliminate in a year. And she has harsh words for Deis.

“I want him gone. I’m hoping whoever gets elected into office fires him, bankruptcy or not,” Ridge said.

Reporting by Jim Christie; Additional reporting by Hilary Russ; Editing by Tiziana Barghini and Jan Paschal

BUSINESS NEWS

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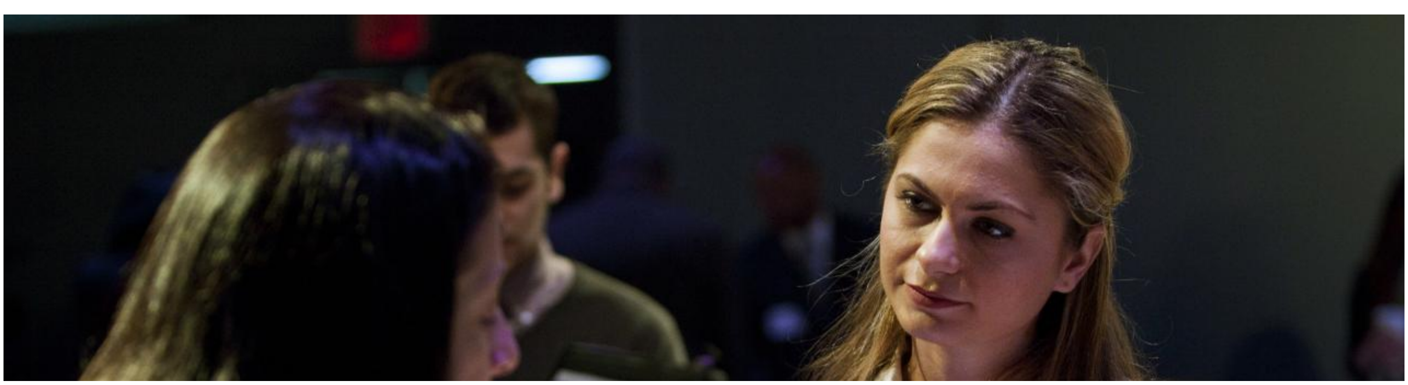
U.S. women earn half the income of men, new study finds

Alex Dobuzinskis



FILE PHOTO: A woman speaks to a potential employer at the "Hiring Our Heroes" job fair at the Intrepid Sea, Air and Space Museum in New York March 28, 2012. REUTERS/Andrew Burton

(Reuters) - Women earned roughly half the income of men in the United States over a 15-year period, taking into account time off for family or child care, according to a report released on Wednesday, which found the pay gap is far greater than has commonly been assumed.

In an examination of women's income from 2001 to 2015, the Washington-based Institute for Women's Policy Research found that women's income was 51 percent less than men's earnings, which includes time with no income.

"Much ink has been spilled debating whether the commonly cited measure of the wage gap - that women earn 80 cents for every dollar earned by a man - is an exaggeration due to occupational differences or so-called 'women's choices'," Heidi Hartmann, president of the institute and a co-author of the study, said in a statement.

"But our analysis finds that we have actually been underestimating the extent of pay inequality in the labor market," Hartmann said.

The study, "Still a Man's Labor Market," showed that the wage gap has narrowed since 1968, with women's inflation-adjusted income rising to an average of $29,000 for the period from 2001 to 2015, compared with $14,000 from 1968 to 1982.

But women are nearly twice as likely as men to take at least one year off work, and they pay a high price for it. Women who left the workforce for a year earned, during their years on the job, an average of 39 percent less than men, the study found.

Companies are likely to pay their employees less, regardless of gender, if they leave their jobs at some point. But women are more often hurt by that pay cut, the study found, because they are more likely to take time off.

With paid family and medical leave and affordable child care, women are more likely to stay in the workforce and earn higher pay, according to the study.

(This story corrects to show women’s income was 51 percent less than men, not 49 percent, in paragraph 2)

Reporting by Alex Dobuzinskis in Los Angeles; Editing by Leslie Adler

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