Pension Battle Looms Over Stockton, California Bankruptcy

Following a burgeoning trend among cities across the country weighed down by hefty pensions and ever-increasing government spending, Stockton, California, has fallen into complete financial disarray, and a federal judge ruled Monday that the insolvent city is eligible for bankruptcy protection. Despite objections from creditors, who tried to block the bankruptcy filing because bankruptcy would mean that bondholders who financed city spending would get back from the city less than the principal that they are owed, U.S. Bankruptcy Judge Christopher Klein affirmed that Stockton may proceed with a plan to reorganize its debt, adding that creditors have acted in bad faith and have failed to subsidize their portion of the costs for negotiations. Klein insisted that the city "will not be able to perform its obligations to its citizens relating to such fundamental matters as public safety, as well as other basic governmental services," without the power of bankruptcy.

The impact Klein's verdict will have on creditors will be significant, some critics say, as companies have already doled out tens of millions of dollars to the city. "The creditors got a big black eye today," asserted Karol Denniston, an attorney involved in the legislation that directed the city's mandated mediation for bankruptcy protection. "Now the stage is set for the real dogfight." The judge intimated in his decision that the city may also have to reduce its payments to the city employees' pension fund so that the city can afford to pay its bills.

But the issue of whether federal bankruptcy law overrides California's mandate requiring pension fund debts to be honored could spell trouble for the entire state, not to mention the rest of the country, analysts contend. "The fear is that there is going to be a run on the bank," said bankruptcy lawyer Michael Sweet, who has been following the contentious trial. "'Everyone is going to be cutting CalPERS [California Public Employees' Retirement System]' payments if Stockton is permitted to do it. California's $225 billion Public Employees Retirement System already is underfunded by $87 billion, which means there are more payments due to retirees than there is money in the system."

Last June, the port California city, with a population of about 300,000, became the largest in the country to go insolvent, leading to a halt on bond payments, a drastic cut in employee healthcare benefits, and further reductions on the city's cash-strapped budget. During the three-day hearing, which concluded last week, Stockton officials blasted creditors for refusing to pay negotiation fees because the city omitted reductions to California's employee pension plan in its plan for reorganization.

Similar to the financial misfortunes of other cities in the state, the $900 million aggregate that Stockton owes to CalPERS is the city's largest debt. Assured Guaranty, one of the city's most prominent creditors, says it guarantees "scheduled principal and interest payments when due on municipal, public infrastructure and structured financings," and that it remains dedicated to seeing the city emerge from its stagnant fiscal condition. According to a press release issued Monday, the company stated:

> Assured Guaranty remains committed to working with the City to find a productive path forward that addresses the challenges facing the City. For example, Assured Guaranty has identified a number of practical solutions that will allow the City to emerge from bankruptcy in a much stronger position than when it entered and believes these solutions provide a realistic avenue to reach a consensual resolution with all stakeholders. Together with Stockton's taxpayers and residents, Assured Guaranty has a substantial interest in seeing the City emerge from its financial predicament as a viable and sustainable governmental enterprise for the long term. Assured Guaranty looks forward to the City working with it and all the other stakeholders on a collective approach to achieve that goal.

Nearly two dozen other cities in the state, including San Jose and San Bernardino, are facing either bankruptcy or severe financial emergencies, as their bloated pension expenses draw heightened criticism. "This is just the beginning of a multi-dimensional — well, I can't say chess game because it's not a game," said attorney Karol Denniston, an expert on financial restructuring. "There's not one thing that will fix the pension system. The net message is you can't see a restructuring when the largest creditor isn't being restructured."

The question is, of course, who picks up the bill for the city's fiscal disorder. Creditors, who poured tens of millions of dollars into bonds to help shoulder growing pension payment costs, have been left holding the bag. But the scenarios experts now draw are only a prelude to a nationwide calamity, as more and more states become weighed down by hefty pensions and reckless government spending.

According to Mac Slavo, writing for InfoWars.com, cities across the country will have to fire hundreds of thousands of workers, a trend that has been progressing over the last few years. "Then, entire States, likely starting with California, Illinois, and New York, will fall under the weight of billions of dollars in debt," Slavo writes. "They will turn to the Federal government, who will happily engage the Federal Reserve to print more Bernanke Bucks to bail them out."

The mounting debt loads on every level of government have become untenable, which will lead to a national unrest never before seen in the nation, Slavo adds: "The United States of America, in its entirety, will succumb to what can only be described as the largest sovereign debt collapse in the history of the world."