

MEMORANDUM

February 24, 2012

TO: All City of Stockton Employees

FROM: Bob Deis, City Manager

SUBJECT: **TEMPORARY SUSPENSION OF PAY OUTS OF VACATION, SICK LEAVE AND HOLIDAY HOURS UPON SEPARATION FROM CITY SERVICE AS PART OF ONGOING FISCAL EMERGENCY**

In May 2011 the City Council adopted resolutions declaring that the City of Stockton was experiencing an ongoing fiscal emergency. That declaration is still in effect and continues today despite the many layoffs and compensation concessions that have had to be made in the past several years. Despite all of these actions the City is faced with the fact that its costs and obligations, including retirement costs and bonded debt, are greater than its revenues for both this fiscal year and for the foreseeable future. A projected \$39 million deficit is projected in FY 2012/13 and increases in the next fiscal years. A well respected outside financial consulting firm that has reviewed the City's finances and confirmed the City's deteriorating fiscal conditions. The City finances continue to grow more precarious with real concerns about the City ability to have sufficient cash to pay its bills and its employees through the end of this fiscal year.

On February 28, 2012, the City Council will consider an agenda item to officially start a process established by recent legislation (AB 506) and you will receive a letter from me about that process. The AB 506 process will include the City's bond holders and other major creditors, pension funds and employee organizations representing city employees to see what changes in the City's obligations can be made to avoid insolvency. That agenda item also has several recommendations to preserve the City fiscal and cash position through the end of the fiscal year. These include:

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- Defaulting on the City's March 1st bond payments;
- Ratifying the City Manager's actions temporarily suspending payments to separating employees for their vacation and sick leave balances in order to conserve cash so that the City can pay its bills and employees; and
- Investigating the causes for Stockton's financial situation and considering civil actions where appropriate.

The emergency declaration resolution adopted in May 2011 authorized the City Manager to take further emergency actions to preserve the City's ability to provide essential service to the citizens of Stockton in order to safeguard public health and safety. In order to give the City time to go through the AB506 process with the goal of successfully achieving reductions in its obligations and avoiding bankruptcy, the City needs to take several temporary actions to preserve its cash and ability to pay its bills and employees. Under that emergency authority I am ordering the following:

1. Annual Vacation Sell back or Cash Payoffs of Vacation. Effective the pay period starting February 16, 2012, whatever annual vacation sell backs or pay offs as provided for in various Memorandums of Understanding/Resolutions are hereby temporarily suspended. This applies to all bargaining units and employees, including those units where the annual sellbacks or cash outs have already been suspended during the furloughs.
2. Vacation Hours paid at separation. Effective the pay period starting February 16, 2012, all pay offs of unused vacation hours that would otherwise be made to an employee upon separation from City employment, and as provided for in all the various Memorandums of Understanding/Resolutions, are hereby temporarily suspended. This applies to all bargaining units and all employees. This suspension of pay offs of unused vacation shall also apply to Fire and Fire Management Longevity Vacation. This provision will not apply to employees who are involuntarily separated from City employment.
3. Sick Leave Hours paid at separation. Effective the pay period starting February 16, 2012, all payments of unused sick leave that would otherwise be made to an employee upon separation from city employment for any reason, and as provided for in various Memorandums of Understanding/Resolutions, are hereby temporarily suspended. This applies to all bargaining units and all employees.

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4. Holidays leave hours paid at separation. Effective the pay period starting February 16, 2012, all payments of unused holiday leave hours that would otherwise be made to an employee upon separation from City employment for any reason, and as provided for in various Memorandums of Understanding/Resolutions, are hereby temporarily suspended. This provision will not apply to employees who are involuntarily separated from City employment.
5. Other leave balance pay offs at separation including payments of unused compensatory time in lieu of overtime or furlough hour banks shall not be impacted by these suspensions.

Even after defaulting on bond payments (mentioned above) and sweeping all monies not restricted or currently obligated, the City's finances are precarious for the balance of this fiscal year. Any new surprise may push us into insolvency or uncontrolled default. As a result, we are forced to implement a temporary "time out" and examine our leave payout exposure. We will come back soon with an alternative policy that strikes a balance between our ability-to-pay and the past leave payout policy. I am very sorry for adding to the uncertainty, but maintaining solvency and services is critical during this transition.

City staff will be monitoring its finances closely and will continue to evaluate whether these suspensions continue to be necessary. You will be kept informed of any changes in these orders as soon as practical.

Thank you for your cooperation in this difficult time for the City of Stockton.



BOB DEIS
CITY MANAGER

CC: Stockton City Council
City Management Executive Team
City Employee Representatives