Stockton bankruptcy case should be a warning

By The Bee Editorial Board

FILE - In this Feb. 29, 2012 file photo, a banner proclaiming Stockton as an All-America city hangs from city hall in Stockton, Calif. A federal judge could rule Wednesday Oct. 1, 2014, on a bankruptcy exit plan for Stockton, an inland port city in California that in 2012 became the largest city in the U.S. to file for Chapter 9 protection before Detroit filed last year. U.S. Bankruptcy Judge Christopher Klein has scheduled a hearing in Sacramento in a trial that has lasted more than four months.

BEN MARGOT, FILE — AP Photo

A judge's potentially groundbreaking ruling in the Stockton bankruptcy case should send a clear message.

To the Legislature: It can't rewrite federal bankruptcy law. To the city of Stockton, Franklin Templeton Investments and CalPERS: They need to make a deal. And to local officials across California: They need to get serious about pension reform.

In his verbal ruling, Judge Christopher Klein declared Wednesday that public employee pensions are not off limits in bankruptcies. He suggested that insolvent California cities could choose to reduce already-promised pension payments and even walk away from the California Public Employees' Retirement System.

Stockton does not plan to do that. Under its reorganization plan, it pledges to keep making its $29 million annual payment to CalPERS. Because the settlement calls for Franklin Templeton to get back only $4 million of the $36 million it loaned the city, the firm went to court to get more, even if the money comes out of pensions. By delaying a decision on the reorganization plan until Oct. 30, Klein left an opening for a compromise.

This ugly spectacle ought to refocus local officials on their financial reality: If they don't control long-term retirement costs, those obligations will consume tax dollars at the expense of services to residents and jobs for current employees.

Many cities and counties have started trying to dial back pensions, reducing benefits for new hires and requiring employees to pay their full share of CalPERS contributions. Because these changes are being made through negotiations with unions, local governments are often having to hand out pay raises and other sweeteners in return. And because they were far too generous for much too long, it will take years for significant savings.

Some 2,000 local agencies are facing higher payments to CalPERS now and for the foreseeable future. Yet a majority of the CalPERS board is enabling local governments to hand out even more benefits. In August, the board voted 7-5 to count more than 100 kinds of supplemental and temporary pay in calculating pensions for employees hired after Jan. 1, 2013. The majority ignored pleas from Gov. Jerry Brown, who correctly warned that the move undermined pension reform passed two years ago.

If other cities don't learn the right lessons from Stockton's huge financial mistakes, they could put their citizens in similar straits, even if they don't flounder all the way into bankruptcy court.

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