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Extreme municipal fiscal stress and austerity? A case study of fiscal reform after Chapter 9 bankruptcy

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Abstract

Post-recession urban restructuring in the U.S. has involved national and state governments pushing budget problems to the local level, with municipalities implementing a variety of responsive reforms. Although the term "austerity" has often been used to characterize these reforms, others have argued municipal responses to fiscal stress have been largely "pragmatic". Disagreement therefore exists about the extent to which austerity is a post-recession tendency across U.S. urban governance. However, there is a consensus that extreme municipal fiscal stress is linked to austerity restructuring. But can cities who have experienced extreme fiscal stress avoid austerity restructuring? This paper draws on research that examined bankruptcy-related reform in the City of Vallejo, California. In 2008, Vallejo became the first municipality to file for Chapter 9 bankruptcy after the financial crisis. During and after its bankruptcy, the City has faced extreme budget problems, making it a prime candidate for austerity restructuring. However, research shows that Vallejo undertook a set of post-bankruptcy reforms—controlling labor costs, revenue raising, managing risk, participatory budgeting—that are not collectively characteristic of austerity or pragmatism. In conclusion, the paper reflects on the political and ideological factors that shaped Vallejo's post-recession restructuring and how the City's core fiscal problems have avoided resolution.

Keywords

Austerity, bankruptcy, urban governance, urban politics

Introduction

Fiscal health remains a concern across U.S. local governments (CSG, 2016; Davidson and Ward, 2014; Gorina et al., 2018; Jun and Bryer, 2017; NLC, 2016). Scholarly accounts of post-recession urban restructuring (Kim and Warner, 2018; Lobao et al., 2018; Peck, 2014)

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relate this concern to the ongoing shifting of responsibilities to lower levels of government and the constraining of municipal finance by tax and expenditure limits (see Jimenez, 2018). Post-recession urban restructuring is therefore commonly viewed to be marked by an intensified shifting of fiscal burden from higher levels of government to the local level without any concomitant increase in local fiscal powers (Davidson and Ward, 2018; Peck, 2014). However, this general transference of fiscal responsibility is recognized to have resulted not in a common governance condition, but rather an uneven geography of local budgetary reform (Jimenez, 2018; Kim and Warner, 2016).

Understanding this emergent geography of post-recessionary urban restructuring presents significant challenges. Local government reform reflects a multitude of factors, such as the form of city management (Nelson and Svara, 2012), state legislation (Wang, 2018), and regional development (Kim and Warner, 2018). So, while there has been a widespread downloading of fiscal stress, this has interacted with local- and state-level processes to create a complex landscape of government reform (Aldag et al., 2019; Nelson, 2012; Warner and Clifton, 2014). How then can we begin to trace out the relationships between fiscal stress and post-recession urban restructuring? For instance, can we assume that austerity restructuring is a predictable outcome in cases of extreme budget stress? Ongoing debates over post-recession urban restructuring suggest we can (Donald et al., 2014; Peck, 2012, 2014; Scorsone and Plerhoples, 2010).

Extreme fiscal stress and austerity are connected in discussions of how structural constraints give local governments limited reform options. However, accounts of how this constrained environment manifests differ. Critical urban scholarship has often used bankrupt cities (Davidson and Kutz, 2015; Peck, 2014; Peck and Whiteside, 2016), such as San Bernardino (2012), Stockton (2012), and Detroit (2013), as examples of how extreme fiscal stress is inevitably remedied by austerity reforms in the neoliberal, entrepreneurial urban system (Hackworth, 2016; Peck, 2014). Bankrupt cities therefore illustrate the concluding point of systemic disciplining, where city administrations become beholden to the legal and institutional structures of neoliberalism. Public policy scholarship has often viewed local government constraint differently. Rather than seeing ideological limits to reform (see Kim and Warner, 2016), constraints are often viewed as coming from the legal and economic structures cities operate within. For example, Aldag et al. (2019) claim that only cities with high concentrations of property-tax exempt institutions tend to be associated with austerity.

Austerity is most often viewed as a predictable outcome in "extreme cases" of fiscal stress. Yet, disagreements exist over the extent to which these extreme events represent outliers (Aldag et al., 2019; Kim and Warner, 2016) or acute cases of general tendencies (Peck and Whiteside, 2016). For Peck and Whiteside (2016), the bankruptcy of Detroit provided an exemplar of the increasingly financialized, austere neoliberal urban system. Detroit can therefore be read as a harbinger of future neoliberalization. Aldag et al. (2019: 2) caution against making cities like Detroit representative of general municipal financial trends (also see Kim and Warner, 2016, 2018). Instead they argue that we should interpret extreme cases as outliers, taking a "less dire view [that] finds diverse responses to fiscal stress based on local context..." (2) Although extreme fiscal distress is therefore asserted (Peck, 2012, 2014) or accepted (Kim and Warner, 2016: 789) as associated with austerity restructuring, there is no consensus on whether austerity should be expected to extend beyond a handful of extreme cases.

This paper draws on research that examined bankruptcy-related restructuring in Vallejo, a Californian city of 120,000 inhabitants that filed for Chapter 9 bankruptcy in 2008. As the first U.S. city to undergo bankruptcy in the post-recession period, it became an ideal candidate for austerity restructuring (see Davidson and Kutz, 2015). However, the City's post-recession reforms complicate any simple association of extreme fiscal distress with austerity restructuring. Although the City of Vallejo undertook budget cuts leading up to bankruptcy, after bankruptcy it avoided further austerity. Instead, the City has engaged in varied set of budget reforms. These include restoring prior personnel cuts, more pragmatic budget management, and progressive governance reforms. However, the City has not reformed the expenditures that it blamed for its 2008 bankruptcy. This has left the City in a paradoxical situation where it has balanced its budget and commentators are still predicting a second bankruptcy (Hicken, 2014). In conclusion, the paper reflects on how the political and ideological dimensions of Vallejo's post-recession restructuring shaped the City's response to extreme fiscal stress.

Cities after the crash

The fiscal health of U.S. cities has improved in recent years (NLC, 2016, 2017). Many property markets have recovered to near pre-recession levels (Lightner, 2016), helping to restore property-related tax revenues. Consumption is again driving U.S. economic growth, restoring city sales tax revenues (NLC, 2016). However, not all cities are included in the post-recession fiscal recovery (NLC, 2017) and many cities continue to undertake spending cuts. For example, Atlantic City, New Jersey, has made headlines for its seemingly insurmountable budget troubles (Peck, 2017a, 2017b). In Connecticut, Bridgeport (Hussey and Foderaro, 2016) and Hartford (Carlesso, 2017) continue to teeter on the edge of bankruptcy. The post-recession recovery of city budgets has therefore been geographically uneven (Kim and Warner, 2016, 2018).

There are two related characterizations of this uneven post-recession urban governance landscape. On one hand, we have a growing literature on "austerity urbanism" (Davidson and Ward, 2018; Hackworth, 2016; Peck, 2012, 2014). This literature has identified the heightened significance of neoliberal doctrine in contemporary urban governance, using examples like Detroit (Hackworth, 2016; Peck and Whiteside, 2016) and Atlantic City (Peck, 2017a, 2017b) to demonstrate how fiscal crises and political opportunism have pushed city governments further toward the neoliberal small-state model. On the other hand, some have characterized post-recession city governance as "pragmatic municipalism" (e.g. Aldag et al., 2019; Kim and Warner, 2016), arguing that cities have generally not attempted state shrinkage and have focused on maintaining staff and services.

These two characterizations can therefore be distinguished by their view on the pervasiveness of austerity. In the austerity urbanism framing, case studies tend to be used to perform a particular/bottom-up reading of post-recession municipal restructuring. A city like Detroit (see Peck and Whiteside, 2016) is therefore seen to illustrate nationally pervasive, if less acute, forms of politico-economic restructuring. In contrast, the pragmatic municipalism framing is based on a top-down/survey perspective, where concentrated points of neoliberal state-craft (see Hackworth, 2016) appear more as outliers within pragmatic, service and staff retaining, trends.

Austerity urbanism

Mark Blyth (2015) defines austerity as "a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices, and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the state's budget, debts, and deficits" (2). Blyth's (2015) critical commentary on post-recession austerity is aimed squarely at national and international economic restructuring. His work has sought to demonstrate the illogical economics of multi-national public budget cuts: if private *and* state actors cut their spending simultaneously, then further economic contraction is assured. Peck (2012, 2014) extends this analysis to the local level. In the U.S., Peck (2012) identifies the downloading of austerity by state and national governments as a key driver of municipal fiscal stress. With higher levels of government cutting budgets and pushing service responsibilities to the local level, it becomes inevitable that the uneven fiscal capacities of cities are made more apparent:

> Under conditions of systemic austerity, this phenomenon of 'scalar dumping' is taking on new dimensions, as cities are confronted with a succession of budgetary Hobson's choices. Some cities will be able to muddle through by cutting corners (and maybe the odd department), while keeping the streetlights burning; for many others, ongoing fiscal restraint, service retrenchment and public–private workarounds seem set to reshape the operating environment over the medium term. It is in the nature of downscaled austerity politics that these pressures are neither manifest nor managed uniformly, even as they are felt widely. (Peck, 2012: 647)

Austerity urbanism is therefore a general condition with common governance strategies that "are not experienced uniformly, but remain politically and institutionally mediated" (Peck, 2012: 633). The effect, Peck (2012) claims, is that

> austerity is driving a sharp wedge between those cities that can feasibly go it alone and those that, by virtue of local economic frailty or high poverty rates, have no real option but to downsize municipal government and retrench public services. (633)

Austerity urbanism involves the application of a neoliberal playbook onto an already neoliberalized urban system (Hackworth, 2016; Whiteside, 2018). Peck's (2012: 648–649) "emergent features of austerity urbanism" confirm this, being that they are described as: (i) leaner local states (e.g. downsizing the public workforce), (ii) rollback redux (e.g. cutting even the "shadow" welfare state and enforcing "permanent fiscal vigilance"), (iii) fire-sale privatization, (iv) placebo dependency (e.g. local governance activities aimed at countering downloaded responsibilities with heightened economic growth strategies), (v) risk-shifting rationalities (e.g. offload of fiscal and service responsibilities), (vi) tournament financing (e.g. competition-based fund allocations), and (vii) austerity government (e.g. audit and accountancy driven government).

Austerity urbanism therefore identifies not a deviation, but rather an intensification of governance norms. A city like Detroit becomes "a testbed for austerity models of public-sector employment and pension reform, for the triaged delivery of public services, and for postcrisis experiments in privatized regeneration" (Peck and Whiteside, 2016: 264). Other cities serve as sites for renewed and invigorated "belt-tightening" (Hackworth, 2016) and further marketization of city assets (Akers, 2015). In extreme cases of fiscal distress, inevitable austerity reforms show "the systemic character of the forces that have been driving the city's restructuring—both fiscal and political—cannot be dismissed as some freakish outlier" (Peck and Whiteside, 2016: 263).

Pragmatic municipalism

Others argue that the concept of "pragmatic municipalism" (Aldag et al., 2019; Kim and Warner, 2016) better explains the emergent geographies of U.S. urban governance. Rather than austerity being a default strategy, Kim and Warner (2016: 12) claim that a host of pragmatic and locally defined reforms have been implemented in the post-recession period:

> Our results show that austerity urbanism, which predicts service cuts, privatization, and increased user fees, is too narrow to describe local government behaviour. Instead, we find support for our theory of pragmatic municipalism, which emphasizes the role of public managers. Local governments are doing much more than simply hollowing out – cutting services or privatizing. Municipalities under more stress use both more privatization and more cooperation.

This conclusion is developed from a survey of 1580 municipalities across the U.S., with a 23% response rate spread evenly across the country. Municipalities were asked to report their public service functions and the delivery mechanisms they chose to use (i.e. direct public, private, or public–private cooperation). By creating additional variables for fiscal stress, capacity, need, and place characteristics, Kim and Warner identified the relationship that existed between municipal fiscal stress and governance strategies in 2012. They found no clear relationship between municipal fiscal distress and reform. More recently, Aldag et al. (2019) have developed the theory of pragmatic municipalism in the context of a study of governmental reform in New York State. They argue that pragmatic municipalism tends to be associated with "places with a larger proportion of college-educated among the population, left-leaning governing boards, and stronger attitudinal support for maintaining and providing services" (14). Cities that showed austerity tendencies tended to be associated with high concentrations of tax-exempt properties, indicating that the autonomy required for pragmatic decision-making is strongly associated with revenue raising powers.

Pragmatic municipalism is, according to Kim and Warner (2016), not a new phenomenon. They draw upon previous studies to claim that (a) service cutting is historically a last resort, and not preferred option, for U.S. municipalities (Levine, 1978; Wolman, 1983), that (b) innovations in municipal fiscal matters tend to be focused on service retention (Scorsone and Plerhoples, 2010; Warner and Clifton, 2014), and that (c) privatization tends not to be an ideologically driven agenda in U.S. urban governance (Bel and Fageda, 2007; Joassart-Marcelli and Musso, 2005; Lobao et al., 2014). In contrast to the image of urban governance as being tightly confined by neoliberal norms (Peck, 2014; Whiteside, 2018), pragmatic municipalism characterizes city governments as active agents seeking out their own fiscal solutions.

The two theories of post-recession urban governance therefore disagree on whether a generalized austerity tendency exists. Austerity urbanism explains how the Great Recession has brought on another wave of neoliberal restructuring. Although this is often acknowledged as being an uneven process, its proponents claim that pervasive reforms can be observed and that a powerful ideological re-narration of economic crisis is playing out via a demonization of the (local) state (Peck, 2014). Pragmatic municipalism recognizes that elements of this reinvigorated neoliberalism exist, but also claims that this operates as a minor phenomenon amid a more varied set of state-conserving strategies (also see Nelson, 2012). This echoes Lobao et al.'s (2014) argument that state capacity and path dependency are critical variables in explaining urban governance changes, therefore challenging "assumptions that acquiescence to neoliberal policies is widespread" (644).

Existing theories of post-recession urban restructuring therefore disagree on the extent to which neoliberal political ideology conditions fiscal and budgetary reform. Where the two theories tend to agree is that extreme cases of fiscal stress are linked to austerity restructuring (Aldag et al., 2019: 15; Donald et al., 2014; Kim and Warner, 2016: 789; Peck and Whiteside, 2016: 237). By examining post-bankruptcy restructuring in the City of Vallejo, this paper questions the extent to which cities experiencing extreme fiscal distress are inevitable sites of austerity restructuring. The Vallejo case illustrates how bankruptcy-related restructuring was not representative of "some across-the-board race to the bottom in municipal finances, leading to a flat earth of lean or bankrupt local states" (Peck and Whiteside, 2016: 263). Rather, Vallejo's bankruptcy-related cuts served to triage a budgetary emergency before the City embarked on a mixed set of reforms. The complex character of the case study illustrates (a) that austerity cuts should be distinguished from austerity restructuring and (b) that the political and ideological dimensions of local governance reform are key to understanding post-recession urban restructuring.

Methodology

The paper draws on research conducted between 2010 and 2017 that examined bankruptcy-related budgetary and governance reforms undertaken in Vallejo, California. The research included primary and secondary data collection. Secondary data collection included city budget documents (1990–2017), city council meeting minutes (1999–2017), bankruptcy court filings, and news media appertaining to the Vallejo's bankruptcy (2007–17 coverage in *New York Times*, *San Francisco Chronicle*, and *Vallejo Times-Herald*). Secondary data were digitized and converted to text format using Adobe DC software. Text files were cleaned of extraneous text, labeled, and collated for analysis in QSR NVivo (see below). City budgets (summaries, revenues, expenditures, personnel statements) were converted from pdf into Microsoft Excel format, allowing for the generation of time-series data tables on key budget tables (e.g. labor expenses, employee numbers). Time-series analysis of city budgets identified the shifting composition of the city's revenues and expenditures.

Primary data were collected during three field visits to Vallejo (2011, 2013, and 2017). Interviews with 35 key informants (e.g. City Councilors, administrators, civic society actors, community organizers, labor union representatives) and 11 current and past residents were undertaken. Interviews were semi-structured and lasted between 45 and 90 minutes. Key informants were identified using a stakeholder analysis (Bryson, 2011) of publicly available City Council and bankruptcy filing documents. A stakeholder analysis enabled the classification of municipal actors and sampling across stakeholder classes. Resident interviewees were recruited in two stages. First, residents were identified and invited to participate at public meetings. Following this, snowballing recruitment from initial resident interviewees was used. With permission, all interviews were recorded and transcribed. Where interviewees declined to be recorded, extensive notes were taken during the interviews.

Secondary text documents and interview transcripts were coded according to a set of predefined research themes using NVivo software. These themes were based on the following areas of research inquiry: (i) the causes of municipal bankruptcy, (ii) the actors involved in bankruptcy disputes, and (iii) the reforms required to resolve bankruptcy-related issues. Coding of the textual data related to reforms (iii) began with a first pass content analysis to identify the various governance reforms discussed in the context of the Vallejo bankruptcy. With reforms identified, two further stages of analysis followed. First, a trend analysis identified the contextual content of the reforms mentioned. Second, a discourse analysis identified the discursive context with which the reform discussion occurred. For example, mentions of personnel cuts (content: reform) were identified, then any immediate referencing of personnel coded (trend: police and fire employees), before the broader context of the discussion was coded (discourse: power of police and fire labor unions). This produced a set of coding maps and statistics which identified the (a) main areas (by frequency and emphasis) of bankruptcy-related reform (see below), (b) the urban governance issues connected to the reforms, and (c) the discursive context associated with both the content and trend codes. Coding maps were then used to identify and characterize important areas of bankruptcy-related reform.

Vallejo's bankruptcy

Throughout the early 2000s, Vallejo's General Fund revenues had kept track with expenditures (see Figure 1). In the pre-recession economy, significant revenue growth was coming from property taxes and fees. For example, property-related taxes[1] grew by 47% between 2000 and 2005, whereas all other revenues grew in the same period by 22%. This enabled the City to grow staffing and services. In 2002–3, the City's General Fund supported 512 full-time equivalent (FTE) employees. As is typical of most U.S. cities, labor costs were the City's largest expenditure, particularly those relating to police and fire services. Police salaries and benefits ranged between 35 and 40% of total expenditures in the five years leading up to bankruptcy (see Figure 1). Fire service salaries and benefits constituted between 16 and 19% of the City's total expenditures. Growing numbers of employees and associated salaries meant that Vallejo's revenue growth needed to be substantial.

When the Great Recession hit, Vallejo's revenue growth stopped, and the City predictably ran into budget problems. Vallejo's housing market collapsed, with per-square foot housing costs declining from $270 in 2007–8 to $121 in 2009–10 and, consequently, property-related taxes stopped growing. Between 2007–8 and 2008–9, Vallejo's General Fund revenues declined from $83.1m to $78.2m. With revenues already declining in 2007, the City began cutting expenditures. In 2007, the City reduced its General Fund staffing from 464.7 FTE to 427.6. Most of these staff cuts came from police (218.5 to 200.5 FTE) and fire (110 to 90 FTE) services (City of Vallejo, 2007). Still, in 2008, the City's $80m budget (down from a projected $95m) faced a prospective $23m shortfall. This left Vallejo unable to pay its creditors. Obligations to employee salaries and benefits alone exceeded the

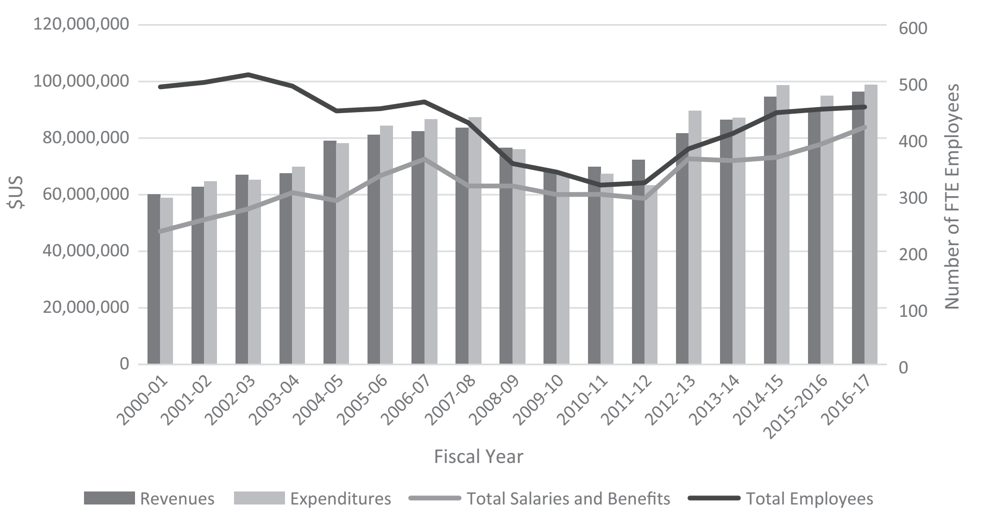

Figure 1. City of Vallejo General Fund and Measure B Revenues and Expenditures with Labor Expenses and Employee Numbers, 2000–2017. Note: Measure B revenue, expenditure, and payroll data are included by combining General Fund and Measure B budget data. Source: City of Vallejo Annual Budget Reports (2003–2017); dollar amounts not adjusted.

entire revenue of the General Fund. Vallejo's City Council consequently opted to file for Chapter 9 bankruptcy on 6 May 2008.

In the course of its bankruptcy, Vallejo made relatively modest changes to its liabilities (see Davidson and Kutz, 2015). Chapter 9 bankruptcy is a court-mediated restructuring of credit obligations. The principal role of the Federal Bankruptcy Court is to rule on the fairness of a proposed restructuring plan. Vallejo's approved restructuring plan made changes to retiree healthcare benefits (capped at $300 per retiree, per month, a $75–100m reduction in the City's long-term liabilities), reworked lease obligations (47% reduction in interest obligations, saving an estimated $23m), and reduced bond debt (unsecured creditors received between 5 and 20 cents on the dollar). Bankruptcy powers were not used to impose new collective bargaining agreements (CBAs) on three of the City's four unions or reduce the City's unfunded pension liabilities (see below). Bankruptcy therefore served to triage the City's 2007–8 budget emergency, rather than impose a radical restructuring of the City's major liabilities. It has therefore been outside of bankruptcy courts that Vallejo's city government has had to try and remedy its budget problems.

Vallejo's post-bankruptcy restructuring

Vallejo exited Chapter 9 bankruptcy in November 2011. By 2014, news media were running stories (Hicken, 2014) predicting a second bankruptcy due to the City's inability to stem rising labor costs and reduce pension liabilities. Neither bankruptcy nor post-bankruptcy restructuring had ended Vallejo's fiscal woes. Creating fiscal stability in Vallejo remains a work in progress. The four principal ways the City attempted to restructure its budget have been (i) controlling labor costs, (ii) increasing taxation, (iii) reducing risk, and (iv) participatory budgeting.

Controlling labor costs

Vallejo's fiscal problems were, and remain, closely tied to labor expenditures. The basis of Vallejo's Chapter 9 filing was that it had negotiated in good faith with its four labor unions but been unable to come to an agreement that would balance its budget (Mayer, 2008). As the City's largest creditors, unionized employees therefore faced significant uncertainty when the Chapter 9 application was filed. However, the City did not have a history of confrontation with its labor unions. As one City Councilor explained, the reluctance of the City Council to file for bankruptcy was only removed when personal liability issues were raised by bankruptcy lawyers:

> The only reason the City Council ended up voting for bankruptcy [in 2008] was when they were advised that they might become personally liable for the City's debts if they did not file. Before this, there was little political will to go into bankruptcy. (Interview R2, May 2017)

During bankruptcy, Vallejo would come to new agreements with police, fire, and public administrator unions without imposing new CBA contracts. The only union to have its CBA rejected was the International Brotherhood of Electrical Workers (IBEW). The IBEW CBA was the City's smallest labor contract and the least costly on a per capita basis.

Reforms made to Vallejo's CBAs during bankruptcy did not therefore result in significant fiscal restructuring. Indeed, the police union negotiated a 7% salary increase for 2011, only compounding the City's budget problems. One City Councilor described this as showing "a lack of political will in the City Council" (Interview R2, May 2017) while a former City

Councilor identified “a change in the sentiment of some Council Members [that caused] a deal to be forged between Councilmembers and the union-affiliated mayor over the budget vote” (Interview R5, June 2017).

Although bankruptcy was not used to align labor costs with long-term revenue forecasts, efforts continued outside of bankruptcy to reduce Vallejo’s wage bill. In 2010, a grassroots campaign was successful in placing Measure A on the election ballot. This asked residents whether they wanted to remove binding arbitration with labor unions from the City Charter. In 1970, following a set of labor disputes, Vallejo committed to using binding arbitration to settle labor disputes. This arrangement pegged CBA salaries to a collection of surrounding municipalities. Between 1970 and 2010, if the City could not agree terms with labor unions, an arbiter would apply a pre-defined formula. The result was that the City never won an arbitration case and continued to see labor costs take up a larger proportion of General Fund revenues. Measure A was approved by 51% of voters and created the conditions necessary for the City to dispute CBA terms.

The City of Vallejo has not yet used the absence of binding arbitration to attempt CBA reform. Instead, it has focused on cutting “other post-employment benefits” (OPEBs). In 2014, the City agreed minor reforms to CBAs with its public administrator and firefighters’ unions, reducing $83m from long-term OPEBs. The City has year-on-year imposed labor terms on the police union, freezing salaries and only increasing police staffing using new revenues (see below). However, this has had the effect of maintaining the relatively generous CBA conditions that the City had agreed with the police union in 2011. The police union has also filed a lawsuit seeking to reclaim $12m in OPEB reductions imposed on retirees during bankruptcy. The effort to align salaries and benefits with the City’s revenues therefore continues. In 2017–18, salaries and benefits were at approximately the same proportion of General Fund revenues as they were prior to bankruptcy.

The City’s current five-year budget forecast is also premised on the continued freezing of labor expenditures. In Vallejo’s 2015–16 budget, spending on salaries and benefits was $40,541,300 and $31,911,955, respectively. By 2021–22, the City is projecting salaries to be only 2% higher and benefits to be 24% higher. Increases in the latter appertain to pension payments the City must find to keep liabilities within newly defined legal limits. This has accentuated the City’s difficulties in addressing pension liabilities. During bankruptcy, Vallejo was informed by the state pension agency CalPERS that any attempt to reduce its pension obligations would be legally challenged. Vallejo’s City Council was advised that CalPERS’s financial resources meant any legal dispute would likely cost the City millions in fees and potentially bankrupt Vallejo again (Interview R2, May 2017).

Although Vallejo’s budgetary problems are dominated by the proportion of revenues dedicated to labor-related expenditures, labor reform has therefore proven difficult. Some City Councilors and administrators have argued for significant CBA reform, but the City Council has been reluctant to risk a confrontation:

> We will have to figure out new contracts with the police and fire unions, our current budgeting has to be a placeholder. But I don’t think we want to push this, ending up with a strike situation. It is difficult, we still have a [law]suit pending on some of the cuts to police in bankruptcy, so we don’t know the whole situation. (Interview R3, May 2017)

Consequently, the structural budget issues that precipitated Vallejo’s bankruptcy have not been resolved. However, outside of this difficult issue, there have been a set of notable restructuring efforts.

Increasing taxation

In 2011, a new majority on Vallejo's City Council proposed a new 1% sales tax to fund economic development and infrastructure improvement. In response to staff shortages, deferred infrastructure spending, underfunded development work, and general decline of community services, the city's consumers would pay more sales tax. In November 2011, the following measure was placed on the ballot:

> Measure B: To enhance funding for 9-1-1 response, police patrols, firefighter and paramedic services, youth and senior programs, street and pothole repair, graffiti removal, economic development, and general city services, shall the sales tax be raised one cent, expiring after ten years, with all revenue legally required to stay in Vallejo?

Residents were asked to approve a term-limited sales tax increase which would generate an estimated $9–10m of revenue per year. Measure B passed narrowly, with 50.43% of voters approving. Measure B also included a city-wide commitment to participatory budgeting (see below). Additional taxation revenues would therefore be subject to new types of oversight and decision-making.

During the election, arguments "For" and "Against" Measure B were presented. Those "For" argued Measure B revenues were necessary to restore city services and kick-start economic development:

> Now is the time to rebuild our great city by reinvesting in public safety and economic development, attracting new businesses, repairing our streets, reestablishing quality of life services such as programs for our youth, senior citizens and the arts. It is time to put our safety and well being in a position of strength.[2]

Those "Against" claimed that raising sales taxes would make the city's economy less competitive and that the new tax would only patch-over the longstanding problem of labor-related expenditures:

> For years, Vallejo has balanced its budget by reducing staff and slashing essential services. We must stop cutting services and start reducing the cost of providing them. Many city employees make more than $100,000 per year, get free or reduced cost health care, and can retire in their 50s with pensions far greater than the private sector. These costs ($61,993,036) consume more than 94 percent of the current General Fund budget ($65,717,328) – leaving less than six percent for everything else.[3]

Debates over Measure B re-ran some of the disagreements that occurred over the City's bankruptcy. Those against Measure B claimed that without reducing the cost of police and fire services, it would only put the City back where it started. For those in favor, Measure B represented an opportunity to rebuild the city.

The City Council is responsible for allocating Measure B funds. In accordance with the ballot question, spending is limited to the following purposes: "to enhance funding for 9-1-1 emergency response, police patrols, firefighter and paramedic services, youth and senior programs, street and pothole repairs, graffiti removal, economic development, and general City services." The precise allocation of Measure B revenues is managed through the annual budget. In the first full year of Measure B spending, the main allocations of the $11.5m of new revenues were "Participatory Budgeting" (37%), "Infrastructure Enhancement" (18%), "Reserves and Pension Liability Paydown" (16%), and "Public Safety Preservation/ Enhancement" (13%). The service improvements undertaken in Vallejo using Measure B funds were significant. Streets are now being paved, parks renovated, senior citizen centers improved, and government administration made more efficient. However, allocations of Measure B funds have changed since 2011.

Although 37% of Measure B funds were initially allocated for participatory budgeting, in 2016–17 this was less than 10% of Measure B expenditures. Since 2014, Measure B has increasingly been used to fund public safety and, in particular, police and fire personnel. By July 2016, Measure B revenues were supporting 22 sworn officers at an annual cost of \$4.74m. Most of these officers are involved in Field Operations (i.e. responding to emergency calls) with six allocated to the Crime Reduction Team. Measure B also funds a police cadet program (\$100,000 per year), two communications officer positions (\$159,832 per year), and two Code Enforcement Officers (\$217,947 per year). In the fire department, Measure B revenues fund 11 positions including the Deputy Chief and 10 Firefighters (\$1,137,770 per year). Measure B funds are also used to keep open a sixth firehouse in Vallejo. Measure B revenues have therefore restored much of the emergency services previously subject to austerity cuts.

Opponents of Measure B warned that any new tax revenue would likely get diverted into Vallejo's police and fire services. These predictions have proven correct. Disagreements exist over whether these are necessary expenditures. Often key informants and residents complained that Vallejo's police and fire services represent bad value, particularly since neighboring cities (e.g. Fairfield, Vacaville) pay significantly less for the same types of employees:

> The problem has not changed. We are in the same place as the 1990s, but only worse. We put together the study in (19)93 and the City has done nothing. Our police are still some of the best paid in the whole [Bay] Area, but we don't have the budget to pay that... and with the City Council still controlled by the [police and fire] unions we don't have much hope of anything changing. Probably, we will end up in bankruptcy again. (R12, Interview, May 2017)

The staffing of police and fire departments using Measure B revenues also created a budgetary problem. Measure B is a resident-approved sales tax which was due to expire after 10 years. However, by hiring substantial numbers of permanent personnel using the funds, the City faced the problem of what to do if Measure B revenues did not continue indefinitely.

In 2016, the City Council proposed a ballot measure that would extend Measure B indefinitely and fold the revenues into the City's General Fund. With some of the City's public services reliant on the revenue source, its expiry would have had significant implications. The City prospectively faced cutting the newly created personnel positions and services or ending the 2026–27 fiscal year with a deficit like that which precipitated bankruptcy. In 2017, just four years into the measure's 10-year term, Vallejo's residents voted to make the tax increase permanent. Those who opposed this extension included City Councilor Robert McConnell. He argued during a City Council Meeting on 28 June 2016, that Measure B funds are no longer being used for the intended purpose and that, consequently, the request to extend Measure B indefinitely was dishonest. Dishonest or not, the evolution of Measure B expenditure represents a re-prioritization of the City's contentious spending on police and fire services. The initial spending goals of Measure B have therefore been replaced by budget priorities that preceded the City's bankruptcy. Although austerity reforms cut into the city's public services leading up to and during the Great Recession, these cuts have been progressively restored in the context of a contested revenue raising reform. This reinstallation of police and fire employees has served to cement the City's labor-related budget problems.

Conservative budgeting and standardized accounting

Following bankruptcy, the City established five guiding principles to direct budget decisions. These principles are as follows: (i) Maintain a minimum 5% reserve, as adopted in the bankruptcy five-year business plan, (ii) conservatively project revenues, (iii) use Measure B revenues only to augment existing services or rebuild reserves, (iv) use a five-year financial forecast, and (v) continue contributions to reduce OPEB's long-term liabilities and address maintenance deficiencies (City of Vallejo, 2013). In the context of Vallejo's ongoing budget difficulties, these represent ambitious goals. The City's effort to restore General Fund reserves has been successful, with it reporting in 2016 that it had reached its benchmark of reserves equaling 15% of expenditures. The other budget priorities fall into two categories. The conservative projection of revenues and five-year financial forecasting are part of a general improvement in the City's financial management. The other items, Measure B revenues and reduction of OPEB liabilities, are related to attempts at structural budget reform.

Some City Councilors and residents in Vallejo associate the City's bankruptcy with city government failure. Vallejo's regular turnover of city managers and finance officers prior to bankruptcy was commonly noted as a sign of dysfunction at City Hall. After exiting bankruptcy, Vallejo retained its City Manager until 2017 and they oversaw an extensive reform of management and budgeting practices. This involved the adoption of standard accounting practices and a related attempt to make transparent long-term budget liabilities.

In 2014–15, Vallejo delivered its first structurally balanced budget in 10 years. This budget was also the first to receive an Unqualified Audit Opinion. This is assigned by an independent financial auditor when it is assessed that a company or government's financial statement is fairly presented and in accordance with Generally Accepted Accounting Principles (GAAP). During the previous seven years, the City of Vallejo had failed to gain an Unqualified Audit Opinion. Vallejo also received the Government Finance Officers Association (GFOA) Financial Reporting Award in 2014. It had last received the award in 2006. The GFOA award is given to cities that produce financial reports which "go beyond the minimum requirements of GAAPs to prepare comprehensive annual financial reports that evidence the spirit of transparency and full disclosure."[4] The GFOA reports that there are 35,879 municipal units that produce financial reports. In 2014, only 2028 received the Financial Reporting Award. However, most of those not receiving awards are small cities with less than 50,000 residents. For cities with 100,000–199,999 populations, 84% receive the award. Vallejo's 2014 reporting standards therefore represented a return to the national norm.

The use of standard accounting practices has made it difficult for Vallejo to hide its long-term liabilities. In particular, the City's unfunded pension liabilities are now more apparent. Like many other Californian municipalities, Vallejo has significant unfunded liabilities owed to the state's CalPERS pension agency. The 2015 actuarial liability in Vallejo was \$702m, and the market value of pension holdings was \$449 m, leaving an unfunded liability of \$254m.[5] The principal solution to the underfunding problem has been to increase payments to CalPERS. Through 2010–12, Vallejo made supplemental payments to reduce its unfunded liabilities. This was a difficult budgetary choice given the City's staffing and services had been cut in preceding years. After CalPERS introduced new actuarial protocols in 2012–3, the City eliminated the extra payment since new rates set by CalPERS exceed the previous supplemented payments. Pension restructuring has therefore imposed significant new budget demands. In 2016–17, Vallejo was projecting CalPERS's pension costs to increase 35%, or $6.6m, over the next five years. Although Vallejo has therefore attempted to fix its unfunded pension liability, it is unclear whether it can now meet new legally mandated payments within existing budgetary arrangements.

By introducing new budget priorities and adopting national accounting standards, Vallejo attempted to restore standard city management practices. This has, by definition, involved the adoption of more conservative budgeting practices. In difficult fiscal circumstances, budget reserves have been built and straightforward debt repayment used to set about reducing unfunded pension liabilities. However, these reforms have also had the paradoxical effect of making more visible the City's onerous structural budget problems. And yet, these changes have proven uncontentious. The re-adoption of general operating parameters—pension funding, accounting standards, budgeting—has been supported across City Council and residents, demonstrating a general acceptance that the City must conform to state and nationwide municipal finance practices.

Participatory budgeting

The introduction of participatory budgeting to Vallejo was proposed in 2010 by City Councilor Marti Brown. As a newly elected freshman City Councilor, Brown described how she discovered participatory budgeting in her search for solutions to transparency and public engagement issues in Vallejo:

> I just stumbled across PB when Googling on city government and transparency.... I found out about the Participatory Budgeting Project and reached out. I realized it would not solve all the problems, but it would help with transparency and engagement. (Interview, May 2017)

In proposing the first city-wide participatory budgeting program in the U.S., Brown intended to help limit the funneling of Measure B funds into police and fire salaries and increase transparency and participation in Vallejo's financial affairs. In April 2012, City Council approved participatory budgeting on a 4–3 vote. Although the City Council would ultimately retain power over Measure B funds, a third of Measure B revenues (estimated $3.5m) were initially allocated to the participatory budgeting project. Vallejo contracted an external consultancy, Participatory Budgeting Project, to organize the first cycle of the participatory budgeting process.

The City began the participatory budgeting process by assembling a 21-member steering committee, made up of representatives from local civic organizations and residents. The committee then established a process with which to develop community consultation, ultimately leading to residents voting on a set of fully developed proposals. In the first round of funding, the City Council approved the 12 projects that received the most votes. Many of the projects focused on repairing and improving the city's infrastructure, with the other projects funding educational and social service improvements.

Although the process of public consultation and decision-making in Vallejo's participatory budgeting is regarded as effective and has restored some trust between the city administration and residents, after the loss of the reformist City Council majority in 2013, the City has gradually rolled back its commitment to the project. In 2017–18, participatory budgeting received just $1m, which equates to 7% of Measure B revenues. Most of this $1m was spent on routine infrastructure and emergency service operations. Both City staff and residents have complained that this spending does not correspond to the original ameliorative intentions of the program.

After four cycles of funding, Vallejo's participatory budgeting process was therefore transformed. The first cycle of funding renovated athletic fields, beautified downtown buildings, administered an animal spay and neutering program, and improved downtown street lighting. The second cycle delivered improvements in school meals, a summer jobs program for city youth, funded school bands, repaired city sidewalks, and replaced a fire service vehicle. The smaller third cycle of funding supported youth basketball and youth fire academy, purchased tablets for afterschool programs, and repaired roads. The fourth cycle predominantly funded pothole repair and an upgrade to the police department's communications room. Despite the narrowing scope of the program, City staff claim the less tangible benefits of the program include a heightened sense of community engagement, more City Council accountability and community cohesion (Interviews R6 June 2013, R9 May 2017). Yet other city officials see the entire program as having been subverted by a largely uninterested City administration and powerful union influence upon the City Council (Interview R12, May 2017). Although Vallejo gained national attention[6] for its progressive participatory budgeting program, it has therefore evolved into a less impactful post-recession government innovation.

Conclusions

In 2008, the City of Vallejo was the first municipal bankruptcy of the Great Recession, and the City became a prime candidate for austerity restructuring. Prior to bankruptcy, the City reduced its payroll and cut back on public services. Vallejo did not continue with this budgetary triage with further austerity restructuring. After its 2011 exit from Chapter 9, the City expanded its payroll, introduced new revenue streams, innovated with participatory governance, and, at the same time, failed to resolve structural budget problems (Figure 1). Vallejo's post-bankruptcy reforms therefore suggest that extreme fiscal stress is not necessarily associated with austere state restructuring. Austerity was an emergency measure in Vallejo, not the beginning of new or more aggressive neoliberal governance methods.

However, Vallejo's post-recession reforms are not easily characterized as pragmatic. Pragmatic actions (e.g. revenue raising, standard accounting) have been combined with progressive programming (e.g. participatory governance) and an avoidance of structural budget reform (e.g. CBA and OPEB liabilities). This hybridized agenda might reflect Nelson's (2012) view that "Municipalities experiencing the greatest fiscal stress—largest revenue declines—tended to become the most innovative in seeking solutions" (61S), yet describing Vallejo's post-recessionary reforms as innovative risks missing the political and ideological dimensions that are critical to understanding its post-bankruptcy restructuring.

The political dimensions of Vallejo's post-recessionary reforms are best exemplified by how freshman councilors attempted to change City's status quo. Participatory budgeting was intended to make the City's budgeting more transparent and efficient, transitioning the City away from a budget dominated by labor expenditures. Extreme fiscal stress therefore generated a political shift on the City's Council, which in turn instigated a set of remedial reforms. Even if we understand these reforms as pragmatic, they were preceded by a reordering of the city's political community; the political foreshadowed the pragmatic. This suggests that future research on contemporary urban restructuring would likely benefit from a better understanding of how the Great Recession and its associated political outcomes impacted local politics. Although the existing literature on post-recession urban restructuring often emphasizes how Federal policies have impacted local government (Peck, 2012, 2014), the effects of this pressure on the character of local urban politics remain underexamined.

This political dimension is closely related to the ideological. Although Vallejo is an extreme case of fiscal stress, its budgetary problems are like many other cities. CBA and OPEB expenditures have come to dominate many city budgets. In Vallejo, post-recession restructuring has often avoided attempts to resolve this issue. This avoidance is neither austere nor pragmatic. Often it involves a process of reform without reform. In Vallejo, Measure B revenues, participatory budgeting, and GAAP accounting have improved the City's fiscal health but left largely unaddressed the CBA and OPEB liabilities—the very things the City's claimed had pushed it into bankruptcy (Mayer, 2008). Where unfunded pension liabilities have been addressed, new actuarial requirements have made remedial efforts seem ineffective and it is currently unclear how the City will meet new pension payment requirements. While this avoidance reconfirms the idea that politics is the art of the possible, it also highlights how post-recession urban restructuring has had taken place in a context where reform is necessitated, but often effective reforms are deemed too difficult. Although the Great Recession threw many local fiscal problems into stark relief, this has not meant office holders have reasoned that these issues require action or are repairable.

One of the difficulties involved in assessing post-recession urban restructuring in Vallejo is that key budget problems have not often become central policy concerns. Pragmatic problem solving is often exchanged for politically expedient makeshift measures. Extreme fiscal stress does not therefore necessarily convert to extreme remedial action (e.g. austerity), even despite continued, potentially bankruptcy-inducing, budget problems. Just how structural budget problems evade rectification via policymaking reflects not only how politically difficult this task is, but it also indicates that city government can remain legitimate in the absence of budget correcting reforms (see Fraser, 2015). As an ideological phenomenon, this echoes what philosopher Slavoj Žižek's (2002) describes "decaf reality." He writes: "On today's market, we find a whole series of products deprived of their malignant property: coffee without caffeine, cream without fat, beer without alcohol..." (np). This critique can be extended to Vallejo, where extreme fiscal stress involved radical reform (i.e. bankruptcy) without the pain of real reform (i.e. addressing structural budget problems). This has left Vallejo in liminal space, between predictable bouts of fiscal crisis. This liminality relies, in part, on an ideology that permits the proverbial can to be kicked down the road. With Vallejo being just one of many cities who have failed to resolve post-recessionary structural budget problems, existing debates on post-recession urban governance would likely benefit from greater attention being paid to how the contemporary urban governance landscape has been shaped by the political and ideological dimensions of today's urban politics.

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Notes

1. Property tax, Property Transfer Tax, Real Property Exercise Tax, and Development Fees and Permits.
2. Source: http://www.ci.vallejo.ca.us/common/pages/DisplayFile.aspx?itemId=57832.
3. Source: http://www.ci.vallejo.ca.us/common/pages/DisplayFile.aspx?itemId=57834.
4. Data source: http://www.gfoa.org/coa.
5. Data source: www.pensiontracker.org.
6. In 2015, the City of Vallejo received a Public Engagement Award from the Ash Center at Harvard's Kennedy School of Government.

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