



City of Stockton

City Council Study Session

Meeting Agenda - Final City Council Study Session

Anthony Silva, Mayor/Chair
Paul Canepa, Vice Mayor (District 3)
Elbert H. Holman Jr. (District 1)
Katherine M. Miller (District 2)
Moses Zapien (District 4)
Dyane Burgos (District 5)
Michael D. Tubbs (District 6)

Thursday, October 3, 2013

3:30 PM

Council Chamber, City Hall, 425 N. El Dorado
Street, Stockton CA

Special Closed Session 3:30 | Special Meeting 5:30

1. **CLOSED SESSION CALL TO ORDER / ROLL CALL**
2. **ADDITIONS TO CLOSED SESSION AGENDA**
3. **ANNOUNCEMENT OF CLOSED SESSION**
- 3.1 **13-0821 CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION**

Number of Cases: Five

Name of Case: Wells Fargo Bank v. City of Stockton (San Joaquin County Superior Court Case No. 39-2012-00277662)

Name of Case: Wells Fargo Bank, National Association, as Indenture Trustee v. City of Stockton (San Joaquin County Superior Court Case No. 39-2012-00280741)

Name of Case: In re City of Stockton, California - Debtor (United States Bankruptcy Court, Eastern District of California Case No. 2012-32118)

Name of Case: City of Stockton v. Marina Towers LLC, et al. (San Joaquin County Superior Court Case No. CV022054)

Name of Case: Richard Price, et al. v. City of Stockton, Redevelopment Agency, et al. (United States District Court, Eastern District Case No. CIV.S-02-0065 LKK JFM)

This Closed Session is authorized pursuant to Section 54956.9(a) of the Government Code.

Department: City Attorney

3.2 13-0822 CONFERENCE WITH LABOR NEGOTIATOR

Agency Designated Representative: Bob Deis

Employee Organizations: Unrepresented Units, Stockton City Employees' Association, Operating Engineer's Local 3, Mid-Management/Supervisory Level Unit, Unrepresented Management/Confidential, Law Department, Stockton Police Management Association, Stockton Firefighters Local 456 International Association of Firefighters, Stockton Fire Management, Stockton Police Officers' Association (SPOA)

This Closed Session is authorized pursuant to Section 54957.6(a) of the Government Code.

Department: City Attorney

3.3 13-0823 CONFERENCE WITH LEGAL COUNSEL - POTENTIAL LITIGATION

Number of Cases: Two

Based on existing facts and circumstances, there is significant exposure to litigation pursuant to Government Code Section 54956.9(b).

Department: City Attorney

3.4 13-0824 CONFERENCE WITH LEGAL COUNSEL - INITIATION OF LITIGATION

Number of Cases: Two

Based on existing facts and circumstances, there is significant exposure to litigation pursuant to Government Code Section 54956.9(c).

Department: City Attorney

4. PUBLIC COMMENT*

**Members of the public may only comment regarding items on this agenda.*

5. ADJOURN TO CLOSED SESSION**6. SPECIAL SESSION CALL TO ORDER / ROLL CALL****7. INVOCATION / PLEDGE TO FLAG****8. REPORT OF ACTION TAKEN IN CLOSED SESSION****9. PUBLIC COMMENT**

**Members of the public may only comment regarding items on this agenda.*

10. NEW BUSINESS

10.01 13-0838 PROPOSED PLAN OF ADJUSTMENT AND DISCLOSURE STATEMENT FOR SUBMITTAL TO BANKRUPTCY COURT

RECOMMENDATION

Adopt the attached Resolution approving the bankruptcy “plan of adjustment” and “disclosure statement” and authorizing the City Manager to file both with the court along with any amendments.

Department: City Manager

11. COUNCIL COMMENTS

12. ADJOURNMENT



City of Stockton

Legislation Text

PROPOSED PLAN OF ADJUSTMENT AND DISCLOSURE STATEMENT FOR SUBMITTAL TO BANKRUPTCY COURT

RECOMMENDATION

Adopt the attached Resolution approving the bankruptcy “plan of adjustment” and “disclosure statement” and authorizing the City Manager to file both with the court along with any amendments.

SUMMARY

This staff report describes our bankruptcy plan of adjustment and disclosure statement, as well as providing other explanatory information. It has been designed to briefly and accurately summarize the draft plan and disclosure statement, but to the extent that there is a conflict between this report and the legal documents, the latter control. These are court filings intended to form the basis for court approval of a plan for exiting bankruptcy. The first step in this process is for the City to file these documents with the court.

It has always been our objective to share this information in advance of the November vote on the tax measure so voters can see the City’s plan for exiting bankruptcy and how the new tax revenues will be used to: 1) assist in exiting bankruptcy, 2) restore the City’s financial footing and 3) fund the City’s Marshall Plan on Crime. The filing of these documents is the first step towards confirmation of a plan of adjustment, which will restructure City obligations and permit the City to exit from bankruptcy. We anticipate this will take approximately six months and not be finished until the second quarter of calendar year 2014. However, while we can influence the timing, we are not in a position to totally control this timeline.

The staff report explains in some detail the purpose of the plan of adjustment and the disclosure statement. It also provides detail on the City’s overall fiscal planning, which provides the foundation for the plan of adjustment, including the treatment of obligations in the plan. It also discusses the nature and timing of court activities associated with approval of a disclosure statement and, eventually, confirmation of the plan of adjustment.

It is important to note that the filing of the proposed disclosure statement and plan of adjustment in no way alters the current mediation negotiations occurring with creditors. We are still negotiating with all creditors that do not have agreements with the City. In fact as this report is being finalized, on Friday, September 27, the City is in active negotiation with one large creditor and we believe a term sheet documenting a settlement is possible prior to the Council meeting.

The point is that negotiations are extremely fluid and active. We may have updates to this report at the City Council meeting. We will continue to negotiate all the way to the trial date on confirmation if necessary. Thus, our plan of adjustment may change before trial. It is important to keep the process moving and to show how the City will exit bankruptcy. However, contrary to some inaccurate press reports, we have made excellent progress. Out of the 19 major creditors, we have deals with 14, as I write this report. We may have more to share by your October 3rd Special Council Meeting. It is anticipated that the plan of adjustment will be updated as negotiated settlements are reached with our remaining creditors. However, if for some reason it is not possible to reach agreement this plan shows how the City will proceed. It is also important to note that the non-consensual or “cram down” approaches discussed with respect to some of the obligations would not occur until court orders have been obtained. As updates occur the Council and public will be kept apprised.

Upon reading this entire packet, I am sure that you will agree that never has the City been so comprehensive and transparent about examining its finances and the long-term viability as a municipality. I believe there are few cities in this state besides Stockton that are so extensively examining and forecasting revenues and expenditures over a 30-year horizon. While we are not finished, this report reflects an extremely complex and arduous journey to examine: 1) why we exist as a city, 2) what we think are the priorities of the citizenry, 3) how we deliver services, 4) how much will they cost and 5) how should we fund it all. This was done to restructure or reset financial commitments to restore long-term viability to the 13th largest city in the state for generations to come.

Finally, what hopefully becomes apparent to the reader of this packet are two key points. First, the confusion surrounding bankruptcy and the court-ordered confidential negotiations have masked, until now, what exactly is at stake in this process. In other words, we are negotiating and restructuring huge amounts of debt and future control of public assets such as buildings, parks, the arena, the ballpark, golf courses, parking lots, etc. Second, due to the tenuous nature of the City finances and our parallel goals of keeping essential facilities, restoring General Fund solvency and public safety services, it is abundantly clear that we need the passage of Measure A, on November 5, 2013 to maintain our City’s viability. The alternative would be brutal, consisting of approximately \$11 million in more service cuts. To effectuate this magnitude of cuts, it would require elimination of our library system, recreation and community center programs and another 14 percent cut in the Fire Department, which already has been cut 30 percent. This would go in tandem with the likely loss of control over public facilities as we lose negotiating room to cut deals with our creditors. While these facilities such as the arena or certain public parks and golf courses may be viewed by some as “non-essential” to core operations, it would possibly impact overall quality of life for Stockton’s residents.

DISCUSSION

Introduction to the Plan of Adjustment and Disclosure Statement

In order for the City to restructure its obligations and exit bankruptcy, its plan of adjustment must be confirmed by the court. The City must file a disclosure statement which explains the plan of adjustment to the creditors who will vote on it, and which also must be approved by the court.

The recommended plan of adjustment and disclosure statement are attached for Council's review and approval. The City intends to file its plan of adjustment and associated disclosure statement with the court by early October. This timing is important because voting on the tax measure approved by the Council in July of this year begins with absentee ballots in early October. The plan of adjustment is premised on passage of Measure A and voters need to know what the plan entails as part of consideration of this tax measure.

The plan of adjustment provides for the treatment of various classes of creditors' claims against Stockton. The associated disclosure statement is an explanatory document intended to allow the creditors to understand their treatment under the plan of adjustment. This is critical because once the disclosure statement is approved by the court as providing adequate information; creditors are allowed to vote on the plan. Specifically, the plan, in order to be confirmed without undergoing the cram down procedure described below, must be accepted by one half in numbers and two thirds in amount of each class of claims that is impaired under the plan. If the plan does not receive the support of all impaired classes of creditors, but does receive the approval of at least one such class, the bankruptcy court can still confirm the plan through a cram down of the dissenting classes. This is a legal term that aptly describes the result.

At this time, we are asking for Council authorization to file both the plan of adjustment and the disclosure statement with the court. The court will take comments on the disclosure statement from other interested parties before it approves it. This will take at least two months. During this time, we will continue to negotiate with creditors to the extent we have not reached agreement.

It is important to note that the Bankruptcy Code specifically prohibits the solicitation of the acceptance or rejection of a plan of adjustment prior to the court approving a disclosure statement. This is important because the idea is to have an informed and objective vote among the various classes of creditors. This requirement conflicts in some ways with our duty as a public agency to do the public's business in an open and transparent basis. In fact, because chapter 9 bankruptcy filings are so rare there is some debate about whether the plan of adjustment and disclosure statements are public documents prior to filing with the court. In the Vallejo case it was handled as a confidential document.

We believe, however, that the Council has consistently wanted to share information with the public and that it is incumbent upon a public agency such as the City to explain the plan of adjustment and the reasoning behind it, which is what the disclosure statement and this staff report itself do. Furthermore, voters deserve to know how the proposed $\frac{3}{4}$ cent sales tax increase will be used to exit bankruptcy via this plan, restore the financial footing of the City and fund your Marshall Plan on Crime. However, the City cannot advocate for the plan except pursuant to a court approved disclosure statement, especially considering creditors will either be watching your meeting or participating in it as public testimony. It is important to recognize that explanation of the plan of adjustment in this staff report is NOT A SOLICITATION FOR A VOTE ON THE PLAN.

Before getting into the plan of adjustment in more detail, there are several other basic issues about the plan which should be explained. First, the bankruptcy court is not obligated to

approve a plan of adjustment. It may dismiss the chapter 9 case, which means that the City would no longer be under the protections provided by chapter 9. We think it is likely that our plan will change through negotiations after it is filed, but that it will be confirmed by the court, with or without a cram down approach, eventually. The plan of adjustment also must be one that is in the best interest of the creditors. This test has been interpreted to mean that a chapter 9 plan of adjustment needs be “better than other alternatives,” which is the dismissal of the chapter 9 case.

Chapter 9 does not allow the creditors or other parties in interest to file a plan of adjustment. This limitation means the City will continue to be in control of its governmental affairs during consideration of the plan of adjustment and will have to approve any plan or amended plan that is ultimately presented to the court. Further, neither the creditors nor the court can indirectly control the operations or property of the City by proposing a plan of adjustment of the municipality’s debts that would in effect determine the City’s future tax and spending decisions. This is a key point of law that Judge Klein has confirmed repeatedly in our case. There are some in the community that incorrectly think the creditors or the judge can take Measure A revenues and use it for other purposes; they cannot.

Financial Plan Underpinning the Plan of Adjustment

In order to understand the City’s plan of adjustment, one has to understand the financial constraints that face Stockton and how we plan to deal with them over time. In order to develop both our original AB 506 restructuring proposal (the Ask) as well as the plan of adjustment the City has developed a sophisticated financial model. The key assumptions are discussed below.

Forecast Basics

The General Fund budget forecast includes the following sections:

- **Baseline Budget** – Revenue projections are based on current revenue sources (before the Measure A sales tax on the November 2013 ballot). Expenditure projections are based on the current FY13-14 budget level of staffing, including future cost-of-living increases (COLAs) to remain competitive, and projected pension rate changes. These costs are inclusive of the labor agreements negotiated under the AB 506 mediation process which have since been approved and implemented. Services, supplies and program support assume inflationary growth. Debt service is based on original amortization schedules and projected contributions from other funds. The baseline budget is the status quo, but it is neither sustainable (it is service insolvent) nor viable (it is budgetary and cash insolvent).
- **Fiscal Stabilization** – This section contains expenditure increases to the status quo baseline budget, including modest increased contributions to deferred maintenance and internal service funds (worker’s compensation and liability insurance reserves, etc.), and funding of the Marshall Plan for improved public safety services. It is important to note that reinvestment in public safety as mapped out in the Marshall Plan is absolutely essential to Stockton’s ultimate success, because we must combat crime and violence in

order to build an economically healthy City. The fiscal stabilization budget is sustainable (while it does not meet *all* of the City's needs, it is arguably no longer service insolvent) but it remains unviable (because it is even more budgetary and cash insolvent due to the higher level of spending).

- **Restructuring Savings** – This section includes savings proposed under the original AB 506 process which require chapter 9 protection in order to be implemented for retiree medical benefits, debt obligations, lawsuit claimants and sports teams. (Again, the labor savings portion of restructuring savings has already been implemented.) For purposes of this presentation we have incorporated what we believe will be a negotiated settlement with the large creditor mentioned earlier. This is the most conservative approach for the City to take, given the uncertainty, and thus prudent. This section also includes the proposed revenue from Measure A, along with additional efficiencies, cost recovery and income from land sales. With all of these savings and new revenues, the City realizes a balanced budget that is not service insolvent.

Tables 1A, 1B and 1C summarize these three elements of the General Fund budget and show the resulting net surplus or shortfall projected to remain after each element over the next 30 years. The entire forecast is shown in Exhibit A. It is important to note that a forecast of this range is inherently subject to significant variability. Even a one percent change in assumptions can have a major impact over time. However given the long-term nature of City obligations we need to have a plan and have attempted to model likely fiscal performance in a conservative manner. These conservative modeling assumptions, which are detailed in our discussion of revenues and variable expenditures later in this report, mean that on balance we can expect that variances are somewhat more likely to be “good news” than “bad news”, but we have also striven to develop realistic projections given the pressure to restore City services and pay creditors. The point is that the forecast is prudently conservative but still subject to risks based on assumptions made.

Table 1A. Long-Range Financial Plan With Restructuring Savings (FY11-12 to FY 20-21)

(\$ in 000)	<u>11-12</u>	<u>12-13</u>	<u>13-14</u>	<u>14-15</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>
Total Baseline Revenues	160,268	160,655	159,519	161,354	165,590	170,453	175,456	180,591	185,922	191,109
Total Baseline Expenditures	159,254	174,319	184,702	190,450	202,611	210,492	214,599	220,371	226,519	231,835
Net Annual After Baseline	1,013	(13,663)	(25,184)	(29,097)	(37,021)	(40,038)	(39,142)	(39,780)	(40,597)	(40,725)
Fiscal Stabilization Expenditures	-	-	-	18,995	24,526	22,691	23,032	24,215	25,409	26,719
Net Annual After Stabilization	1,013	(13,663)	(25,184)	(48,092)	(61,547)	(62,729)	(62,175)	(63,995)	(66,006)	(67,444)
Total Restructuring	653	20,862	31,987	57,120	58,823	61,535	61,843	62,936	65,251	65,713
Net Annual After Restructuring	1,666	7,199	6,804	9,028	(2,724)	(1,194)	(331)	(1,059)	(755)	(1,731)
Beginning Available Balance	6,639	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769
Transfer to Bankruptcy Fund	(5,592)	(6,913)	-	-	-	-	-	-	-	-
AB 506 Carryover	(2,713)	2,713	-	-	-	-	-	-	-	-
Ending General Fund Balance	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769	11,038
Balance as % of Total Exp	0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%

Table 1B. Long-Range Financial Plan With Restructuring Savings (FY21-22 to FY 30-31)

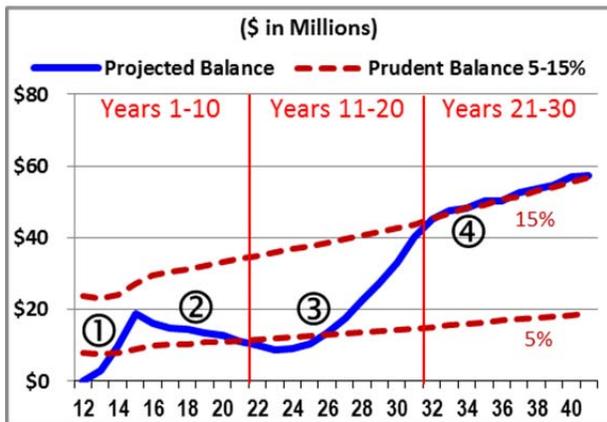
(\$ in 000)	<u>21-22</u>	<u>22-23</u>	<u>23-24</u>	<u>24-25</u>	<u>25-26</u>	<u>26-27</u>	<u>27-28</u>	<u>28-29</u>	<u>29-30</u>	<u>30-31</u>
Total Baseline Revenues	196,439	201,955	207,664	213,586	219,635	225,756	232,002	238,339	244,759	251,271
Total Baseline Expenditures	238,112	244,445	250,931	257,906	263,001	269,997	277,460	284,400	291,443	298,628
Net Annual After Baseline	(41,672)	(42,490)	(43,267)	(44,320)	(43,367)	(44,241)	(45,458)	(46,060)	(46,684)	(47,357)
Fiscal Stabilization Expenditures	27,220	27,732	28,249	28,775	29,303	29,838	30,387	30,940	31,502	32,076
Net Annual After Stabilization	(68,892)	(70,222)	(71,516)	(73,095)	(72,670)	(74,079)	(75,845)	(77,000)	(78,186)	(79,433)
Total Restructuring	67,871	69,028	71,689	74,470	75,894	77,964	80,760	81,813	84,081	86,380
Net Annual After Restructuring	(1,021)	(1,194)	173	1,375	3,224	3,885	4,915	4,812	5,894	6,947
Beginning Available Balance	11,038	10,017	8,823	8,996	10,371	13,595	17,480	22,395	27,207	33,101
Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
Ending General Fund Balance	10,017	8,823	8,996	10,371	13,595	17,480	22,395	27,207	33,101	40,048
Balance as % of Total Exp	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%

Table 1C. Long-Range Financial Plan With Restructuring Savings (FY31-32 to FY 40-41)

(\$ in 000)	<u>31-32</u>	<u>32-33</u>	<u>33-34</u>	<u>34-35</u>	<u>35-36</u>	<u>36-37</u>	<u>37-38</u>	<u>38-39</u>	<u>39-40</u>	<u>40-41</u>
Total Baseline Revenues	257,847	263,430	270,046	276,595	283,323	289,681	296,520	303,403	310,213	317,206
Total Baseline Expenditures	302,987	309,314	313,691	321,179	317,755	325,171	333,834	328,571	333,615	340,102
Net Annual After Baseline	(45,140)	(45,885)	(43,645)	(44,584)	(34,432)	(35,490)	(37,314)	(25,168)	(23,402)	(22,896)
Fiscal Stabilization Expenditures	38,304	42,894	49,047	48,649	63,033	61,630	64,242	68,403	69,047	69,717
Net Annual After Stabilization	(83,445)	(88,779)	(92,692)	(93,233)	(97,465)	(97,120)	(101,556)	(93,571)	(92,449)	(92,613)
Total Restructuring	88,682	91,003	93,269	95,447	97,323	99,472	102,546	94,895	94,100	94,474
Net Annual After Restructuring	5,237	2,224	577	2,214	(142)	2,352	990	1,324	1,651	1,861
Beginning Available Balance	40,048	45,285	47,509	48,086	50,300	50,158	52,510	53,500	54,824	56,475
Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
Ending General Fund Balance	45,285	47,509	48,086	50,300	50,158	52,510	53,500	54,824	56,475	58,336
Balance as % of Total Exp	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%

Due to the timing of new tax revenues, implementing the Marshall Plan, and changing levels of PERS rates, the General Fund balance will vary as shown in Figure 1.

Figure 1. General Fund Balance with Revenue Growth as Forecasted

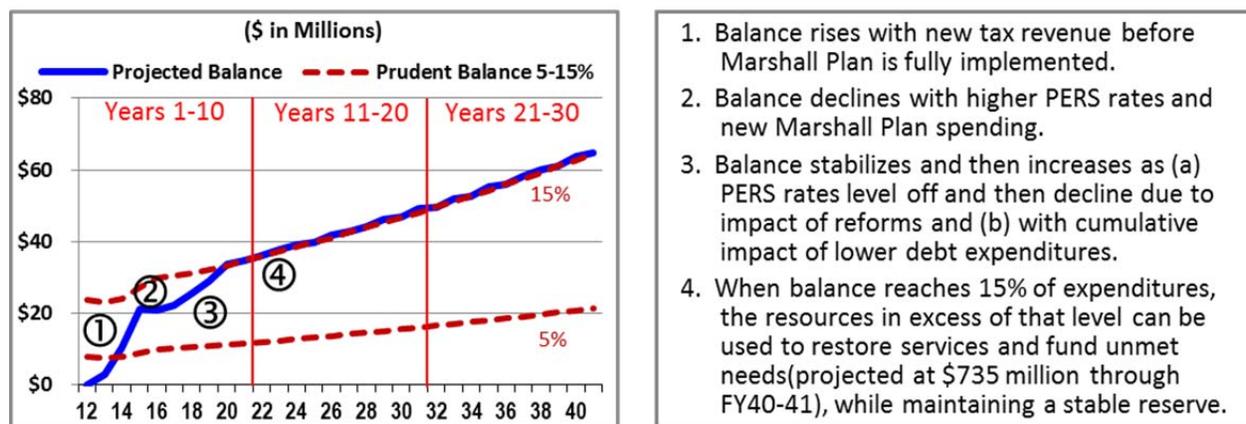


1. Balance rises with new tax revenue before Marshall Plan is fully implemented.
2. Balance declines with higher PERS rates and new Marshall Plan spending .
3. Balance stabilizes and then increases as (a) PERS rates level off and then decline due to impact of reforms and (b) with cumulative impact of lower debt expenditures.
4. When balance reaches 15% of expenditures, the resources in excess of that level can be used to restore services and fund unmet needs (projected at \$253 million through FY40-41), while maintaining a stable reserve.

As is apparent from these graphics, the City will need to be carefully managed for some time to make sure that the General Fund balance maintains a prudent level of reserves. To weather the impacts created by near-term increases in PERS rates and implementation of the Marshall Plan, the City will have to exercise disciplined expenditure control. With the longer run stabilization and eventually reduction in PERS costs, the City's fiscal position will improve.

It should also be noted that we have been conservative in developing model assumptions, so it is possible that actual performance will be somewhat better than projected. Small ongoing improvements to base revenues, compounded over time, can significantly improve the fund balance outlook and capacity to address unmet needs. For example, Figure 1A below compares what fund balance would look like if our annual growth in core revenues (all taxes, including Measure A) is just 0.5% better than projected. Under this scenario fund balance hits the 15% reserve target in 2020 (despite higher near-term retirement costs), and mission critical spending capacity over the entire 30-year period increases from \$253 million under the forecasted revenue level to \$735 million under a "forecast+0.5%" growth in core revenues.

Figure 1A. General Fund Balance with Annual Ongoing Core Revenue Growth 0.5% Higher Than Forecasted (Compounded Basis)



The following is a summary of the key revenue and expenditure assumptions on which this forecast is based.

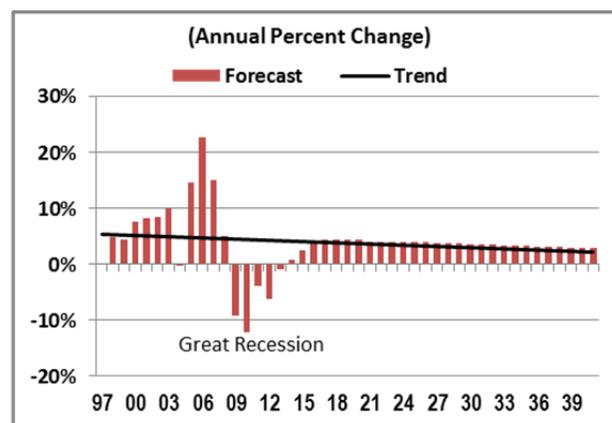
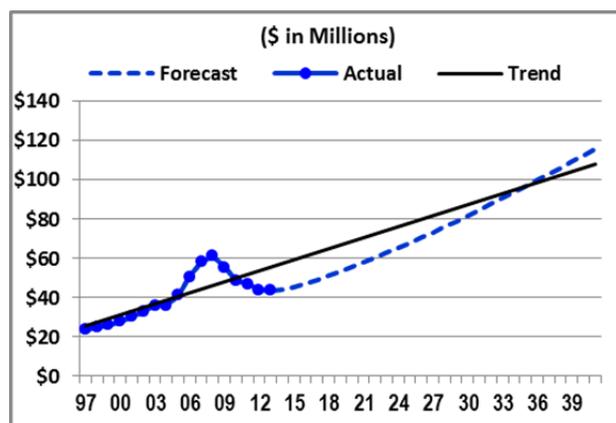
Major Revenue Trends

Property Tax – This tax comprises 27.1% of total FY13-14 General Fund revenue, and includes property tax in lieu of vehicle license fees. At \$43.9 million, property tax revenue remains 28.2% below its peak of \$61.1 million in FY07-08. Stockton property values declined precipitously during the Great Recession: during 2009-2012 Stockton ranked from 2nd to 4th in the nation in magnitude of home price reduction. Median home prices fell from a peak of \$400,000 in December 2005 to \$118,500 in February 2012, a decline of 70%. Home sale prices have begun to recover over the past year, but given the time lag in property tax administration this will not be immediately realized in terms of higher tax revenues. There is also a lag in addressing assessment appeals, which means some value declines, especially for commercial properties, have not yet been implemented.

The FY13-14 adopted budget assumes a 0.72% overall increase in property tax revenue, but this will not be confirmed until mid-December 2013 when the first tax payment is received. The forecast assumes property tax growth of 2.5% in FY14-15, rising to 4.0% in FY15-16, and 4.5% from FY16-17 through FY19-20, with slower growth rates thereafter. This is a mid-range estimate, given that there will be higher and lower growth years, and as the early 1980s, mid-1990s, and last several years attest, there will be negative growth years as well. This is a revenue source strongly linked to the real estate market and general economy, as evidenced by the revenue levels shown in Figure 2 and the percentage change in revenue in Figure 3. The linear trend from actual revenues received during FY96-97 through FY12-13 remains higher than the forecasted revenues for two reasons: (1) the dramatic growth rates in property values fueled by easy credit during the late 1990s and early 2000s is not expected to be repeated in the post-Great Recession banking environment, and (2) the historical revenue included an average of 2,064 new housing units each year, whereas a market absorption study prepared for the City projects an average of 700 units annually going forward.

Figure 2. Property Tax Revenue Forecast

Figure 3. Property Tax Growth Rate



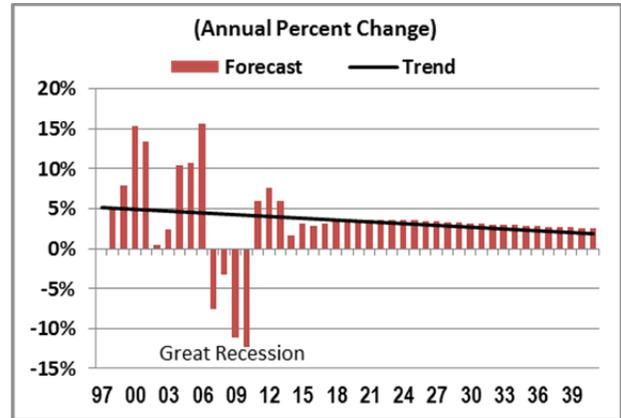
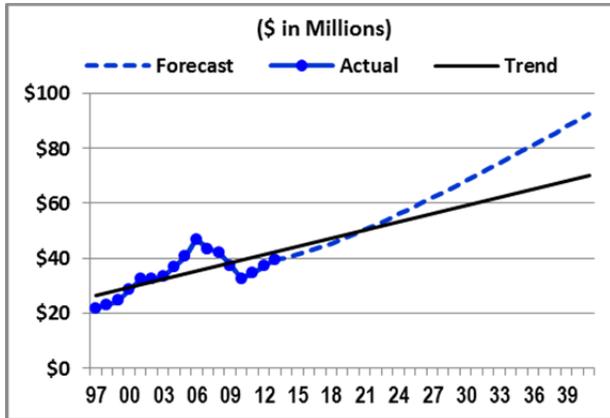
Sales Tax – This tax comprises 24.6% of total FY13-14 General Fund revenue, and includes the 0.75% local tax rate, the 0.25% “triple flip” tax rate paid by the state through the annual property tax remittance from the county, and the Prop 172 public safety sales tax. (Not included here are the current 0.25% Measure W public safety sales tax, which is a special tax accounted for in a separate fund, and the proposed 0.75% Measure A general sales tax.) At \$40.2 million, sales tax revenue remains 14.5% below its peak of \$47.0 million in FY05-06. Figures 4 and 5 on the following page show the historical and forecasted sales tax revenues, which have registered positive growth the last four years, following four years of decline.

The estimates for FY12-13 through FY14-15 were supplied by HdL Companies, the city’s sales tax consultant. Future years reflect a mid-range growth estimate (which is higher than the 20-year average Consumer Price Index growth of 2.5%). Again, this is a mid-range estimate, taking into account that some years will be higher, and others lower (or negative). In addition to the effects of general economic conditions, there is continued downward pressure on sale tax levels from an ongoing shift to untaxed services, and increasing on-line purchases that avoid or

divert sales tax payment to other jurisdictions. Long-term revenue growth is projected at 3.5%, which is consistent with the revenue growth trend line.

Figure 4. Sales Tax Revenue Forecast

Figure 5. Sales Tax Growth Rate

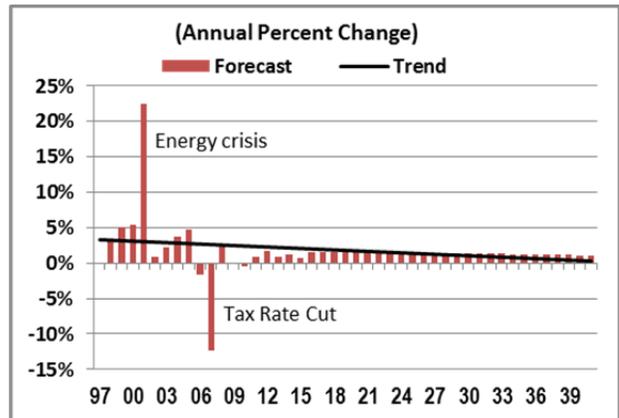
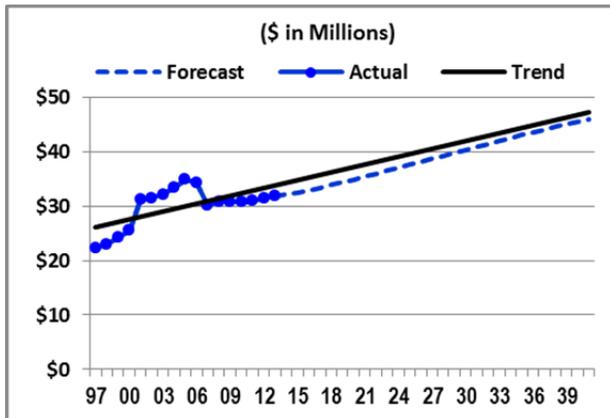


Utility Users Tax – The General Fund’s third largest revenue source is the 6% utility users tax on gas, electric, telecommunications, cable TV and water. This tax raises \$32.2 million in FY13-14 (19.8% of General Fund revenue), and remains 7.8% below its peak year of \$34.9 million in FY04-05. Estimates from FY12-13 through FY14-15 for the non-water sectors were supplied by MuniServices, the city’s utility users tax consultant.

Figures 6 and 7 on the following page show the two major impacts on the tax: (1) the California “energy crisis” of 2001 that for a time dramatically increased the energy costs on which the tax was applied, and the subsequent reduction in tax rate from 8% to 6% over 2005-2007. Since then the tax has barely averaged a 1.0% growth rate, in part because of a reduced growth rate in new households, price competition and changing trends in telecommunications (reduced use of cable and landline phones), and customer conservation efforts. The City is discussing a Climate Action Plan that will be encouraging conservation, and water conservation efforts mandated by state law are having and will continue to have a similar effect. For these reasons the forecasted revenues runs just below the linear trend of utility user tax revenues based on past actual revenues. Long-term revenue growth is projected at 1.5%.

Figure 6. Utility Users Tax Revenue Forecast

Figure 7. Utility Users Tax Growth Rate



Other Revenues – The remaining 28.5% of General Fund revenue is comprised of the following sources:

- Franchise taxes on PG&E, cable TV/video and waste haulers (7.3% of General Fund revenue). Similar to the UUT, this \$11.7 million tax is somewhat volatile, being based on franchisee gross receipts. Slower population growth, conservation and telecommunication industry trends are projected to limit future revenue growth to 2.0%.
- Business License Tax (\$9.0 million or 5.6% of General Fund revenue). This tax on business gross receipts reflects changes in the overall economy, and is expected to grow slowly in coming years, given local economic conditions. Long-term revenue growth is projected at 1.5%.
- Program Revenues (\$10.3 million or 6.5% of General Fund revenue) include charges for services, fines and forfeitures, fire contract, revenue from other agencies, licenses and permits, code enforcement and miscellaneous revenue. Composite long-term growth is projected at 1.1%.
- Interfund Reimbursements and Transfers (\$9.7 million or 6.1% of General Fund revenue) include indirect cost allocation, refunds and reimbursements, rents, leases, concessions, and Parking Fund reimbursement of debt service. Composite long-term revenue growth declines from 2.0% to 0.5% over time.
- Other Taxes (\$2.6 million or 1.6% of General Fund revenue) include the hotel tax (1.0% annual growth), documentary transfer tax (1.5% annual growth) and vehicle license fees (no growth).
- Interest Income is a negligible amount in FY13-14, but it will grow at varying rates in future years based on fund balance levels.

Figures 8 and 9 on the following page show the volatility of these “Other Revenue” sources over time. The linear trend based on past year collections is much higher than the forecasted revenues, because in past years this category included funds that are no longer received by the General Fund, such as water payments in lieu of taxes (ruled illegal by court), construction permits (switched to Development Services Fund), or past one-time budget fixes (such as workers compensation reimbursements).

Figure 8. Other Revenue Forecast

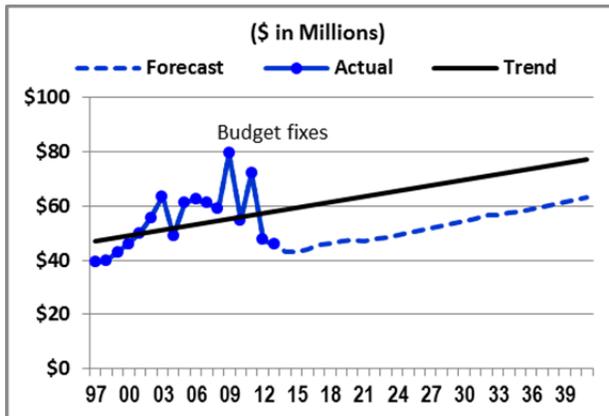
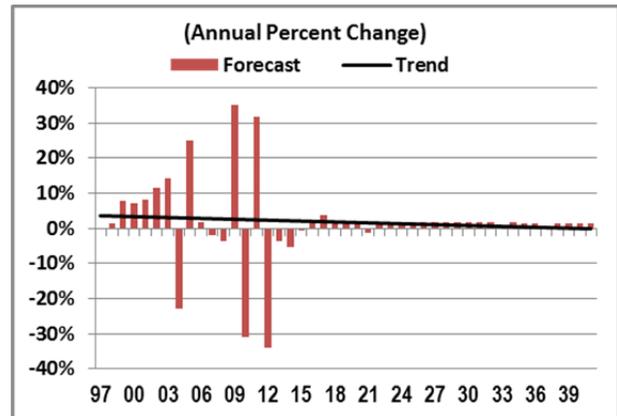


Figure 9. Other Revenue Growth Rate

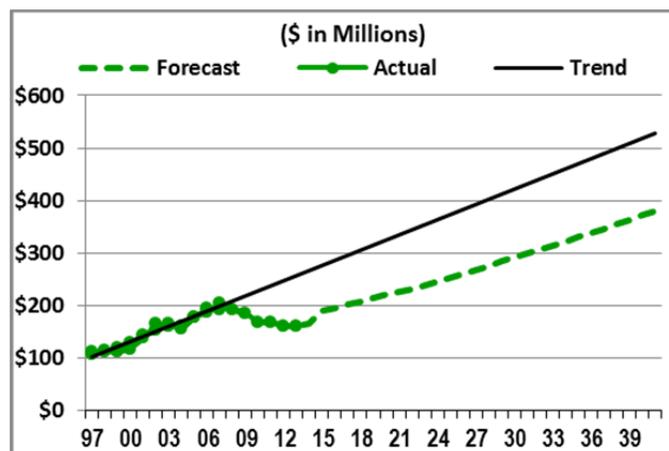


Revenue Gap

Since FY07-08, the City has suffered significant revenue losses due to the deteriorated local economy. Total ongoing General Fund revenues have dropped from approximately \$192.9 million in FY07-08 to \$157.7 million in FY12-13. Even with enactment of the proposed 0.75% sales tax, FY14-15 revenues would total \$189.9 million, which is still below the FY07-08 level.

Figure 10 compares the linear trend based on actual revenues from FY96-97 through FY06-07 (less one-time budget fixes in FY08-09 and FY10-11) to the forecasted revenues (including the proposed sales tax) and indicates there is approximately a \$90 million “revenue gap” between forecasted revenues and the expectation of what revenues would have been based on that historical revenue growth. Program and compensation level decisions in the late 1990s to the mid-2000s were based on those earlier revenue expectations. The magnitude of this gap, and that fact that it continues to grow, has created havoc with the General Fund budget.

Figure 10. General Fund Revenue Gap between Reality and Pre-Recession Expectations



It is important to note that actual revenues have yet to rebound to pre-recession levels, and based on projected trends will not reach such levels until approximately 2020. It is unlikely that

the City will ever achieve the trend level of growth assumed in the pre-recession period. Many of the expenditures, such as all the debt obligations taken on during this period, assumed that this aggressive trend line of growth would be achieved, and this failure is at the heart of the bankruptcy.

Baseline and Fiscal Stabilization Expenditures

This widening gap in ongoing revenues took place against a background of multi-year labor agreements which included significant cost escalators. Initially, the City used reserves and other sources of one-time funding to maintain solvency. However, such alternatives were exhausted over FY09-10 and FY10-11. Consequently the City was forced to make severe reductions in compensation, staffing and services. Projected salary and benefit costs have fallen from over \$147.1 million in FY07-08 to \$107.2 million in FY12-13. This reduction has been accomplished by a combination of negotiated compensation reductions, service and staffing reductions and imposed reductions via a finding of fiscal emergency, resulting in budget reductions totaling \$90 million enacted over the three-year period of FY09-10 through FY11-12.

Staffing Levels – Table 2 shows the major declines in City staffing levels since FY08-09. Highlights are as follows:

- General Fund sworn police officers were reduced by 98 positions or 25% (another 22 officers are paid by grants which expire at the end of FY11-12; the City must retain these positions for three years and the resulting funding gap is part of the General Fund shortfall).
- General Fund fire department staffing was reduced by 30%.
- General Fund non-safety department staffing was reduced by 43%.

Table 2. General Fund Staffing Change between FY08-09 and FY11-12

(Full Time Equivalents)					Chng from		Percent
	<u>08-09</u>	<u>09-10</u>	<u>10-11</u>	<u>11-12</u>	<u>08-09</u>	<u>Change</u>	
Police-sworn	398	312	292	300	(98)		-25%
Police-other	232	207	199	185	(47)		-20%
Fire	253	265	226	177	(76)		-30%
Other Departments	471	302	268	269	(202)		-43%
Total Before Grants	1,354	1,086	985	931	(423)		-31%
Police Grants	6	17	31	25	19		317%
Total After Grants	1,360	1,103	1,016	956	(404)		-30%

The *baseline* section of the budget forecast is based on a continuation of FY13-14 staffing levels with no position changes to any departments thereafter. The forecast assumes that upon expiration of current police grant funding that the General Fund assumes the cost of the affected positions, to avoid a reduction in safety staffing.

The *fiscal stabilization* section of the forecast includes implementation of the Marshall Plan for augmented public safety services, which adds 120 sworn officers over three years starting in FY14-15, and associated non-sworn positions. Table 3 shows the change in staffing including the adopted budgets for FY12-13 and FY13-14 through the implementation of the Marshall Plan.

Table 3. General Fund Staffing Levels between FY12-13 and FY17-18 including Marshall Plan

(Full Time Equivalents)	<u>12-13</u>	<u>13-14</u>	<u>14-15</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>
Police-sworn	319	321	361	401	441	441	441	441	441
Police-other	183	184	198	199	201	201	201	201	201
Fire	175	177	177	177	177	177	177	177	177
Other Departments	268	271	271	271	271	271	271	271	271
Total Before Grants	945	953	1,007	1,048	1,090	1,090	1,090	1,090	1,090
Police Grants	26	26	26	26	26	26	26	26	26
Total After Grants	<u>971</u>	<u>979</u>	<u>1,033</u>	<u>1,074</u>	<u>1,116</u>	<u>1,116</u>	<u>1,116</u>	<u>1,116</u>	<u>1,116</u>

Marshall Plan costs are shown in Table 4, and include (1) all labor costs net of vacancy savings, including pension, benefits, overtime and compensated absences, (2) higher costs of supervisory positions needed for such an increase in workforce, (3) support positions required for records management and crime analysis, (4) support of the Ceasefire program upon expiration of current grant, (5) expansion of the Peacekeeper program, (6) expansion of code enforcement and neighborhood “blitz teams”, and (7) creation of an Office of Violence Reduction to monitor overall Marshall Plan implementation.

Table 4. Projected Costs of Marshall Plan (FY14-15 through FY 23-24)

(\$ in 000)	<u>14-15</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>	<u>21-22</u>	<u>22-23</u>	<u>23-24</u>
Sworn Officers	6,252	12,284	18,477	18,776	19,914	21,063	22,327	22,781	23,246	23,714
Violence Reduction Off.	250	255	260	265	271	276	282	287	293	299
Records Assistants	129	197	334	341	348	355	362	369	377	384
Crime Analysts	395	403	411	419	428	436	445	454	463	472
Ceasefire Program	113	115	118	120	122	125	127	130	132	135
Peacekeeper Program	500	510	520	531	541	552	563	574	586	598
Code Enforcement	807	202	-	-	-	-	-	-	-	-
Neighborhood Team	500	510	520	531	541	552	563	574	586	598
Totals	<u>8,945</u>	<u>14,476</u>	<u>20,641</u>	<u>20,982</u>	<u>22,165</u>	<u>23,359</u>	<u>24,669</u>	<u>25,170</u>	<u>25,682</u>	<u>26,199</u>

Compensation and Benefits – The forecast assumes that employees continue to receive merit increases where applicable (i.e., employees not already at top step) which results in an aggregate increase of approximately 1.2% in compensation annually. In an effort to remain at least marginally competitive with the City’s labor market, the forecast assumes salary cost-of-living increases (COLAs) at 2% annually starting in FY15-16, and the costs of pension and other benefits reflect this increase. Overtime costs and workers comp contributions (a much smaller aggregate cost than compensation and benefits) also increase by 1.2% annually, because they are a direct function of overall compensation. Health contributions are also projected to increase by 2% annually, starting in FY14-15.

Retirement Costs – Stockton’s retirement costs include two components, the pension program and the separate medical insurance program for retirees. By far, the biggest unfunded liability was found in the retiree medical program. When I arrived in July, 2010, the unfunded actuarial accrued liability was \$544 million. By comparison, the actuarial value of unfunded liability for the

California Public Employees Retirement System (CalPERS) for June 30, 2011 was \$172 million. Our strategy for restructuring revolved around the dual goals of achieving radical cost reductions while maintaining a viable workforce. Many pundits have not appreciated the key difference between chapter 9 and other chapters of the bankruptcy code. Private sector corporations can be dissolved under bankruptcy, while cities must continue providing essential health and safety services.

Virtually all public sector jobs include a defined benefit retirement plan. Among California cities almost all (97%) contract with CalPERS, as does Stockton, and over 99% of city employees are enrolled in CalPERS or an equivalent program. Only a few of the very largest cities operate their own pension systems, which tend to mirror CalPERS or the very similar county defined benefit pension programs (1937 Act counties). In any event, at this time a CalPERS pension is virtually a given in California public agency employment. For this reason Stockton has taken the position that it will reform and reduce the costs of its pension program along with other post-employment benefits, but retain the basic CalPERS pension which is crucial to the City's ability to recruit and retain a quality workforce. These costs are projected on the basis of a forecast of future PERS rates prepared by the Segal Company (retirement actuaries) which incorporate the following assumptions and reform actions already taken by the City:

- Recently-implemented rate smoothing and amortization changes will increase rates in the near-term but lower them in the long-run, as unfunded liability costs will be paid off under a fixed schedule instead of being continually rolled over on a 30-year basis (a more conservative approach by CalPERS).
- A reduction of 0.25% in the PERS discount rate for interest earnings which increases rates (this has not yet been enacted, but a 0.5% reduction was proposed in 2012 by CalPERS staff and the board only implemented half of it at that time). (This is a good example of the conservative approach we have taken in developing the fiscal model.)
- Lower City payroll in recent years than CalPERS has projected, which increases the unfunded liability portion of the employer rate. (This impact will be mitigated after the Marshall Plan is implemented, as it will increase the payroll base on which the unfunded rate is computed, thus reducing the unfunded rate from what it would otherwise have been.)
- Higher costs from improved mortality and other demographic changes.
- The anticipated savings from Public Employee Pension Reform Act (PEPRA) changes, as well as the two-tier benefit plans implemented by the City.

Stockton's retirement reforms, achieved as a result of difficult labor negotiations and pre- and post-bankruptcy mediation, has produced a number of cost reductions with retirees and employees. To understand the complete retirement cost picture in Stockton one needs to understand first the population of existing retirees. These can be categorized into roughly two groups:

- The first and more senior retiree group consists of those that retired under benefit packages prior to enhancement in the early 2000's. This category receives on average

\$24,000 per year in benefits and did not receive a retiree medical benefit. We do not propose a change in overall benefits to this group.

- The second retiree group consists of those that retired under the more enhanced programs provided in the early 2000's. They are younger in age and receive an average PERS benefit of \$51,000 per year and a medical benefit worth \$26,000 per year. Most of this group does not receive Social Security from their Stockton employment. The City reduced and ultimately stopped paying medical premiums while in bankruptcy and we propose eliminating the retiree medical benefit, for an approximately 30% reduction in this group's overall benefits.

For current employees the medical post retirement package has also been eliminated and the following pension reforms have also been instituted. Their total loss in retirement benefits ranges from 30-50% or more when you add the future value of the loss of retiree medical benefits.

- Employees agreed to pay 100% of the employee's share of PERS (7% of salary for miscellaneous employees and 9% for safety employees) which results in immediate savings. This also had the impact that the legal "spiking" of pension benefits through the Employer-Paid Member Contribution (EPMC) benefit of 7-9% higher retirement pay was eliminated for most employees, which will reduce pension costs over time.
- Employees agreed to a new retirement tier that had lower formula, eliminated retirement credit for sick leave, and eliminated all optional benefits, which will reduce pension costs over time.
- Reductions in compensation were enacted that ranged up to 23%, with the higher range affecting police officers through the elimination of certain "add-pays." Since the CalPERS benefit formula relies on final compensation, this reduces their future pension benefit. This also reduces PERS contributions due to lower payroll, for immediate savings, and in the long-run will reduce pension costs due to lower retirement income.

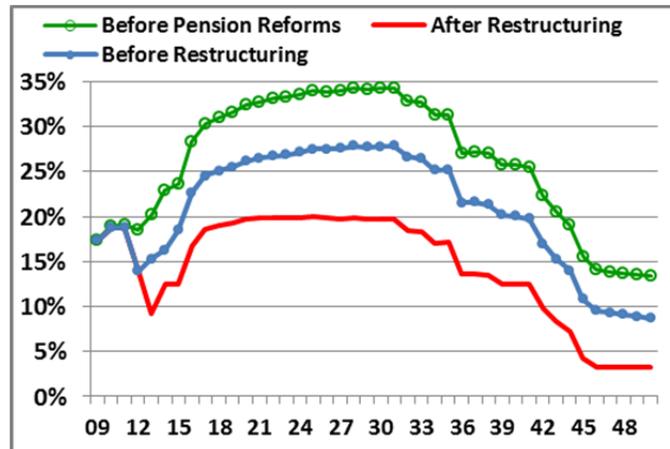
Future employees (after January 1, 2013) lost all the above and are subject to the new retirement reforms instituted on January 1. Their total reduction in benefit is arguably up 50-70% for most new hires and higher for some types of new hires when you combine the CalPERS reductions and the loss of future retiree medical benefits. Again, these employees will not be eligible for Social Security benefits from their Stockton employment.

To put all this in perspective, Figure 11 compares what General Fund total retirement costs¹ would have been as a percentage of total General Fund expenditures, before the pension cost reductions from the City reforms cited above, and with and without the restructuring savings from elimination of retiree medical benefits. The total General Fund dollar savings from FY12-13 through FY49-50 from the City pension reforms is projected to be \$659 million, and the General Fund portion of savings from the elimination of retiree medical benefits for both retirees and

¹ The pension portion of total retirement costs includes baseline PERS costs (before salary COLAs), the impact of the 2% salary COLAs under fiscal stabilization, and pension costs attributable to the higher Police staffing under the Marshall Plan.

employees not yet retired is projected to be \$812 million over the same period, for a total retirement-related savings to the General Fund over this period of \$1.47 billion.²

Figure 11. Total General Fund Retirement Costs as a Percent of Total Expenditures



The net result of these changes is that the General Fund is *not* going to be overwhelmed by retirement costs. From FY08-09 through FY11-12, before restructuring, total retirement costs averaged 17% of total General Fund expenditures. For FY12-13 through FY30-31, after restructuring and pension reforms and CalPERS rate adjustments, that average is projected to be 18%. And for FY31-32 through FY49-50 the projected decline in PERS rates will reduce total retirement costs to an average of 10% of total General Fund expenditures, falling to below 5% by FY44-45.

Other Pay and Benefits – Incorporates phase-out of certain benefits and increases other costs in accordance with salary growth.

Compensated Absences – The baseline forecast includes payment of compensated absences in accordance with current labor agreements, including vacation leave at termination (required by state law), holiday leave, and a short-term provision for payment of specified amounts of sick leave at termination for prior retirees. The City used to cash out a portion of unused sick leave upon leaving employment but this was ceased as part of new labor agreements. This was the reason for large cash outs in the past.

Vacancy Savings – The baseline budget assumes a 1% vacancy rate in FY13-14, increasing to 2% in FY14-15, and 3% for FY15-16 and thereafter. The fiscal stabilization section costs for the Marshall Plan are net of vacancy rate savings at the same rates.

Services and Supplies – The baseline forecast assumes 1.5% annual increases in the costs for internal services-equipment, general liability insurance, utilities, maintenance/repair services, labor/legal services, tax collection, election and general expenses.

² The \$812 million portion of this total retirement-related savings is the General Fund’s 55% share of the \$1.538 billion total retiree medical savings from retirees and employees, described further on page 19.

The fiscal stabilization section includes \$1 million in additional annual contributions to internal services funds to gradually reduce the large negative internal service fund balances, e.g., Workers Compensation, and to replace old information technology systems.

Program Support – The baseline forecast assumes continuation of General Fund support for Library, Recreation, Golf and Entertainment Venues with growth in accordance with the overall rate of increase in baseline personnel expense. The costs for RDA Successor Agency support, marina support, capital outlay and grant match are held constant over time. Supplemental administrative building rental costs are budgeted with 8% escalators every four years. A five-year program of support for the Development Services Fund ends in FY17-18.

Debt Service – The baseline forecast assumes the original amortization over time of existing bonds and settlement payments, offset by projected available contributions from other eligible funds. (Reductions in debt service are reflected under restructuring savings.)

Mission Critical Spending Needs – The fiscal stabilization section contains a line for “mission critical” spending, i.e., an allowance to fund unmet needs, such as replacing the 22-year old financial systems, making needed administrative building improvements, providing a local match for Measure K street maintenance costs, increasing deferred maintenance contributions, restoring a greater portion of the current \$40 million deficit in the Workers Comp Fund, and making creditor payments under the plan of adjustment. To partially address these needs, the forecast builds in \$16 million over the two-year period of FY14-15 and FY15-16, and \$500,000 annually thereafter until the balance exceeds the dollar amount equal to 15% of total expenditures³, when the amount over 15% is contributed to mission critical spending needs. Until the fund balance exceeds this threshold, such unmet needs will remain significant.

Contingency – The baseline forecast budgets \$2 million for contingencies annually.

Treatment of Creditors in the Plan of Adjustment

In Stockton, bankruptcy was triggered by a combination of the substantial reductions in revenues caused by the great recession, and a variety of long term obligations for debt, retiree medical and labor compensation, which in many cases was structured to increase over time. The expenditure load for these obligations was just too much for the City to handle, while still maintaining minimal service levels. During AB 506 and bankruptcy mediation the City has made good progress in restructuring a number of these obligations. We were able to reach agreements with all the organized labor groups, with retirees concerning medical insurance and with a number of other creditors including some involving debt obligations.

The remaining creditors largely center on obligations for debt service on long-term bonds. Negotiations continue as of this writing, but it is important to note that through difficult and painful negotiations, we have collectively eliminated much more than what is waiting to be resolved in this case. As just one example, the retiree medical obligation was estimated to have a total cost in future dollars of \$1.538 billion for all funds. This has been totally eliminated with

³ The Government Finance Officers Association recommends a General Fund reserve level equal to two months of average operating expenditures, which would be 16.67%.

this plan. When you add other compensation reductions agreed to in the new MOU's, the total savings approach \$2 billion through 2050.

Most of the City's General Fund debt is structured as lease/leaseback obligations. Absent voluntary agreements on restructuring, bankruptcy forces the City to choose between accepting each of its lease obligations in total or rejecting such leases. For the pension obligation bonds, there is no lease and the obligation is unsecured.

In cases where the City has been able to secure voluntary agreements with creditors, the plan of adjustment hews to that agreement. Examples of this are the Ambac obligation and the treatment of retiree health insurance claims outlined in the unsecured creditors section of the plan of adjustment.

In cases where the City has been unable to secure an agreement, the plan of adjustment provides for rejection of the leases, UNLESS, the obligation concerns an essential facility of the City. In such cases, the City has no choice but to assume the lease or other obligation and pay the entire obligation in full, unless an agreement can be reached. The best example of the former treatment would be the Stewart/Eberhardt Building (SEB) debt. Because this debt obligation is secured by the SEB building and because this building is essential to City operations and probably has a value at least as high as the amount of the bonds, we have always assumed that in a non-consensual plan of adjustment the obligation would be paid in full. This is a crucial difference between the plan of adjustment and the AB 506 Ask of over a year ago. In the Ask we did request restructuring of this debt (and all other debt) but that was in the context of voluntary negotiations. Our internal budget calculations have always included the assumption that this obligation would be paid as a worst case estimate.

An example of the latter treatment, which is applicable in cases where there is no security or the security does not relate to public safety or core City operations, would be the 2009 Capital Improvement Bonds. This is a secured obligation (Oak Park and two golf courses), but it could be argued that the golf courses are neither very valuable from a market value point of view nor essential to the operations of the City. The property cannot be sold by the creditor, and while the creditor could chose to operate the facilities, zoning does not allow alternative uses for the facilities. Since our attempts at a negotiated settlement with respect to this obligation have thus far not been successful, the plan of adjustment provides that the applicable leases must be rejected. As a result, if it chooses to do so, the creditor could take over possession and operation of the facilities. However, the creditor cannot sell the properties because it will not own them. Neither can the creditor use them for other purposes, due to zoning and use restrictions. The City's only other alternative would have been to pay most of the debt service out of the General Fund, causing additional service reductions or reducing our commitment to the Marshall Plan on Crime. This lease is proposed to be rejected because thus far the City has been unable to reach a negotiated settlement that does not unravel the City's General Fund services or commitment to the Marshall Plan, and that is acceptable to the impacted creditors. Assuming these leases and paying full debt service is not a viable option within the City's budget constraints.

The City does not view these results as desirable or optimal. Rather they are reflective of the binary choices we face in developing the plan of adjustment. We do not believe the creditors will find such treatment appropriate either, and both sides should continue to negotiate a better solution. However, since the City is determined to exit chapter 9, which is expensive and distracting, we had to develop a plan of adjustment which was both legally sound and financially prudent even without voluntary restructuring.

Therefore the plan of adjustment is in many cases a worst case, but financially prudent approach. Details on the plan of adjustment treatment on various obligations are reviewed below.

Restructuring Treatment and Savings

The restructuring section of the forecast includes reductions in expenditures not yet defined as permanent that require the chapter 9 process to play out: retiree medical benefits, debt obligations, legal settlement payments, and sports team agreements. Approximately \$39.6 million of the \$46.4 million in potential labor savings identified in the AB 506 process for FY12-13 through FY20-21 (85% of the total) already have been implemented through meet and confer negotiations facilitated by the AB 506 and bankruptcy mediators, and these savings are incorporated into the baseline personnel costs. In addition, the \$90 million in past compensation and service cuts that were enacted by the City are assumed to stay in effect and to gain in value of avoided costs over time. The following are the remaining areas of anticipated restructuring savings:

- Retiree Medical Reductions – After settlement payments in FY13-14, 100% of retiree medical expenses are eliminated. The loss of this medical benefit is worth approximately \$26,000 per retiree per year, or \$600,000 over a lifetime (not adjusted for inflation). In aggregate, the City estimates the total liability for all funds of these former benefits to be \$538 million; this will be eliminated through chapter 9. The value of retiree medical obligations for employees yet to retire is approximately \$1 billion for all funds; this was eliminated through new labor agreements last year. The total savings for employees and retirees through the life of the program is \$1.538 billion. Table 5 reflects the annual total of retiree medical savings (including program administration and other non-benefit costs) for the General Fund only.
- Debt Reductions – These are based on the following actions relative to each debt amount:
 - 2003 Certificates of Participation – The agreement previously reached with Ambac restructures the amounts that would have otherwise been absorbed by the General Fund, and provides a mechanism for subsequent General Fund reimbursement. The lease payments on these bonds (\$12.6 million outstanding), were restructured because (a) the collateral for these bonds consisted of Maya Angelou Library, the Main Police Facility and three fire stations, which are essential facilities and therefore had to be retained by the City, and (b) our estimation is that the value of the collateral was at least equal to the amount of the debt. Ambac is at risk for a potential haircut of up to 19.5% if

tax increment levels prove insufficient to pay debt service. However, since tax increments are pledged to debt service, if assessed values grow as projected, Ambac would not suffer a haircut (and would not even in a cram down).

- 2004 Arena Lease Revenue Bonds (LRBs) – The City accepts lease payments on these bonds (\$45.1 million outstanding), which helped pay the costs of constructing the arena. A preliminary term sheet agreement has been reached with NPFPG, the bond insurer for this issuance, along with agreements on the other bonds insured by NPFPG relating to the parking garages and the SEB facility. Based on our preliminary agreement with NPFPG the restructured debt should be fully serviced by tax increment revenues, except in the eventuality that our relatively conservative assumptions concerning assessed valuation growth are not achieved. In this unlikely eventuality some General Fund liability would be possible, but it would be much reduced from the current situation. While we fully expect to consummate the agreement, the alternative would have been to reject the lease. NPFPG would then have the right, but not the obligation, to take control of the Arena for the remaining lease term as the pledged collateral for these bonds. Since the City would no longer have been able to perform pursuant to the license agreements, the subsidy for arena operations and the Thunder sports team would end. NPFPG could choose whether or not to continue to operate the facility and in order to remain in the facility, the Thunder would have to negotiate a new agreement with NPFPG. However, since the debt payments were already covered by a dedicated revenue stream outside the General Fund, we decided to reach agreement to keep control of the Arena.
- 2004 Parking LRBs – Under the preliminary agreement with NPFPG the City basically accepts the leases relating to these bonds (\$31.6 million outstanding) which paid for the Coy, Market and Arena garages. Under this agreement control of the garages, which NPFPG had previously took possession of, would revert to the City. Payments to satisfy most of this debt obligation would be provided to NPFPG from the net revenues of a new parking enterprise the City will create to take over operation of all parking assets in the central area of the City. Via a combination of contracting for operation of parking facilities and implementation of capital improvements, net revenues from parking will increase above their current levels, allowing for payment of the bulk of the obligation over an extended time period. Using parking revenues to pay this obligation will shield the General Fund from exposure. Obtaining control of the three garages, combined with a contract operations approach, will allow the City to achieve economies of scale in operations, reducing ongoing expenditures, and maximizing overall revenues. Should the agreement with NPFPG not be finalized the City would have to revert to rejection of these leases. With regard to the parking garages this result would not be too much of a problem, because the garages would continue to be open to the public as they have been since NPFPG took control. However, this result would have threatened the Arena agreement, which requires NPFPG's cooperation.

- 2006 LRBs – The City will assume the lease relating to these bonds (\$12.1 million outstanding), which built the SEB parking garage. The SEB houses essential City services, so these bonds will not be impaired and the General Fund will continue to make \$900,000 annual payments on these bonds, which are reimbursed by the Parking Fund and Police Public Facilities Fee (PFF) Fund, so there is no net impact on the General Fund.
- 2006 Dept of Boating and Waterways (DBW) Loan – There is no enforceable General Fund obligation to pay this state loan (\$10.8 million outstanding), which funded marina improvements. This loan was never enforceable against the General Fund given its structure as a debt obligation, due to the constitutional debt limit and the lack of voter approval. The state does have a lien on revenues from the Marina, which requires a subsidy of approximately \$160,000 per year from the City. Since the City cannot repay this loan from Marina revenues or the General Fund the State could take over operation of the facility. Indeed the State does operate numerous marina facilities through its Parks Department into which the Department of Boating and Waterways was recently merged. Very recently the State has indicated this may be a preferred option. The General Fund saves \$685,000 annually from elimination of this debt service payment. If the state elects to take over operations of the facility it would eliminate the need for a City operational subsidy and this would increase the annual savings to the General Fund by \$160,000. Negotiations with the state concerning this obligation continue.
- 2007 Pension Obligation Bonds (POBs) – These bonds (\$124.3 million outstanding) refinanced unfunded liability due to CalPERS. These bonds are insured by Assured Guaranty. They are an unsecured creditor, in that there is no collateral pledged to the debt. As this document was being finalized the City was in negotiations with this creditor and had developed the outlines of a negotiated settlement. However the draft term sheet will not be reviewed by executive management at Assured until after this staff report and the associated disclosure statement of plan of adjustment are filed with the Council and the public. (We are informed a review will occur on Monday, September 30.) While we will recommend treatment of this obligation before the Council approves of our plan of adjustment and disclosure statement, at this time we would like to provide time for the negotiations to be finalized, and thus keep treatment of this obligation as an issue to be determined based on the resolution of current negotiations. As covered earlier, our budget model makes provision for a settlement as this is the most conservative posture for the City.
- 2007 Variable Rate Demand Bonds (VRDOs) – These bonds (\$40.4 million outstanding) paid for acquisition of 400 East Main, which was originally intended to be the new City Hall. Assured Guaranty obtained possession of the building prior to the City filing for bankruptcy through an unlawful detainer action. Under the umbrella of the negotiated settlement discussed above the City also deals with this obligation. Therefore the same discussion regarding allowing time for current negotiations to be resolved applies to this obligation.

- 2009 LRBs for Capital Improvement Projects – The City rejects the lease relating to these bonds (\$35.1 million outstanding), which repaid prior City interfund loans used to construct the Police Communications Center, a fire station, parks, and street improvements. The leased property consists of Oak Park, and the Swenson and Van Buskirk golf courses. The General Fund is legally obligated to make the lease payments, but PFFs from the streets, police, fire, and parklands funds were expected to be used as an internal source of funds as available. Annual debt service is approximately \$2.9 million. The baseline budget assumes a conservative \$500,000 in available PFF revenues (the remainder being required for project funding and payment of reimbursable agreements and fee credits), so under a rejection of leases the General Fund would save \$2.4 million annually. If no agreement is reached, Franklin, which owns all of the bonds, could elect to take possession of the leased properties pledged as collateral for the bonds and could choose whether or not to operate those facilities itself. Zoning does not allow alternative uses for the facilities (and for Van Buskirk, the deed granting the property to the City also does not allow for anything except public recreation uses, and contains a reversionary interest). Franklin might elect not to take possession of facilities that operate at a loss. Furthermore they cannot take title of these lands, so they cannot sell them, and sale is prohibited under the obligation provisions. If Franklin elects to take possession of the facilities, the General Fund would no longer incur a subsidy for golf and ice rink operations, resulting in approximately \$700,000 in annual savings. Furthermore, we would avoid making \$65 million in debt service payments from the General Fund (the baseline budget estimate of debt service in excess of projected available PFF revenues). Again, paying this debt service would have caused more service reductions or a reduced commitment to the Marshall Plan on Crime. If Franklin does not elect to take possession of the facilities, then the City would be permitted, but not required, to continue to operate them. We will continue and try to reach a negotiated settlement with Franklin, but not at the expense of further service reduction or backtracking on commitments to the Marshall Plan on Crime.
- Other Reductions – These savings are from seven sources, and some reflect negotiated agreements, notably with the Marina Towers plaintiffs, Thunder hockey team and police association:
 - Settlement with Police Officer's Association - The Stockton Police Officers Association and the City agreed that their claims were valued at approximately \$8.5 million for compensation reductions imposed by the City in 2010 and 2011 as part of the City fiscal emergencies. The parties have agreed to a settlement of 44 hours of paid time off for each SPOA employee who was employed by the city as of June 30, 2012.
 - Sick Leave Buyout - Employees who left city employment between February 17, 2012 and June 30, 2012, may have claims for payment of unused sick leave

hours that were not made at that time. Former employees with these claims will be treated in the same manner as other claims in their class.

- Jarvis Settlement - These annual payments are due from the General Fund to the Water and Wastewater funds as the result of a settlement regarding the City's long-standing former practice of charging utility funds payments in lieu of taxes. The General Fund saves \$1.1 million annually through 2040, for a total of \$31.6 million. Jarvis has not participated in negotiations, or complained about this treatment, which is strictly internal to the City, but important to the General Fund.
 - Marina Towers Settlement – The City has negotiated an agreement with the Marina Towers plaintiffs to substitute excess land (worth \$973,500) for the \$1,875,000 in remaining payments (\$312,500 annually through FY17-18). This eminent domain lawsuit involved a portion of the ballpark that could have reverted to the plaintiffs in the absence of a settlement.
 - Price Settlement – The City will make no further payments under this settlement of an inverse condemnation case involving downtown area single-room occupancy hotels, relating to payment of relocation costs and production of low income housing units. Obligations due have been in dispute and no General Fund costs had been budgeted.
 - Main Hotel – The City will not pay the remaining \$500,000 payment due related to a redevelopment restoration project, which reduces the level of redevelopment subsidy required of the General Fund.
 - Sports Teams – Restructuring savings from the AB 506 Ask assumes a reduction of approximately \$500,000 annually in license agreement costs for the Ports baseball team and Thunder hockey team through the end of the current agreements in 2026. The City has been able to reach a tentative agreement with the Thunder, which will decrease City costs and increase City revenues associated with Thunder operations. Negotiations with the Ports have not been successful to date and the City will be seeking to reject the agreement and impose new terms to reduce the level of subsidy absorbed by the City.
- In addition to actions implemented through the chapter 9 process, the City would undertake the following actions:
 - Property Sales – The City has identified parcels estimated at \$6 million in value that are projected to be sold over the next six years.
 - Efficiencies – The City has initiated a series of studies designed to reduce costs through efficiencies, alternative service delivery or increased cost recovery. The projected annual savings start at \$2.5 million in FY 14-15 and increase to \$3 million by FY16-17.
 - Measure A – This proposed 0.75% transactions and use tax requires majority voter approval on the November 5, 2013 ballot. It is projected to raise approximately \$28 million annually, starting with a quarter of that amount received at the close of FY13-14.

- Staffing and Service Cuts – While the \$90 million in cuts previously enacted would remain in effect, there are no further budget cuts incorporated into the plan of adjustment due to the City’s current level of service insolvency. However, failure of the tax to pass would force an additional \$11 million in ongoing budget cuts to make up for the loss of new revenue, even if the Marshall Plan is not implemented.

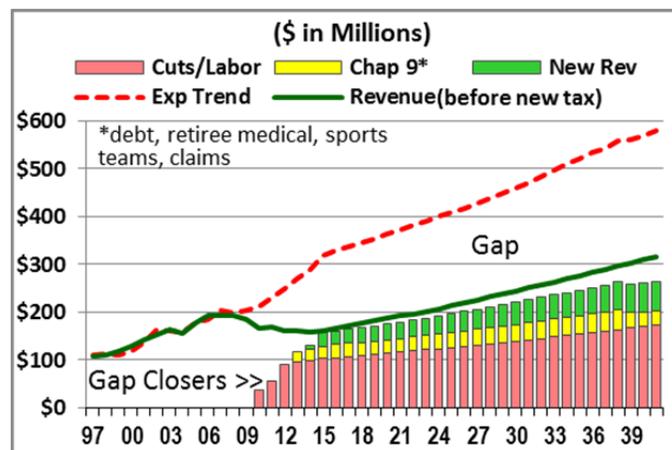
Table 5 shows the total restructuring savings assumed by the City from the above sources:

Table 5. Projected Restructuring Savings (FY13-14 through FY20-21)

(\$ in 000)	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Retiree Medical Reductions	9,903	10,751	11,653	11,887	12,674	13,360	14,195	15,029
Debt Reductions	13,968	13,580	13,585	13,779	12,229	11,838	12,169	11,889
Other Reductions	1,440	1,940	1,940	1,940	1,940	1,627	1,627	1,627
Subtotal Chap 9 Restructuring	25,311	26,270	27,177	27,605	26,843	26,825	27,991	28,545
Sale of Surplus Property	-	500	500	1,250	1,250	1,250	1,250	-
Efficiency Savings	-	2,500	2,500	3,000	3,000	3,000	3,000	3,000
New Revenue-Sales Tax	6,804	27,979	28,777	29,813	30,886	31,998	33,150	34,310
Service & Staffing Reductions	-	-	-	-	-	-	-	-
Total Restructuring	32,114	57,249	58,954	61,668	61,979	63,073	65,391	65,855

Figure 12 shows the projected gap between projected revenues without Measure A and the pre-budget cut level of expenditures including the Marshall Plan, and how this gap is filled through the combination of prior budget cuts and future efficiencies, chapter 9 restructuring and increased revenue.

Figure 12. Closing the Gap between General Fund Expenditure Trend and Available Resources



Plan of Adjustment is Solvent

The General Fund's Long-Range Financial Plan meets the three tests of solvency:

- It is cash solvent. Balances will be adequate to pay bills when they come due.
- It is budget solvent. The budgets are balanced with all spending categories accounted for, including compensated absences and internal service contributions. It will require continued fiscal discipline to prevent excess spending growth between now and when the fund balance reaches its minimal level in the mid-2020s, to avoid reducing fund balance at a faster pace. Fund balance shows excellent growth after this period, but these far out-year projections are subject to the most uncertainty in the model, simply because of the nature of such a long range projection, so the projection should be viewed with caution.
- It provides minimal service solvency. The Marshall Plan restores a significant amount of police services to the community, and raises the sworn officer staffing level from 1.16 per 1000 residents to 1.6 per 1000. In the near-term, no additional service level improvements can be funded and maintenance and technology investments remain low. However, by the late 2020s, improving reserve levels will allow for additional commitments to service levels, including a second phase of police staffing increases, and higher maintenance levels.

Timeline for Input from Interested Parties and Court Actions Involving the Plan of Adjustment and Disclosure Statement

At the time the City files its plan and disclosure statement, it will schedule a hearing at which the bankruptcy court will consider whether to approve the disclosure statement as containing information for those voting on the plan that is adequate to enable them to vote to accept or reject the plan. The bare minimum advance notice of such a hearing is 28 days, but the practice in chapter 9 and chapter 11 cases is to schedule the hearing for between 45 and 60 days from the date the plan and disclosure statement are filed. The reason is to provide creditors and parties in interest with sufficient time to file objections and suggested changes to the disclosure statement, as well as to enable the City to respond to the objections and to revise the disclosure statement prior to the hearing in response to the objections/suggestions. The extra time also permits the City to make changes to the plan of adjustment that reflect agreements reached with creditors subsequent to the filing of the original documents.

At the hearing on the disclosure statement, the bankruptcy court can approve the document or condition approval on amendments to it. Often, the court will schedule a follow-up hearing to occur two to four weeks later, at which time the amended disclosure statement will be considered. Occasionally, a third hearing is held if further changes are necessary after the second hearing.

At the disclosure statement hearing or hearings, the bankruptcy judge will discuss plan confirmation timing with the City and with its creditors. The confirmation hearing must be

scheduled for no fewer than 28 days following the transmission to creditors of the plan, the approved disclosure statement, ballots and other documents, but, once again, the practice in chapter 9 and chapter 11 cases always is to schedule the hearing no fewer than 60 days later in order to give parties in interest the opportunity to object to the plan and the City the opportunity to respond. And if creditors seek discovery – as did the capital markets creditors in the eligibility phase of the City’s case, taking many depositions and compelling the turnover of thousands of pages of documents – the hearing may not occur until 90 or more days after mailing of the ballots.

Policy Options for the Council

The staff recommends that the Council adopt the resolution which will authorize the City Manager to file the plan of adjustment and disclosure statement. The Council could make changes to the plan of adjustment, which would dictate changes to the disclosure statement. Staff would need some time to make the changes requested, due to the interconnectedness of the plan, disclosure statement and fiscal model. In addition while the staff recommends we file the plan at the beginning of October in order to have information available prior to the vote on Measure A, this is not required. Some delay might result in additional negotiated settlements which would alter the plan of adjustment and potentially make it more fully consensual. However delay is not recommended due to the vote on Measure A and the fact that negotiations can sometimes be aided by a deadline resulting in an outcome which provides an incentive to compromise. We will continue to strive for a consensual plan, but not at the expense of the General Fund solvency, further service reductions, or loss of the Marshall Plan on Crime.

Conclusion

The City has made much progress in the last several years. We are nearing the culmination of your Council Goal from 2011. While the bankruptcy filing has been a huge strain for the Stockton citizenry and its employees and retirees, and to some degree damaging in terms of public opinion, it was absolutely necessary in order to unwind some of the unsupportable obligations which the City had made in years past. Our settlement with the City retirees in regards to medical insurance obligations is a good example of how the bankruptcy process, while painful, can be helpful. As a result of the mediated negotiations we were able to convert an obligation for retirees valued at \$538 million to a settlement with one-time money of \$5.1 million. The money saved can go back into our severely underfunded core municipal services in order to restore the viability of the City.

There are significant uncertainties associated with the plan of adjustment. Central to a successful fiscal outcome is a chapter 9 restructuring that achieves an adequate level of savings, and the successful passage of Measure A on the November 5, 2013 ballot. Without these two accomplishments, the City will be unable to implement the Marshall Plan to improve

public safety services, and will be forced to further degrade other public services. Both actions would take Stockton further backwards and threaten the ongoing viability of the City.

Approval of this plan of adjustment and disclosure statement will begin the final chapter in the bankruptcy and set the stage for recovery of the City. While we expect further intense negotiations and court hearings, with perhaps a set back here and there before this is over, this at least is the beginning of the end. It provides the final piece in our road back to putting our financial house in order.

EXHIBIT A

CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN (FY11-12 to FY20-21, Dollars in Millions)

GENERAL FUND	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
1 General Revenues										
2 Property Taxes										
3 Property Taxes	26.38	26.28	26.39	27.04	28.13	29.39	30.71	32.10	33.54	34.88
4 In-Lieu of Motor Vehicle Fees	17.58	17.31	17.52	17.95	18.67	19.51	20.39	21.31	22.27	23.16
5 Subtotal Property Taxes	43.96	43.59	43.90	45.00	46.80	48.90	51.10	53.40	55.81	58.04
6 Sales Taxes										
7 75% Point of Sale	27.73	28.33	29.08	29.90	30.75	31.86	33.00	34.19	35.42	36.66
8 25% County ERAF Backfill	8.39	9.94	9.78	10.18	10.46	10.62	11.00	11.40	11.81	12.22
9 Proposition 172	1.18	1.27	1.31	1.34	1.38	1.43	1.48	1.53	1.59	1.65
10 Subtotal Sales Taxes	37.30	39.54	40.17	41.41	42.59	43.91	45.49	47.12	48.82	50.53
11 Utility Users Tax										
12 Water	3.16	3.25	3.26	3.29	3.34	3.39	3.44	3.49	3.54	3.59
13 Electric & Gas	17.11	17.06	17.60	17.99	18.26	18.53	18.81	19.09	19.38	19.67
14 Cable	1.95	2.33	2.36	2.36	2.39	2.43	2.47	2.50	2.54	2.58
15 Telecommunications	9.29	9.15	8.98	8.80	8.93	9.06	9.20	9.34	9.48	9.62
16 Subtotal Utility Users Tax	31.50	31.79	32.19	32.43	32.92	33.41	33.91	34.42	34.94	35.46
17 Franchise Tax										
18 PG&E	1.86	1.84	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.19
19 Cable/Video	3.11	2.20	2.24	2.22	2.26	2.31	2.36	2.40	2.45	2.50
20 Waste Haulers	7.50	7.55	7.52	7.63	7.79	7.94	8.10	8.26	8.43	8.60
21 Subtotal Franchise Tax	12.46	11.60	11.67	11.80	12.04	12.28	12.52	12.77	13.03	13.29
22 Other General Revenues										
23 Business License Tax	8.92	9.13	8.99	9.08	9.22	9.35	9.49	9.64	9.78	9.93
24 Hotel/Motel Tax	1.93	1.98	1.95	1.97	1.99	2.01	2.03	2.05	2.07	2.09
25 Document Transfer Tax	0.60	0.46	0.50	0.51	0.51	0.52	0.53	0.54	0.54	0.55
26 Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27 Interest Income	0.05	0.02	0.02	0.28	0.35	0.31	0.30	0.28	0.26	0.24
28 Subtotal Other General Revenues	11.65	11.73	11.61	11.99	12.21	12.34	12.49	12.65	12.81	12.96
29 Program Revenues										
30 Fire Contracts	4.79	3.34	3.33	3.26	3.29	3.32	3.36	3.39	3.43	3.46
31 Code Enforcement	4.04	2.82	2.95	3.01	3.04	3.07	3.10	3.13	3.16	3.19
32 Charges for Services	1.91	1.87	1.83	1.84	1.86	1.88	1.90	1.92	1.94	1.96
33 Fines & Forfeitures	1.73	1.27	1.30	1.31	1.34	1.37	1.39	1.42	1.45	1.48
34 Revenues from Other Agencies	0.78	0.85	0.68	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35 Licenses & Permits	0.40	0.38	0.37	0.37	0.38	0.39	0.40	0.40	0.41	0.42
36 Misc Other Revenues	(0.38)	3.03	(0.14)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37 Subtotal Program Revenues	13.27	13.56	10.31	10.40	10.51	10.63	10.75	10.86	10.99	11.11
38 Interfund Reimbursements										
39 Indirect Cost Allocation	5.11	4.85	4.72	4.49	4.68	5.14	5.34	5.49	5.67	5.86
40 Refunds & Reimbursements	0.87	0.45	1.33	0.25	0.26	0.26	0.27	0.27	0.28	0.28
41 Rents/Leases/Concessions	2.56	2.72	2.71	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42 Parking Fund - Debt Service	1.58	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
43 Subtotal Reimbursements	10.12	8.86	9.68	8.33	8.52	8.99	9.19	9.36	9.54	9.73
44 Total General Fund Revenues	160.27	160.66	159.52	161.35	165.59	170.45	175.46	180.59	185.92	191.11
45										
46 Salaries & Benefits										
47 Salaries - Safety (w/ COLA)	34.00	34.23	38.91	39.38	40.64	41.94	43.28	44.66	46.09	47.57
48 Salaries - Non-Safety (w/ COLA)	15.48	15.59	17.72	17.93	18.50	19.10	19.71	20.34	20.99	21.66
49 Salaries - Part time, Temporary	1.05	1.06	1.48	1.50	1.54	1.59	1.65	1.70	1.75	1.81
50 Pension - CalPERS	14.14	14.24	17.75	20.88	28.75	30.82	31.91	33.41	34.95	35.99
51 Health/Dental/Vision-Employee (w/COLA)	8.79	8.85	9.37	9.55	9.75	9.94	10.14	10.34	10.55	10.76
52 Health - Retirees	7.96	9.18	9.90	10.75	11.65	11.89	12.67	13.36	14.20	15.03
53 Workers Compensation	7.16	7.21	7.19	7.27	7.36	7.45	7.54	7.63	7.72	7.81
54 Other Pay & Benefits	6.39	6.44	5.52	5.53	5.57	5.61	5.66	5.71	5.75	5.80
55 Overtime & Standby/Callback	7.61	7.66	7.23	7.31	7.55	7.79	8.04	8.30	8.56	8.83
56 Compensated Absences	3.46	2.74	2.01	2.91	3.06	2.96	3.13	3.31	3.50	3.69
57 Salaries - Safety-Expiring Grants	-	-	-	-	-	2.32	2.39	2.47	2.55	2.63
58 Net Labor Adjust/Reimbursements	-	-	0.94	1.01	1.15	1.20	1.23	1.27	1.32	1.35
59 Budgeted Vacancy Savings	-	-	(1.05)	(2.24)	(3.69)	(3.92)	(4.04)	(4.17)	(4.31)	(4.44)
60 Subtotal Salaries & Benefits	106.05	107.20	116.96	121.79	131.84	138.68	143.30	148.31	153.61	158.51

GENERAL FUND (cont.)		11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
61 Services & Supplies											
62 Internal Services-Equipment		12.18	13.44	13.51	13.41	13.61	13.81	14.02	14.23	14.45	14.66
63 General Liability Insurance		2.24	3.01	3.37	3.44	3.49	3.54	3.60	3.65	3.71	3.76
64 Utilities		2.49	2.49	2.65	2.69	2.73	2.77	2.82	2.86	2.90	2.95
65 Maintenance & Repair Services		2.14	2.61	2.60	2.63	2.67	2.71	2.76	2.80	2.84	2.88
66 Labor/Legal Services		3.76	6.33	2.20	2.23	2.26	2.30	2.33	2.37	2.40	2.44
67 General Expenses		6.70	8.43	8.90	8.63	8.71	8.79	8.87	8.96	9.09	9.23
68 Tax Collection & Election		2.09	2.34	2.28	2.57	2.61	2.65	2.70	2.75	2.79	2.83
69 Subtotal Services & Supplies		<u>31.61</u>	<u>38.66</u>	<u>35.51</u>	<u>35.61</u>	<u>36.09</u>	<u>36.59</u>	<u>37.10</u>	<u>37.61</u>	<u>38.17</u>	<u>38.74</u>
70 Program Support for Other Funds											
71 Library		3.98	3.91	4.00	4.30	4.88	5.08	5.22	5.40	5.58	5.73
72 Recreation		2.76	2.34	2.85	3.06	3.47	3.61	3.72	3.84	3.97	4.08
73 Golf Courses		-	0.50	0.45	0.48	0.55	0.57	0.59	0.61	0.63	0.65
74 Entertainment Venues		2.44	2.64	2.65	2.85	3.24	3.37	3.47	3.58	3.70	3.80
75 RDA Successor Agency		1.81	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76 Downtown Marina		0.05	0.05	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77 Capital Improvements		0.62	0.58	1.29	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78 Administration Building		-	0.16	-	0.84	0.84	0.84	0.91	0.91	0.91	0.91
79 Grant Match		0.04	0.16	0.40	0.40	0.40	0.30	0.30	0.30	0.30	0.30
80 Development Services		0.15	1.00	1.00	1.00	1.00	1.00	-	-	-	-
81 Other		0.25	0.03	-	-	-	-	-	-	-	-
82 Subtotal Program Support		<u>12.09</u>	<u>12.11</u>	<u>13.55</u>	<u>14.41</u>	<u>15.87</u>	<u>16.25</u>	<u>15.69</u>	<u>16.13</u>	<u>16.58</u>	<u>16.96</u>
83 Debt - Bonds/Other											
84 Jarvis Utilities Settlement		1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
85 Marina Settlement		-	0.31	0.31	0.31	0.31	0.31	0.31	-	-	-
86 2003 COPs		-	0.13	0.60	0.52	0.51	0.49	0.24	0.20	0.09	-
87 2004 Arena Bonds		-	0.29	0.74	0.66	0.73	0.82	0.49	0.54	0.33	-
88 2006 LRBs-Parking (SEB)		0.77	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
89 2006 DBW-Debt - Marina		0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90 2007 POBs		5.62	6.25	6.73	6.84	6.95	7.06	7.17	7.29	7.40	7.52
91 2007 VRDLRB - 400 E.Main		0.24	2.59	2.67	2.67	2.67	2.67	2.67	2.67	2.70	2.72
92 2009 LRBs-Pub Facil Bonds/CIP		0.65	1.92	2.42	2.43	2.42	2.42	2.42	2.42	2.42	2.42
93 Debt - Other/Admin		0.42	0.21	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.24
94 Subtotal Debt		<u>9.51</u>	<u>14.36</u>	<u>16.68</u>	<u>16.64</u>	<u>16.81</u>	<u>16.97</u>	<u>16.51</u>	<u>16.32</u>	<u>16.15</u>	<u>15.62</u>
95 Contingency		-	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96 Total General Fund Baseline Expenditures		<u>159.25</u>	<u>174.32</u>	<u>184.70</u>	<u>190.45</u>	<u>202.61</u>	<u>210.49</u>	<u>214.60</u>	<u>220.37</u>	<u>226.52</u>	<u>231.83</u>
97 Surplus(Shortfall) After Baseline		<u>1.01</u>	<u>(13.66)</u>	<u>(25.18)</u>	<u>(29.10)</u>	<u>(37.02)</u>	<u>(40.04)</u>	<u>(39.14)</u>	<u>(39.78)</u>	<u>(40.60)</u>	<u>(40.73)</u>
98											
99 Fiscal Stabilization											
100 Increased Deferred Maintenance		-	-	-	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101 Contributions to Workers Comp ISF		-	-	-	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102 Contributions to Technology/Other ISF		-	-	-	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103 Marshall Plan/Police Services		-	-	-	8.95	14.48	20.64	20.98	22.16	23.36	24.67
104 Mission Critical Spending Needs		-	-	-	8.00	8.00	-	-	-	-	-
105 Repay 2/28/12 Transfers		-	-	-	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106 Total Fiscal Stabilization		-	-	-	<u>19.00</u>	<u>24.53</u>	<u>22.69</u>	<u>23.03</u>	<u>24.21</u>	<u>25.41</u>	<u>26.72</u>
107 Surplus(Shortfall) After Fiscal Stabilization		<u>1.01</u>	<u>(13.66)</u>	<u>(25.18)</u>	<u>(48.09)</u>	<u>(61.55)</u>	<u>(62.73)</u>	<u>(62.17)</u>	<u>(63.99)</u>	<u>(66.01)</u>	<u>(67.44)</u>
108											
109 Restructuring (Labor included in Baseline)											
110 Retiree Medical Reductions		-	7.05	9.90	10.75	11.65	11.89	12.67	13.36	14.20	15.03
111 Debt Reductions		0.65	11.87	13.84	13.45	13.45	13.65	12.09	11.70	12.03	11.75
112 Other Reductions		-	1.94	1.44	1.94	1.94	1.94	1.94	1.63	1.63	1.63
113 Subtotal Restructuring		<u>0.65</u>	<u>20.86</u>	<u>25.18</u>	<u>26.14</u>	<u>27.05</u>	<u>27.47</u>	<u>26.71</u>	<u>26.69</u>	<u>27.85</u>	<u>28.40</u>
114 Sale of Surplus Property		-	-	-	0.50	0.50	1.25	1.25	1.25	1.25	-
115 Efficiencies/Alt Svc Delivery/Fees/Other		-	-	-	2.50	2.50	3.00	3.00	3.00	3.00	3.00
116 New Revenue-Sales Tax (Nov-13 ballot)		-	-	6.80	27.98	28.78	29.81	30.89	32.00	33.15	34.31
117 Service & Staffing Reductions		-	-	-	-	-	-	-	-	-	-
118 Total Restructuring		<u>0.65</u>	<u>20.86</u>	<u>31.99</u>	<u>57.12</u>	<u>58.82</u>	<u>61.53</u>	<u>61.84</u>	<u>62.94</u>	<u>65.25</u>	<u>65.71</u>
119 Surplus(Shortfall) After Restructuring		<u>1.67</u>	<u>7.20</u>	<u>6.80</u>	<u>9.03</u>	<u>(2.72)</u>	<u>(1.19)</u>	<u>(0.33)</u>	<u>(1.06)</u>	<u>(0.75)</u>	<u>(1.73)</u>
120 Transfer to Bankruptcy Fund		(5.59)	(6.91)	-	-	-	-	-	-	-	-
121 Encumbrance+AB 506 Carryover		(2.71)	2.71	-	-	-	-	-	-	-	-
122 Beginning Available Balance		<u>6.64</u>	-	<u>3.00</u>	<u>9.80</u>	<u>18.83</u>	<u>16.11</u>	<u>14.91</u>	<u>14.58</u>	<u>13.52</u>	<u>12.77</u>
123 Ending Available Balance		<u>-</u>	<u>3.00</u>	<u>9.80</u>	<u>18.83</u>	<u>16.11</u>	<u>14.91</u>	<u>14.58</u>	<u>13.52</u>	<u>12.77</u>	<u>11.04</u>
124 Balance as % of Total Expenditures		0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%
125 Vacancy Rate (% of Baseline+COLAs)		4.2%	5.9%	1.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

STOCKTON LONG-RANGE FINANCIAL PLAN (FY21-22 to FY30-31, Dollars in Millions)

GENERAL FUND	<u>21-22</u>	<u>22-23</u>	<u>23-24</u>	<u>24-25</u>	<u>25-26</u>	<u>26-27</u>	<u>27-28</u>	<u>28-29</u>	<u>29-30</u>	<u>30-31</u>
1 General Revenues										
2 Property Taxes										
3 Property Taxes	36.28	37.73	39.24	40.81	42.41	44.04	45.69	47.38	49.09	50.83
4 In-Lieu of Motor Vehicle Fees	24.08	25.05	26.05	27.09	28.15	29.23	30.33	31.45	32.59	33.74
5 Subtotal Property Taxes	60.36	62.78	65.29	67.90	70.56	73.27	76.03	78.83	81.68	84.58
6 Sales Taxes										
7 75% Point of Sale	37.94	39.27	40.65	42.07	43.51	44.98	46.46	47.96	49.47	51.01
8 25% County ERAF Backfill	12.65	13.09	13.55	14.02	14.50	14.99	15.49	15.99	16.49	17.00
9 Proposition 172	1.70	1.76	1.82	1.89	1.95	2.02	2.09	2.15	2.22	2.29
10 Subtotal Sales Taxes	52.30	54.13	56.02	57.98	59.97	61.99	64.03	66.10	68.19	70.30
11 Utility Users Tax										
12 Water	3.65	3.70	3.76	3.82	3.87	3.93	3.98	4.04	4.09	4.15
13 Electric & Gas	19.96	20.26	20.57	20.87	21.18	21.49	21.79	22.09	22.39	22.69
14 Cable	2.62	2.66	2.70	2.74	2.78	2.82	2.86	2.90	2.94	2.97
15 Telecommunications	9.76	9.91	10.06	10.21	10.36	10.51	10.66	10.80	10.95	11.10
16 Subtotal Utility Users Tax	35.99	36.53	37.08	37.64	38.19	38.74	39.29	39.83	40.37	40.91
17 Franchise Tax										
18 PG&E	2.24	2.28	2.33	2.37	2.42	2.47	2.51	2.56	2.61	2.65
19 Cable/Video	2.55	2.60	2.65	2.71	2.76	2.81	2.86	2.92	2.97	3.02
20 Waste Haulers	8.77	8.94	9.12	9.30	9.49	9.67	9.85	10.03	10.21	10.39
21 Subtotal Franchise Tax	13.55	13.83	14.10	14.38	14.67	14.95	15.23	15.51	15.79	16.07
22 Other General Revenues										
23 Business License Tax	10.08	10.23	10.38	10.54	10.69	10.85	11.02	11.18	11.35	11.52
24 Hotel/Motel Tax	2.11	2.13	2.15	2.17	2.20	2.22	2.24	2.26	2.28	2.31
25 Document Transfer Tax	0.56	0.57	0.58	0.59	0.59	0.60	0.61	0.62	0.63	0.64
26 Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27 Interest Income	0.21	0.19	0.18	0.19	0.24	0.31	0.40	0.50	0.60	0.73
28 Subtotal Other General Revenues	13.11	13.27	13.44	13.64	13.87	14.14	14.42	14.71	15.02	15.35
29 Program Revenues										
30 Fire Contracts	3.49	3.53	3.56	3.60	3.64	3.67	3.71	3.75	3.78	3.82
31 Code Enforcement	3.22	3.26	3.29	3.32	3.35	3.39	3.42	3.46	3.49	3.53
32 Charges for Services	1.98	2.00	2.02	2.04	2.06	2.08	2.10	2.12	2.14	2.16
33 Fines & Forfeitures	1.51	1.54	1.57	1.60	1.63	1.67	1.70	1.73	1.77	1.80
34 Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35 Licenses & Permits	0.43	0.44	0.45	0.46	0.46	0.47	0.48	0.49	0.50	0.51
36 Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37 Subtotal Program Revenues	11.23	11.36	11.49	11.61	11.74	11.88	12.01	12.15	12.29	12.42
38 Interfund Reimbursements										
39 Indirect Cost Allocation	6.02	6.19	6.37	6.54	6.73	6.90	7.09	7.30	7.50	7.72
40 Refunds & Reimbursements	0.29	0.29	0.30	0.30	0.31	0.32	0.32	0.33	0.34	0.34
41 Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42 Parking Fund - Debt Service	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
43 Subtotal Reimbursements	9.90	10.07	10.25	10.43	10.63	10.80	11.00	11.21	11.42	11.64
44 Total General Fund Revenues	196.44	201.95	207.66	213.59	219.63	225.76	232.00	238.34	244.76	251.27
45										
46 Salaries & Benefits										
47 Salaries - Safety (w/ COLA)	49.09	50.66	52.28	53.95	55.68	57.46	59.30	61.20	63.16	65.18
48 Salaries - Non-Safety (w/ COLA)	22.35	23.07	23.81	24.57	25.36	26.17	27.00	27.87	28.76	29.68
49 Salaries - Part time, Temporary	1.87	1.93	1.99	2.05	2.12	2.18	2.25	2.33	2.40	2.48
50 Pension - CalPERS	37.05	38.13	39.21	40.36	40.84	41.95	43.10	44.24	45.40	46.58
51 Health/Dental/Vision-Employee (w/COLA)	10.98	11.19	11.42	11.65	11.88	12.12	12.36	12.61	12.86	13.12
52 Health - Retirees	15.93	16.83	17.76	18.84	19.85	20.62	21.80	22.31	23.05	23.82
53 Workers Compensation	7.91	8.00	8.10	8.19	8.29	8.39	8.49	8.59	8.70	8.80
54 Other Pay & Benefits	5.85	5.91	5.96	6.13	6.31	6.50	6.69	6.88	7.09	7.30
55 Overtime & Standby/Callback	9.12	9.41	9.71	10.02	10.34	10.67	11.01	11.37	11.73	12.11
56 Compensated Absences	3.91	4.13	4.37	4.62	4.89	5.17	5.48	5.80	5.80	5.86
57 Salaries - Safety-Expiring Grants	2.71	2.80	2.89	2.98	3.08	3.18	3.28	3.38	3.49	3.60
58 Net Labor Adjust/Reimbursements	1.39	1.43	1.47	1.51	1.54	1.58	1.63	1.67	1.71	1.76
59 Budgeted Vacancy Savings	(4.57)	(4.70)	(4.84)	(4.98)	(5.11)	(5.26)	(5.42)	(5.58)	(5.73)	(5.89)
60 Subtotal Salaries & Benefits	163.58	168.78	174.12	179.91	185.06	190.73	196.98	202.68	208.42	214.38

GENERAL FUND (cont.)	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
61 Services & Supplies										
62 Internal Services-Equipment	14.88	15.11	15.33	15.56	15.80	16.03	16.27	16.52	16.76	17.02
63 General Liability Insurance	3.82	3.88	3.93	3.99	4.05	4.11	4.18	4.24	4.30	4.37
64 Utilities	2.99	3.03	3.08	3.13	3.17	3.22	3.27	3.32	3.37	3.42
65 Maintenance & Repair Services	2.92	2.97	3.01	3.06	3.10	3.15	3.20	3.25	3.29	3.34
66 Labor/Legal Services	2.47	2.51	2.55	2.59	2.63	2.67	2.71	2.75	2.79	2.83
67 General Expenses	9.37	9.51	9.65	9.79	9.94	10.09	10.24	10.39	10.55	10.71
68 Tax Collection & Election	2.89	2.93	2.97	3.02	3.08	3.13	3.18	3.22	3.29	3.34
69 Subtotal Services & Supplies	<u>39.34</u>	<u>39.93</u>	<u>40.53</u>	<u>41.14</u>	<u>41.77</u>	<u>42.40</u>	<u>43.04</u>	<u>43.68</u>	<u>44.36</u>	<u>45.02</u>
70 Program Support for Other Funds										
71 Library	5.89	6.05	6.21	6.39	6.53	6.71	6.90	7.10	7.27	7.46
72 Recreation	4.19	4.30	4.42	4.55	4.65	4.78	4.91	5.05	5.17	5.30
73 Golf Courses	0.66	0.68	0.70	0.72	0.73	0.76	0.78	0.80	0.82	0.84
74 Entertainment Venues	3.91	4.01	4.12	4.24	4.33	4.45	4.58	4.71	4.82	4.95
75 RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76 Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77 Capital Improvements	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78 Administration Building	0.98	0.98	0.98	0.98	1.06	1.06	1.06	1.06	1.15	1.15
79 Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
80 Development Services	-	-	-	-	-	-	-	-	-	-
81 Other	-	-	-	-	-	-	-	-	-	-
82 Subtotal Program Support	<u>17.42</u>	<u>17.82</u>	<u>18.22</u>	<u>18.67</u>	<u>19.09</u>	<u>19.55</u>	<u>20.02</u>	<u>20.50</u>	<u>21.02</u>	<u>21.48</u>
83 Debt - Bonds/Other										
84 Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
85 Marina Settlement	-	-	-	-	-	-	-	-	-	-
86 2003 COPs	-	-	-	-	-	-	-	-	-	-
87 2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
88 2006 LRBs-Parking (SEB)	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
89 2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90 2007 POBs	7.64	7.76	7.88	8.01	8.16	8.31	8.46	8.61	8.77	8.92
91 2007 VRDLRB - 400 E.Main	2.76	2.78	2.81	2.83	2.86	2.87	2.90	2.92	2.94	2.95
92 2009 LRBs-Pub Facil Bonds/CIP	2.41	2.41	2.41	2.40	2.40	2.40	2.40	2.40	2.39	2.39
93 Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
94 Subtotal Debt	<u>15.77</u>	<u>15.91</u>	<u>16.06</u>	<u>16.19</u>	<u>15.08</u>	<u>15.32</u>	<u>15.42</u>	<u>15.54</u>	<u>15.65</u>	<u>15.75</u>
95 Contingency	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96 Total General Fund Baseline Expenditures	<u>238.11</u>	<u>244.44</u>	<u>250.93</u>	<u>257.91</u>	<u>263.00</u>	<u>270.00</u>	<u>277.46</u>	<u>284.40</u>	<u>291.44</u>	<u>298.63</u>
97 Surplus(Shortfall) After Baseline	(41.67)	(42.49)	(43.27)	(44.32)	(43.37)	(44.24)	(45.46)	(46.06)	(46.68)	(47.36)
98										
99 Fiscal Stabilization										
100 Increased Deferred Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101 Contributions to Workers Comp ISF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102 Contributions to Technology/Other ISF	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103 Marshall Plan/Police Services	25.17	25.68	26.20	26.72	27.25	27.79	28.34	28.89	29.45	30.03
104 Mission Critical Spending Needs	-	-	-	-	-	-	-	-	-	-
105 Repay 2/28/12 Transfers	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106 Total Fiscal Stabilization	<u>27.22</u>	<u>27.73</u>	<u>28.25</u>	<u>28.77</u>	<u>29.30</u>	<u>29.84</u>	<u>30.39</u>	<u>30.94</u>	<u>31.50</u>	<u>32.08</u>
107 Surplus(Shortfall) After Fiscal Stabilization	(68.89)	(70.22)	(71.52)	(73.10)	(72.67)	(74.08)	(75.84)	(77.00)	(78.19)	(79.43)
108										
109 Restructuring (Labor included in Baseline)										
110 Retiree Medical Reductions	15.93	16.83	17.76	18.84	19.85	20.62	21.80	22.31	23.05	23.82
111 Debt Reductions	11.80	10.82	11.26	11.63	10.70	11.13	11.35	10.49	10.60	10.70
112 Other Reductions	1.63	1.63	1.63	1.63	1.63	1.13	1.13	1.13	1.13	1.13
113 Subtotal Restructuring	<u>29.36</u>	<u>29.27</u>	<u>30.65</u>	<u>32.10</u>	<u>32.17</u>	<u>32.87</u>	<u>34.28</u>	<u>33.93</u>	<u>34.78</u>	<u>35.64</u>
114 Sale of Surplus Property	-	-	-	-	-	-	-	-	-	-
115 Efficiencies/Alt Svc Delivery/Fees/Other	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
116 New Revenue-Sales Tax (Nov-13 ballot)	35.51	36.75	38.04	39.37	40.72	42.09	43.48	44.88	46.30	47.74
117 Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118 Total Restructuring	<u>67.87</u>	<u>69.03</u>	<u>71.69</u>	<u>74.47</u>	<u>75.89</u>	<u>77.96</u>	<u>80.76</u>	<u>81.81</u>	<u>84.08</u>	<u>86.38</u>
119 Surplus(Shortfall) After Restructuring	(1.02)	(1.19)	0.17	1.38	3.22	3.88	4.92	4.81	5.89	6.95
120 Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
121 Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
122 Beginning Available Balance	<u>11.04</u>	<u>10.02</u>	<u>8.82</u>	<u>9.00</u>	<u>10.37</u>	<u>13.60</u>	<u>17.48</u>	<u>22.40</u>	<u>27.21</u>	<u>33.10</u>
123 Ending Available Balance	<u>10.02</u>	<u>8.82</u>	<u>9.00</u>	<u>10.37</u>	<u>13.60</u>	<u>17.48</u>	<u>22.40</u>	<u>27.21</u>	<u>33.10</u>	<u>40.05</u>
124 Balance as % of Total Expenditures	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%
125 Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

STOCKTON LONG-RANGE FINANCIAL PLAN (FY31-32 to FY40-41, Dollars in Millions)

GENERAL FUND	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
1 General Revenues										
2 Property Taxes										
3 Property Taxes	52.60	54.39	56.20	58.04	59.90	61.78	63.68	65.60	67.54	69.49
4 In-Lieu of Motor Vehicle Fees	34.92	36.10	37.31	38.53	39.76	41.01	42.27	43.55	44.83	46.13
5 Subtotal Property Taxes	87.52	90.49	93.51	96.57	99.66	102.79	105.95	109.14	112.37	115.62
6 Sales Taxes										
7 75% Point of Sale	52.56	54.12	55.70	57.30	58.90	60.52	62.15	63.79	65.44	67.09
8 25% County ERAF Backfill	17.52	18.04	18.57	19.10	19.63	20.17	20.72	21.26	21.81	22.36
9 Proposition 172	2.36	2.43	2.50	2.57	2.64	2.72	2.79	2.86	2.94	3.01
10 Subtotal Sales Taxes	72.44	74.59	76.77	78.97	81.18	83.41	85.65	87.91	90.19	92.47
11 Utility Users Tax										
12 Water	4.20	4.25	4.31	4.36	4.41	4.46	4.52	4.57	4.62	4.67
13 Electric & Gas	22.98	23.28	23.57	23.86	24.14	24.43	24.71	24.99	25.27	25.54
14 Cable	3.01	3.05	3.09	3.13	3.17	3.20	3.24	3.28	3.31	3.35
15 Telecommunications	11.24	11.38	11.53	11.67	11.81	11.95	12.09	12.22	12.36	12.49
16 Subtotal Utility Users Tax	41.44	41.97	42.49	43.01	43.53	44.04	44.55	45.05	45.55	46.05
17 Franchise Tax										
18 PG&E	2.70	2.74	2.79	2.84	2.88	2.93	2.97	3.02	3.06	3.10
19 Cable/Video	3.08	3.13	3.18	3.23	3.28	3.34	3.39	3.44	3.49	3.54
20 Waste Haulers	10.58	10.76	10.93	11.11	11.29	11.47	11.65	11.82	12.00	12.17
21 Subtotal Franchise Tax	16.35	16.63	16.90	17.18	17.46	17.73	18.00	18.27	18.54	18.81
22 Other General Revenues										
23 Business License Tax	11.69	11.87	12.05	12.23	12.41	12.60	12.79	12.98	13.17	13.37
24 Hotel/Motel Tax	2.33	2.35	2.38	2.40	2.43	2.45	2.47	2.50	2.52	2.55
25 Document Transfer Tax	0.65	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.73	0.74
26 Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27 Interest Income	0.85	0.93	0.96	0.98	1.00	1.03	1.06	1.08	1.11	1.15
28 Subtotal Other General Revenues	15.68	15.96	16.20	16.44	16.68	16.92	17.18	17.43	17.69	17.96
29 Program Revenues										
30 Fire Contracts	3.86	3.90	3.94	3.98	4.02	4.06	4.10	4.14	4.18	4.22
31 Code Enforcement	3.56	3.60	3.63	3.67	3.71	3.74	3.78	3.82	3.86	3.89
32 Charges for Services	2.18	2.21	2.23	2.25	2.27	2.30	2.32	2.34	2.37	2.39
33 Fines & Forfeitures	1.84	1.88	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.20
34 Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35 Licenses & Permits	0.52	0.53	0.54	0.55	0.57	0.58	0.59	0.60	0.61	0.62
36 Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37 Subtotal Program Revenues	12.57	12.71	12.85	13.00	13.15	13.30	13.45	13.61	13.77	13.93
38 Interfund Reimbursements										
39 Indirect Cost Allocation	7.93	8.04	8.27	8.37	8.61	8.42	8.65	8.89	9.01	9.27
40 Refunds & Reimbursements	0.35	0.36	0.36	0.37	0.38	0.39	0.39	0.40	0.41	0.42
41 Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42 Parking Fund - Debt Service	0.90	-	-	-	-	-	-	-	-	-
43 Subtotal Reimbursements	11.86	11.08	11.31	11.42	11.67	11.48	11.73	11.98	12.10	12.37
44 Total General Fund Revenues	257.85	263.43	270.05	276.60	283.32	289.68	296.52	303.40	310.21	317.21
45										
46 Salaries & Benefits										
47 Salaries - Safety (w/ COLA)	67.26	69.42	71.64	73.93	76.30	78.74	81.26	83.86	86.54	89.31
48 Salaries - Non-Safety (w/ COLA)	30.63	31.61	32.62	33.67	34.74	35.86	37.00	38.19	39.41	40.67
49 Salaries - Part time, Temporary	2.56	2.64	2.72	2.81	2.90	2.99	3.09	3.19	3.29	3.40
50 Pension - CalPERS	45.20	46.34	44.67	45.76	37.49	38.28	39.12	37.12	37.99	38.94
51 Health/Dental/Vision-Employee (w/COLA)	13.38	13.65	13.92	14.20	14.48	14.77	15.07	15.37	15.68	15.99
52 Health - Retirees	24.55	25.31	25.99	26.57	26.85	27.38	27.65	27.81	27.81	27.77
53 Workers Compensation	8.91	9.01	9.12	9.23	9.34	9.45	9.57	9.68	9.80	9.92
54 Other Pay & Benefits	7.51	7.73	7.96	8.20	8.45	8.70	8.96	9.23	9.51	9.79
55 Overtime & Standby/Callback	12.49	12.89	13.31	13.73	14.17	14.62	15.09	15.57	16.07	16.59
56 Compensated Absences	5.91	5.80	5.86	5.92	5.98	6.04	6.10	6.16	6.22	6.28
57 Salaries - Safety-Expiring Grants	3.72	3.84	3.96	4.09	4.22	4.35	4.49	4.63	4.78	4.94
58 Net Labor Adj/Reimbursements	1.76	1.80	1.81	1.85	1.75	1.79	1.84	1.84	1.88	1.93
59 Budgeted Vacancy Savings	(5.98)	(6.14)	(6.23)	(6.40)	(6.29)	(6.47)	(6.65)	(6.75)	(6.94)	(7.13)
60 Subtotal Salaries & Benefits	217.91	223.90	227.36	233.56	230.36	236.51	242.58	245.90	252.05	258.39

GENERAL FUND (cont.)	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
61 Services & Supplies										
62 Internal Services-Equipment	17.27	17.53	17.79	18.06	18.33	18.61	18.89	19.17	19.46	19.75
63 General Liability Insurance	4.43	4.50	4.57	4.63	4.70	4.77	4.85	4.92	4.99	5.07
64 Utilities	3.47	3.52	3.57	3.63	3.68	3.74	3.79	3.85	3.91	3.97
65 Maintenance & Repair Services	3.39	3.44	3.50	3.55	3.60	3.66	3.71	3.77	3.82	3.88
66 Labor/Legal Services	2.87	2.92	2.96	3.00	3.05	3.09	3.14	3.19	3.24	3.28
67 General Expenses	10.87	11.03	11.20	11.37	11.54	11.71	11.88	12.06	12.24	12.43
68 Tax Collection & Election	3.39	3.44	3.51	3.56	3.62	3.67	3.75	3.80	3.86	3.92
69 Subtotal Services & Supplies	45.70	46.38	47.10	47.80	48.52	49.25	50.01	50.76	51.52	52.29
70 Program Support for Other Funds										
71 Library	7.48	7.65	7.66	7.85	7.43	7.61	7.79	7.79	7.99	8.19
72 Recreation	5.32	5.44	5.45	5.58	5.28	5.41	5.54	5.54	5.68	5.83
73 Golf Courses	0.84	0.86	0.86	0.88	0.84	0.86	0.88	0.88	0.90	0.92
74 Entertainment Venues	4.96	5.08	5.08	5.21	4.93	5.05	5.17	5.17	5.30	5.43
75 RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76 Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77 Capital Improvements	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78 Administration Building	1.15	1.15	1.24	1.24	1.24	1.24	1.34	1.34	1.34	1.34
79 Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
80 Development Services	-	-	-	-	-	-	-	-	-	-
81 Other	-	-	-	-	-	-	-	-	-	-
82 Subtotal Program Support	21.52	21.96	22.07	22.54	21.50	21.94	22.50	22.50	22.99	23.49
83 Debt - Bonds/Other										
84 Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	-
85 Marina Settlement	-	-	-	-	-	-	-	-	-	-
86 2003 COPs	-	-	-	-	-	-	-	-	-	-
87 2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
88 2006 LRBs-Parking (SEB)	0.90	-	-	-	-	-	-	-	-	-
89 2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90 2007 POBs	7.56	7.66	7.76	7.86	7.96	8.06	9.33	-	-	-
91 2007 VRDLRB - 400 E.Main	2.96	2.98	2.99	2.99	3.00	3.01	3.01	3.01	3.02	3.01
92 2009 LRBs-Pub Facil Bonds/CIP	2.39	2.38	2.37	2.37	2.36	2.36	2.35	2.35	-	-
93 Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
94 Subtotal Debt	15.86	15.06	15.17	15.27	15.37	15.47	16.75	7.41	5.07	3.94
95 Contingency	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96 Total General Fund Baseline Expenditures	302.99	309.31	313.69	321.18	317.76	325.17	333.83	328.57	333.62	340.10
97 Surplus(Shortfall) After Baseline	(45.14)	(45.88)	(43.65)	(44.58)	(34.43)	(35.49)	(37.31)	(25.17)	(23.40)	(22.90)
98										
99 Fiscal Stabilization										
100 Increased Deferred Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101 Contributions to Workers Comp ISF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102 Contributions to Technology/Other ISF	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103 Marshall Plan/Police Services	30.25	30.84	31.00	31.60	30.98	31.58	32.19	32.35	33.00	33.67
104 Mission Critical Spending Needs	6.00	10.00	16.00	15.00	30.00	28.00	30.00	34.00	34.00	34.00
105 Repay 2/28/12 Transfers	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106 Total Fiscal Stabilization	38.30	42.89	49.05	48.65	63.03	61.63	64.24	68.40	69.05	69.72
107 Surplus(Shortfall) After Fiscal Stabilization	(83.44)	(88.78)	(92.69)	(93.23)	(97.47)	(97.12)	(101.56)	(93.57)	(92.45)	(92.61)
108										
109 Restructuring (Labor included in Baseline)										
110 Retiree Medical Reductions	24.55	25.31	25.99	26.57	26.85	27.38	27.65	27.81	27.81	27.77
111 Debt Reductions	10.81	10.92	11.02	11.13	11.23	11.33	12.60	3.26	0.92	0.91
112 Other Reductions	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	-
113 Subtotal Restructuring	36.50	37.35	38.14	38.83	39.20	39.84	41.38	32.20	29.86	28.68
114 Sale of Surplus Property	-	-	-	-	-	-	-	-	-	-
115 Efficiencies/Alt Srvc Delivery/Fees/Other	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
116 New Revenue-Sales Tax (Nov-13 ballot)	49.19	50.65	52.13	53.62	55.12	56.64	58.16	59.70	61.24	62.79
117 Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118 Total Restructuring	88.68	91.00	93.27	95.45	97.32	99.47	102.55	94.89	94.10	94.47
119 Surplus(Shortfall) After Restructuring	5.24	2.22	0.58	2.21	(0.14)	2.35	0.99	1.32	1.65	1.86
120 Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
121 Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
122 Beginning Available Balance	40.05	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.48
123 Ending Available Balance	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.47	58.34
124 Balance as % of Total Expenditures	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%
125 Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%						

Resolution No.

STOCKTON CITY COUNCIL

RESOLUTION AUTHORIZING THE CITY MANAGER TO FILE A DISCLOSURE STATEMENT, PLAN OF ADJUSTMENT, TO FILE FURTHER AND AMENDED PLANS OF ADJUSTMENT, AND TO FILE ALL OTHER ASSOCIATED DOCUMENTS IN FURTHERANCE OF THE RESOLUTION OF THE CITY'S PETITION FILED UNDER CHAPTER 9 OF THE UNITED STATES BANKRUPTCY CODE

On June 5, 2012, the City Council (the "Council") of the City of Stockton (the "City") authorized the City Manager to petition for protection under chapter 9 of the United States Bankruptcy Code; and

On June 28, 2012, the City filed its petition for protection under chapter 9 of the United States Bankruptcy Code, and the City's chapter 9 case is presently pending in the United States Bankruptcy Court, Eastern District, Sacramento Division under Case No. 2012-32118 D.C. No. DM-1; and

Following a multi-day evidentiary hearing, on April 1, 2013, Hon. Judge Christopher Klein ruled that the City was eligible for protection under chapter 9 of the United States Bankruptcy Code, and an order for relief was entered the same day; and

The City has been involved in an intensive confidential mediation process wherein the City and its largest creditors have worked diligently towards resolution of certain pending claims; and

The City remains hopeful that it will resolve other substantial claims through the pending mediation process, however in the interest of proceeding in the most efficient and cost effective manner to exit chapter 9 with a resolution that is in the best interests of the community, the City must now file a proposed plan of adjustment with the United States Bankruptcy Court; and

The City Council understands and accepts that the first plan of adjustment filed may not represent the final plan in the chapter 9 case, and in fact the City Council is hopeful that further plans will be filed as other claims are consensually resolved; now, therefore,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF STOCKTON, AS FOLLOWS:

Section 1. Findings. The foregoing recitals are true and correct and this Council hereby so finds and determines.

Section 2. Authorization To File Disclosure Statement, Plan of Adjustment, Amended Plans, and Further Associated and Necessary Documents in Furtherance of the Resolution of the City's Chapter 9 Case.

(a) The City Manager, or his delegee, is hereby authorized and directed, on behalf of and in the name of the City, to approve and to file a disclosure statement and plan of adjustment, substantially in the form of the attached Exhibit 1, and to file such further modified or amended plans and all associated and necessary documents, in furtherance of the resolution of the City's chapter 9 case.

(b) The City Manager and all other appropriate officials and employees of the City are hereby authorized to execute and file all other papers, and to take any and all actions which they shall deem necessary and proper in connection with the filing of the City's plan of adjustment with a view to the successful completion of the City's chapter 9 case.

Section 3. Other Actions. The City Manager, City Attorney, Chief Financial Officer, City Clerk, and other appropriate officers of the City, each acting alone, are authorized to take such other actions as are appropriate to carry out the intent of this Resolution.

Section 4. Effectiveness. This Resolution shall take effect immediately upon its adoption.

PASSED, APPROVED, AND ADOPTED October 3, 2013.

ANTHONY SILVA
Mayor of the City of Stockton

ATTEST:

BONNIE PAIGE
City Clerk of the City of Stockton

This draft disclosure statement has not been approved by the Bankruptcy Court. The distribution of this draft and of the accompanying draft plan of adjustment is not intended as, and should not be construed to be, the solicitation of a vote on such draft plan or on any other plan.

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9/27/13 DRAFT

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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF CALIFORNIA
SACRAMENTO DIVISION

In re:
CITY OF STOCKTON, CALIFORNIA,
Debtor.

Case No. 2012-32118
D.C. No. OHS-11
Chapter 9
DISCLOSURE STATEMENT
WITH RESPECT TO PLAN FOR
THE ADJUSTMENT OF DEBTS
OF CITY OF STOCKTON,
CALIFORNIA
Date: November 18, 2013
Time: 1:00 p.m.
Judge: Hon. Christopher M. Klein

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DRAFT/City Council Review

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SUMMARY

The following pages summarize certain important information set forth elsewhere in this Disclosure Statement. Capitalized terms are defined in the text of this Disclosure Statement and in the Plan, and any capitalized term used but not defined in the Disclosure Statement shall have the meaning ascribed to it in the Plan. Unless otherwise noted, all references to a “section” are references to a section of title 11 of the United States Code (the “Bankruptcy Code”).

The Disclosure Statement contains important information that is not summarized in this Summary and that may influence your decision regarding whether to accept or reject the Plan or may otherwise affect your rights. Please do not rely on this Summary standing alone, and please thoroughly read this entire document and the accompanying materials.

* * * *

The City of Stockton, California (the “City”), filed a petition under chapter 9 of the Bankruptcy Code on June 28, 2012 (the “Petition Date”), which was designated Case Number 2012-32118 (the “Chapter 9 Case”). The United States Bankruptcy Court for the Eastern District of California, Sacramento Division (the “Bankruptcy Court”), Chief Judge Christopher M. Klein presiding, entered an order for relief in the Chapter 9 Case on April 1, 2013, as docket no. 843, and the Chapter 9 Case currently is pending before the Bankruptcy Court.

The Plan For The Adjustment Of Debts Of City Of Stockton, California (the “Plan” proposed by the City), involves claims of approximately \$299,505,000 of publicly held securities, certain of which evidence and represent undivided fractional interests in General Fund leases of many of the City’s capital assets. Some of these assets are important or even essential to municipal operations. The Plan also addresses and resolves the City’s obligations to current and former employees and various other claims. While the Plan permits the City to continue to maintain minimally acceptable levels of vital municipal services for its residents and businesses, and while it devotes substantial resources to the repayment of the City’s creditors, it nevertheless further defers infrastructure maintenance as well as the optimal staffing of City service units such as police and fire.

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1 Importantly, while the Plan significantly impairs the interests of former employees and
 2 retirees with respect to health benefits, it does not impair the City's obligations to CalPERS in its
 3 capacity as trustee for the City's pension trust for the City's retired workers and their dependents
 4 who are the beneficiaries of this trust as well as current employees and their dependents (the City
 5 has one contract with CalPERS, but there are three contract groups: police, fire, and
 6 miscellaneous). In other words, current and future pension CalPERS payments to such persons
 7 will not be altered by the Plan. However, outside of the Plan, retirement benefits for current and
 8 future employees have been impacted by negotiated changes in the City's labor agreements.
 9 Retiree health benefits worth approximately \$1 billion for current employees have been
 10 eliminated as a result of negotiated agreements. This loss of retiree health benefits constitutes an
 11 approximate reduction in pension benefits, which along with certain compensation changes for
 12 these employees amounts to a 30-50% reduction from what they otherwise would have received.
 13 Additionally, pension benefits for new employees hired after January 1, 2013 have been reduced
 14 by approximately 50-70% (including lost retiree health benefits) for all employees and in some
 15 cases higher for certain types of employees as a result of changes in state law and changes in
 16 labor agreements that the City has negotiated. New hires are also required to pay a greater share
 17 of their future pension benefits. Additionally, because of compensation reductions of up to 30%
 18 in pensionable income negotiated in 2011 and 2012, the future pensions of employees will be
 19 lower than they otherwise would have been, though no further reduction is imposed by the Plan.

20 Payment to holders of General Unsecured Claims—which holders include, but are not
 21 limited to, institutions that are exposed to bondholders for any shortfall in the payment by the
 22 City of certain bond issuances, the Retiree Health Benefit Claimants, and the holders of Leave
 23 Buyout Claims—shall receive cash payment on the Effective Date in an amount equal to a set
 24 percentage of the Allowed amount of such Claims. The percentage of the Allowed amount paid
 25 on such claims will be the Unsecured Claim Payout Percentage (unless the amount of the Retiree
 26 Health Benefit Claims changes, that percentage will be $\$5,100,000/\$538,000,000 = 0.94796\%$) or
 27 such other amount as is determined by the Bankruptcy Court before confirmation of the Plan to
 28 constitute a pro-rata payment on such other General Unsecured Claims. While the City regrets

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1 that it cannot pay a higher dividend to holders of General Unsecured Claims, the fact is that the
 2 City lacks the revenues to do so if it is to maintain an adequate level of municipal services such as
 3 the provision of fire and police protection, the maintenance and repair of the City's streets and
 4 other public facilities, and the continued availability of important municipal services such as
 5 library, recreation, and parks.

6 The Plan does not alter the obligations of those City funds that are restricted by grants, by
 7 federal law, or by California law; pursuant to the Tenth Amendment to the United States
 8 Constitution and the provisions of the Bankruptcy Code that implement the Tenth Amendment,
 9 such funds cannot be impacted in the Chapter 9 Case. Thus, securities payable solely from
 10 restricted funds are not altered by the Plan.

11 The following chart summarizes key information, including the proposed treatment of the
 12 various classes of claims:

13	<u>Debtor</u>	City of Stockton, California.
14	<u>Bankruptcy Court</u>	United States Bankruptcy Court for the Eastern District of California, Sacramento Division, The Honorable Chief Judge Christopher M. Klein presiding.
15	<u>Plan</u>	Plan for the Adjustment of Debts of City of Stockton, California.
16	<u>Purpose of the Disclosure Statement</u>	To provide information of a kind, and in sufficient detail, that would enable a typical holder of claims in a Class Impaired under the Plan to make an informed judgment with respect to voting on the Plan.
17	<u>Balloting Information</u>	Ballots have been provided with this Disclosure Statement to creditors known to have claims that are Impaired under the Plan. Ballots must be returned to and received by the Ballot Tabulator by no later than 4:30 p.m., Pacific Time, on [____], 2013. Objections to confirmation also must be filed and served by no later than [____], 2013.
18	<u>Ballot Tabulator</u>	Rust Consulting/Omni Bankruptcy, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367.
19	<u>Confirmation Hearing and Confirmation Objections</u>	A hearing regarding confirmation of the Plan will be held by the Bankruptcy Court on [____], 2014, commencing at [____] a.m., Pacific Time.
20	<u>Treatment of Claims</u>	If the Court confirms the Plan and the Plan becomes effective, claims will be treated as follows:
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Administrative Claims

Postpetition claims meeting the definition of Administrative Claims will be paid in full, except to the extent that the holder of an Administrative Claim agrees to different treatment.

Class 1A
Claims of Ambac –
2003
Fire/Police/Library
Certificates

Impaired. Ambac’s Claims shall receive the treatment set forth in the Ambac Settlement Agreement, which is attached as Exhibit A to the Declaration Of Robert Deis In Support Of The City Of Stockton’s Motion Under Bankruptcy Rule 9019 For Approval Of Its Settlement With Ambac Assurance Corporation, filed in the Chapter 9 Case on February 26, 2013 [Dkt. No. 725].

Class 1B
Claims of Holders of
2003
Fire/Police/Library
Certificates

Impaired. The treatment of the Class 1B claimants, the 2003 Fire/Police/Library Certificates holders, is identical to the treatment of Ambac, the Class 1A claimant.

Class 2
SEB Claims of the
2006 SEB Bond
Trustee/NPFG – 2006
SEB Bonds

Impaired. The City will assume the SEB Lease Back and the SEB Lease Out under section 365(a) pursuant to the Assumption Motion. No later than 60 days after the Effective Date or 60 days after approval of the Lease Assumption Motion, whichever is later, the City will make the payments to the 2006 SEB Bond Trustee necessary to cure past defaults under the SEB Lease Back and the SEB Lease Out, if any, as well as any actual pecuniary loss suffered by the 2006 SEB Bond Trustee as a result of the City’s default of the SEB Lease Back and the SEB Lease Out, if any, but, pursuant to the terms of the NPFG Settlement, the City will not pay any attorneys’ fees or other professional expenses incurred by the 2006 SEB Bond Trustee. Further, the finding by the Bankruptcy Court that the Plan is feasible shall constitute adequate assurance of future performance of the SEB Lease Back and the SEB Lease Out.

Class 3
Arena Claims of the
2004 Arena Bond
Trustee/NPFG – 2004
Arena Bonds

Impaired. The treatment of the Class 3 Claims will be as set forth in the NPFG Settlement.

Class 4
Parking Structure
Claims of the 2004
Parking Bond
Trustee/NPFG – 2004
Parking Bonds

Impaired. The treatment of the Class 4 Claims will be as set forth in the NPFG Settlement.

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City may transfer amounts from the restricted revenues to the General Fund only to pay costs which are incurred by the General Fund to provide facility or enterprise-related services and are allocated to the enterprises on a reasonable basis in accordance with the City’s accounting and allocation policies. Such transfers are treated by the facility or enterprise as operation and maintenance expenses. The City will continue to apply restricted revenues to pay the Restricted Revenue Bond and Notes Payable Obligations as required by the terms of such obligations.

Class 11
Claims of Holders of
Special Assessment
and Special Tax
Obligations

Unimpaired. The City’s special assessment and special tax obligations are secured by certain special assessments and special taxes levied on specific real property within the respective districts for which these obligations were issued. These special assessment and special tax revenues are legally restricted to the payment of debt service on the special assessment and special tax obligations under California statutes and the California Constitution, are “special revenues” as defined in section 902(2), and cannot be used for any other purpose or be transferred to the General Fund. The General Fund is not obligated to pay debt service on the special assessment and special tax obligations. The City will continue to apply revenues from the applicable special assessments and special taxes to pay the special assessment and special tax obligations as required by the terms of such obligations.

Class 12
General Unsecured
Claims

Impaired. The major claims in this Class include without limitation: (1) the Retiree Health Benefit Claims; (2) the Claims of Dexia under the Office Building Standby Agreement; (3) the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (4) the Leave Buyout Claims; (5) the Price Claims; and (6) Other Postpetition Claims.

The Retiree Health Benefit Claims are held by approximately 1,100 of the City’s former employees plus their dependents. The Retirees Committee maintains that the aggregate amount of the Retiree Health Benefit Claims is approximately \$538,000,000 (this does not include the retiree health benefit claims of employees employed as of July 1, 2012, who waived their claims of approximately \$1 billion of previously earned benefits for no additional compensation, as part of memorandums of understanding negotiated in 2012). Pursuant to the Retirees Settlement, on the Effective Date, the City will pay the Retirees an aggregate amount of \$5,100,000 in full satisfaction of Allowed Retiree Health Benefit Claims, and no other retiree health benefits will be provided by the City. If required by state or federal law, the City will withhold from the aggregate \$5,100,000 payment any taxes or other deductions to be withheld from the individual payment to each Retiree Health Benefit Claimant. The individual recipient is responsible for any tax liability for this payment, and the City will not provide any advice to any recipient as to the taxable impact of this payment.

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All other General Unsecured Claims shall receive cash payment on the Effective Date in the amount equal to a percentage of the Allowed Amount of such Claims, which such percentage equals the Unsecured Claim Payout Percentage (unless the amount of the Retiree Health Benefit Claims changes, that percentage will be $\$5,100,000/\$538,000,000 = 0.94796\%$), or such other amount as is determined by the Bankruptcy Court before confirmation of this Plan to constitute a pro-rata payment on such other General Unsecured Claims; *provided, however*, that the dollar amount to be paid shall not exceed in the aggregate \$[_____]; and *provided further*, if such amount is in excess of \$[_____], the City retains the right to and intends to modify this Plan to provide alternative treatment to such General Unsecured Claims, which alternative treatment may involve payment over a number of years on account of such General Unsecured Claims.

Class 13
Convenience Class
Claims

Impaired. Holders of Convenience Class Claims will receive cash on the Effective Date in the amount of their Allowed Convenience Class Claim, but not to exceed \$100.

Class 14
Claims of Certain Tort
Claimants

Impaired. The SIR Claim Portion of each Allowed General Liability Claim will be paid on the Effective Date from the Risk Management Internal Service Fund, and will receive the same percentage payment on the dollar of Allowed Claim as will the holders of Allowed Class 12 Claims. The Insured Portion of each Allowed General Liability Claim is not Impaired, and shall be paid by the applicable excess risk-sharing pool.

Class 15
Claims of CalPERS
with Respect to the
CalPERS Pension Plan,
as Trustee under the
CalPERS Pension Plan
for the Benefit of
CalPERS Pension Plan
Participants

Unimpaired. The City will continue to honor its obligations to fund employee retirement benefits under the CalPERS Pension Plan, and CalPERS as trustee and the CalPERS Pension Plan Participants retain all of their rights and remedies under applicable nonbankruptcy law. Thus, CalPERS and the CalPERS Pension Plan Participants will be entitled to the same rights and benefits to which they are currently entitled under the CalPERS Pension Plan (as a result of negotiated labor contracts that changed certain pension provisions, as well as changes in state law, pension benefits for new hires effective January 2013 have been reduced by 50-70% (including loss of retiree health benefits) and in some cases higher for some types of new hires; new hires are also required to pay a greater share of their future pensions; additionally, while the loss of retiree health benefits and the loss of “pension spiking” will reduce the postemployment retirement benefits of current employees 30-50%; and lastly, employee compensation reductions that occurred in 2011 and 2012, which ranged up to 30% in pensionable compensation in some cases, will further reduce their future pension benefit that they otherwise would have received; these concessions are unaffected by the Plan). CalPERS, pursuant to the CalPERS Pension Plan, will continue to be made available to provide pension benefits for participants in the manner indicated under the provisions of the CalPERS Pension Plan and remedies under applicable nonbankruptcy

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Class 16
Claims of Equipment Lessors

Unimpaired. Any equipment leases not specifically rejected by the Rejection Motion will be assumed under this Plan. The City believes that it is current on all such equipment leases and therefore no cure payments are required.

Class 17
Workers Compensation Claims

Unimpaired. The City must pay Allowed SIR Claim Portions related to Workers Compensation Claims in full. If not, the City will lose its State workers compensation insurance for those claims in excess of the SIR Claim Portions, exposing the City’s current and former workers to grave risk. The City will pay the SIR Claim Portions related to Worker Compensation Claims from the Workers’ Compensation Internal Service Fund.

Class 18
SPOA Claims

Impaired. The City will honor the SPOA Claims held by SPOA members on the terms and conditions set forth in the SPOA MOU, which in general provides each SPOA member with 44 hours of additional paid leave time through fiscal year 2014-15.

Questions:

Questions can be submitted electronically on the City’s chapter 9 website (stocktonchapter9.com) or by calling 866-205-3144 and leaving a message. All questions will receive a prompt response.

To the extent that there is any inconsistency between the Plan (including the exhibits and any supplements to the Plan) and the description in the Disclosure Statement, the terms of the Plan (including the exhibits to the Plan) will govern.

I. INTRODUCTION

The City of Stockton, California, filed this Chapter 9 Case on June 28, 2012, less than a week prior to the beginning of its 2012-13 fiscal year. As a result of prior poor fiscal management by the City, overspending on downtown improvement construction projects, the general economic turndown that began in 2008, the resulting decline in real estate transactions and values, high unemployment rates, and generally lower collections of tax revenues and user fees, the City had virtually no General Fund reserves as of the Petition Date. It had slashed its General Fund workforce by an aggregate of 30% during the preceding three years: sworn police officers were cut by 25%, non-sworn police staffing by 20%, fire staffing by 30%, and non-safety staffing by 43%. It had also reduced compensation by \$52 million and cut staffing and service

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1 levels by \$38 million, for an overall General Fund budget reduction of approximately \$90 million
2 during fiscal years 2009-10, 2010-11, and 2012-13.

3 The City reduced or ceased funding of community-based organizations, stopped replacing
4 outworn vehicles (including police cars), was sending mechanics in separate vehicles to follow
5 fire engines on emergency calls, and was patching rather than repairing its streets. The City also
6 reduced compensation for all employees from 2008 through 2012. Employee compensation
7 reductions varied, but averaged 10% to 33%, of which 7% to 30% was in pensionable income
8 reductions that would impact future pensions as well as current income. Changes in overtime
9 calculation, health, and other insurance benefits and leave time also occurred. The reduction in
10 compensation resulted in litigation against the City by labor organizations, and labor relations
11 were at an all-time low.

12 Despite having taken these desperate measures, as of June 2012 the City's General Fund
13 budget for the impending fiscal year was still \$25.9 million underwater.¹ The negative budget
14 meant that the General Fund was prohibited from borrowing from the City's restricted funds and
15 that the City therefore could not pay the first payroll of the fiscal year, which was due in July
16 2012. The City was instead forced to enact its Pendency Plan budget, which enabled it to meet
17 payroll and debt obligations during the Chapter 9 Case.

18 The City entered bankruptcy only after unsuccessful mediation with its major creditors,
19 although the mediation did produce agreements with the City's labor organizations. The
20 Chapter 9 Case was contentious from the outset, with the so-called capital markets creditors
21 contending that the City was ineligible for bankruptcy relief. Their objections were overruled by
22 the Bankruptcy Court, but only after many months of costly discovery, briefing, legal
23 maneuvering, and ultimately a trial on the City's eligibility to be a chapter 9 debtor. But prior to
24 filing the Chapter 9 Case, during the case, and even during the litigation phase, the City and its
25 creditors were engaging in mediation under the auspices of a court-appointed mediator—a United
26 States Bankruptcy Judge from Oregon. The mediation is ongoing and has resulted in several

27 _____
28 ¹ See City of Stockton Annual Budget, 2012-13, p. D-1, available at http://www.stocktongov.com/files/COS_2012_2013_ProposedAnnualBudget_2012_5_15.pdf.

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1 settlements, the key one relating to retiree health benefits that was negotiated with the Retirees
2 Committee that represents the interests of the retirees. The City has reached settlement
3 agreements with Ambac, NPMG, and Assured Guaranty [if and when finalized], but has not
4 reached agreement with Franklin, the holder of approximately \$35,080,000 of bond debt.

5 The Plan, a copy of which is attached hereto as **Exhibit A**, represents the City's proposed
6 adjustment of its debts. The Plan is a spartan one. It returns the City to financial and public
7 service provider solvency, but, in the absence of agreements with City creditors whose
8 obligations are secured by leases of City real estate, the Plan includes the potential loss of City
9 control of certain City properties.

10 Unsecured creditors, including retiree health benefit claimants, will be paid a percentage
11 of their claims equal to the Unsecured Claim Payout Percentage (unless the amount of the Retiree
12 Health Benefit Claims changes, that percentage will be $\$5,100,000/\$538,000,000 = 0.94796\%$) or
13 such other amount as is determined by the Bankruptcy Court before confirmation of the Plan to
14 constitute a pro-rata payment on such other general unsecured claims. That is all the City can
15 afford to pay and still maintain even a bare minimum level of City services. In fact, the
16 constituencies that will bear the greatest burden as a result of the City's inability to meet its
17 financing obligations are its current employees, and its retirees who collectively hold
18 approximately \$538 million in claims against the City, but who have agreed, after months of
19 negotiations, to accept \$5.1 million in satisfaction of those claims. Retirees who are receiving a
20 CalPERS pension but no health benefits from the City will not be affected by the Plan. Retirees
21 who are receiving a CalPERS pension plus health benefits will have their health benefits
22 eliminated.

23 Current employees of the City have also agreed to forgo health benefits in retirement,
24 which along with changes in compensation results in the loss of their retirement "spike" and
25 reduces their postemployment benefits by 30-50%. The loss of retiree health benefits is a
26 substantial concession of approximately \$1 billion that has already been agreed to without
27 compensation for this loss. In addition, most current employees hired before January 1, 2013
28

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1 have also agreed to a 7-30% reduction in pensionable compensation, which will reduce their
2 future CalPERS pension from what it otherwise would have been.

3 The Plan will enable the City to pay its future bills, including the reduced compensation
4 payable to its employees, and including its obligations to CalPERS, which will fund pension
5 contributions for its current and former employees. The maintenance of pensions is critical to the
6 City in order to retain employees—particularly police officers—rather than losing them to other
7 local governments, all of which have defined benefit pension plans, and the overwhelming
8 majority of which have pension plans administered by CalPERS.

9 The Plan is premised on the passage on November 5, 2013, of Measure A, which will
10 impose a 3/4 cent sales tax increase. Should Measure A fail, the projections attached to this
11 Disclosure Statement, upon which the Plan is premised, will not be achievable. Not only will the
12 City be unable to fund the Plan, but it will be unable to pay its current operating costs. The result
13 will be further and significant staff and service reductions, reaching across virtually all City
14 departments.

15 Unlike a corporate chapter 11 debtor, a city in chapter 9 simply cannot afford to fail. It
16 must continue to provide police and fire protection to its residents, to maintain streets and
17 highways, to treat its employees and retirees fairly, and generally to create an environment in
18 which its residents can prosper. Unlike a corporation, its assets cannot be liquidated or sold to a
19 competitor in order to satisfy its debts. The City believes that the financial restructuring set forth
20 in its Plan is its current best option for achieving such goals. It will continue to negotiate with its
21 creditors in an attempt to achieve settlements that provide better returns for creditors and better
22 economics for the City. If any additional agreements are reached, the Plan and Disclosure
23 Statement will be modified to reflect those agreements.

24 As described more fully herein, the City believes that the Plan provides the greatest and
25 earliest possible recoveries to holders of claims while preserving necessary City services and
26 operations. The City thus believes that acceptance of the Plan is in the best interests of creditors
27 and parties in interest, as well as in the best interests of the City's residents and businesses, and
28 that any alternative debt adjustment or restructuring would result in additional delay, uncertainty,

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1 expense, litigation, and, ultimately, smaller or no distributions to creditors. Accordingly, **the City**
 2 **urges that you cast your ballot in favor of the Plan.**

3 **A. The Purpose of This Disclosure Statement.**

4 The Bankruptcy Code requires that the proponent of a plan of adjustment in a chapter 9
 5 case prepare and file a “disclosure statement” that provides information of a kind, and in
 6 sufficient detail, that would enable a typical holder of claims in a class Impaired under that plan
 7 to make an informed judgment with respect to the plan. *See* 11 U.S.C. § 1125. This Disclosure
 8 Statement provides such information. ***Creditors and parties in interest should read this***
 9 ***Disclosure Statement, the Plan, and all of the exhibits accompanying these documents in their***
 10 ***entirety in order to ascertain:***

- 11 1. How the Plan will affect their claims against the City;
- 12 2. Their rights with respect to voting for or against the Plan;
- 13 3. Their rights with respect to objecting to confirmation of the Plan; and
- 14 4. How and when to cast a ballot with respect to the Plan.

15 This Disclosure Statement, however, cannot and does not provide creditors with legal or
 16 other advice or inform such parties of all aspects of their rights. Claimants are advised to consult
 17 with their attorneys and/or financial advisors to obtain more specific advice regarding how the
 18 Plan will affect them and regarding their best course of action with respect to the Plan. As noted
 19 below, retirees are advised to consult with the Retirees Committee, which was appointed in April
 20 2013 by the Office of the United States Trustee to represent the interests of the City’s
 21 approximately 2,400 retirees in the Chapter 9 Case.

22 This Disclosure Statement has been prepared in good faith and in compliance with
 23 applicable provisions of the Bankruptcy Code. Based upon information currently available, the
 24 City believes that the information contained in this Disclosure Statement is correct as of the date
 25 of its filing. This Disclosure Statement, however, does not and will not reflect some events that
 26 occur after October [___], 2013 (and, where indicated, specified earlier dates), and the City
 27 assumes no duty and presently does not intend to prepare or distribute any amendments or
 28 supplements to reflect such events.

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1 **B. Summary of Entities Entitled to Vote on the Plan and of Certain**
 2 **Requirements Necessary for Confirmation of the Plan.**

3 Holders of Allowed Claims in the following Classes are entitled to vote on the Plan
 4 because the Claims in each such Class are “impaired” under the Plan within the meaning of
 5 section 1124: 1A, 1B, 2, 3, 4, 5, 6, 7, 8, 9, 12, 13, 14, and 18.

6 The Bankruptcy Court may confirm the Plan only if at least one Class of Impaired Claims
 7 has voted to accept the Plan (without counting the votes of any insiders whose claims are
 8 classified within that Class) and if certain statutory requirements are met as to both nonconsenting
 9 members within a consenting Class and as to any dissenting Classes. A Class of claims has
 10 accepted the Plan only when at least more than one-half in number **and** at least two-thirds in
 11 amount of the Allowed Claims actually voting in that Class vote in favor of the Plan.

12 In the event of a rejection of the Plan by any of the voting Classes, the City will request
 13 that the Bankruptcy Court confirm the Plan in accordance with those portions of section 1129(b)
 14 that are applicable to the Chapter 9 Case, which provisions permit confirmation by a process
 15 known as “cram down” notwithstanding such rejection if the Bankruptcy Court finds, among
 16 other things, that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect
 17 to each rejecting Class. Other sections of this Disclosure Statement provide a more detailed
 18 description of the requirements for acceptance and confirmation of the Plan.

19 **C. Voting Procedures, Balloting Deadline, Confirmation Hearing, and Other**
 20 **Important Dates, Deadlines, and Procedures.**

21 **1. Voting Procedures and Deadlines.**

22 The City has provided copies of this Disclosure Statement and ballots to all known
 23 holders of Impaired Claims in the voting Classes. Those holders of an Allowed Claim in each of
 24 the voting Classes who seek to vote to accept or reject the Plan **must** complete a ballot and return
 25 it to the Court-appointed ballot tabulator, Rust Consulting/Omni Bankruptcy, 5955 DeSoto
 26 Avenue, Suite 100, Woodland Hills, CA 91367 (the “**Ballot Tabulator**”)—so that their ballots
 27 actually are received by no later than the Balloting Deadline (as defined in the following
 28

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paragraph), and must be returned directly to the Ballot Tabulator, **not** to the Bankruptcy Court.

Note that Ballots do not constitute proofs of claim.

All ballots, including ballots transmitted by facsimile, must be completed, signed, returned to, and actually received by the Ballot Tabulator by not later than [_____], 2013, at 4:30 p.m. Pacific Time (the “Balloting Deadline”). Neither Ballots received after the Balloting Deadline, nor ballots returned directly to the Bankruptcy Court rather than to the Ballot Tabulator, shall be counted in connection with confirmation of the Plan.

2. **Date of the Confirmation Hearing and Deadlines for Objection to Confirmation of the Plan.**

The hearing to determine whether the Bankruptcy Court will confirm the Plan (the “**Confirmation Hearing**”) will commence on [_____], 2014, at [___] a.m. Pacific Time in the Courtroom of the Honorable Christopher M. Klein, Chief United States Bankruptcy Judge for the Eastern District of California, in his Courtroom on the 6th floor of the United States Courthouse, 501 I Street, Sacramento, CA 95814. The Confirmation Hearing may be continued from time to time, including by announcement in open court, without further notice.

Any objections to confirmation of the Plan must be filed with the Bankruptcy Court and served on the following entities so as to be **actually received** by no later than [_____] 2014: (a) John M. Luebberke, City Attorney’s Office, 425 N. El Dorado Street, 2nd Floor, Stockton, CA 95202; (b) Marc A. Levinson, Orrick, Herrington & Sutcliffe LLP, 400 Capitol Mall, Suite 3000, Sacramento, CA 95814-4497 (counsel to the City); (c) Steven H. Felderstein, Felderstein, Fitzgerald, Willoughby & Pascuzzi LLP, 400 Capitol Mall, Suite 1750, Sacramento, CA 95814 (counsel to the Retirees Committee); (d) Debra A. Dandeneau, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, NY 10153 (counsel to NPMF); and (e) Jeffrey E. Bjork, Sidley Austin LLP, 555 West Fifth Street, Los Angeles, CA 90013 (counsel to Assured Guaranty). Objections that are not timely filed and served may not be considered by the Bankruptcy Court. *Please refer to the accompanying notice of the Confirmation Hearing for specific requirements regarding the form and nature of objections to confirmation of the Plan.*

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1 **D. Important Notices and Cautionary Statements.**

2 The historical financial data relied upon in preparing the Plan and this Disclosure
3 Statement is based upon the City's books and records. Although certain professional advisors of
4 the City assisted in the preparation of this Disclosure Statement, in doing so such professionals
5 relied upon factual information and assumptions regarding financial, business, and accounting
6 data provided by the City and third parties, much of which has not been audited. The City's most
7 recent audited financial statement (i.e., its Comprehensive Annual Financial Report, or CAFR),
8 which covers the fiscal year ended June 30, 2011, is 282 pages in length, and is not attached
9 hereto. However, it is available on the City's website or upon written request.²

10 *The City's professional advisors have not independently verified the financial*
11 *information provided in this Disclosure Statement, and, accordingly, make no representations*
12 *or warranties as to its accuracy.* Moreover, although reasonable efforts have been made to
13 provide accurate information, the City does not warrant or represent that the information in this
14 Disclosure Statement, including any and all financial information and projections, is without
15 inaccuracy or omissions, or that actual values or distributions will comport with the estimates set
16 forth herein.

17 *No entity may rely upon the Plan or this Disclosure Statement or any of the*
18 *accompanying exhibits for any purpose other than to determine whether to vote in favor of or*
19 *against the Plan.* Nothing contained in such documents constitutes an admission of any fact or
20 liability by any party, and no such information will be admissible in any proceeding involving the
21 City or any other party, nor will this Disclosure Statement be deemed evidence of the tax or other
22 legal effects of the Plan on holders of claims in the Chapter 9 Case. This Disclosure Statement is
23 not intended to be a disclosure communication to the public capital markets and should not be
24

25 _____
26 ² To locate the CAFR go to http://www.stocktongov.com/files/2011_CAFR.pdf. Alternatively, from the City's
27 website, <http://www.stocktongov.com>: (1) click "Administrative Services"; (2) then click "Financial Reporting";
28 (3) then click "Financial Reports"; and (4) then click "CAFR 2011". A printed copy will be mailed to you upon your
request mailed to the following address: [City of Stockton, Attn: ____ or Rust Consulting/Omni Bankruptcy]. More
current unaudited financial statements for the City are available on the Electronic Municipal Market Access website
maintained by the Municipal Securities Rulemaking Board, available at: <http://emma.msrb.org>.

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1 relied upon by investors as such in determining whether to buy, hold, or sell any securities of the
2 City or related entities.

3 Certain information included in this Disclosure Statement and its exhibits contains
4 forward-looking statements. The words “believe,” “expect,” “anticipate,” and similar expressions
5 identify such forward-looking statements. The forward-looking statements are based upon
6 information available when such statements are made and are subject to risks and uncertainties
7 that could cause actual results to differ materially from those expressed in the statements. A
8 number of those risks and uncertainties are described below. Readers therefore are cautioned not
9 to place undue reliance on the forward-looking statements in this Disclosure Statement. The City
10 undertakes no obligation to publicly update or revise any forward-looking statements, whether as
11 a result of new information, future events, or otherwise.

12 Neither the Securities and Exchange Commission nor any other regulatory agency has
13 approved or disapproved this Disclosure Statement. Nor has any such agency determined
14 whether this Disclosure Statement is accurate, truthful, or complete.

15 **E. Additional Information.**

16 If you have any questions about the procedures for voting on the Plan, desire another copy
17 of a ballot, or seek further information about the timing and deadlines with respect to
18 confirmation of the Plan, please write to Rust Consulting/Omni Bankruptcy as follows: Rust
19 Consulting/Omni Bankruptcy, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367
20 (facsimile: 818-783-2737), or write to counsel for the City as follows: Marc A. Levinson, Orrick,
21 Herrington & Sutcliffe LLP, 400 Capitol Mall, Suite 3000, Sacramento, CA 95814-4497
22 (facsimile: 916-329-4900, email malevinson@orrick.com). Please note that counsel for the City
23 cannot and will not provide creditors with any legal advice, including advice regarding how to
24 vote on the Plan or the effect that confirmation of the Plan will have upon claims against the City.
25 For additional information, City retirees should contact the Retirees Committee. The primary
26 contact for the Retirees Committee is its chairperson, Dwane Milnes, 209-467-0224,
27 dwane.milnes@sbcglobal.net. The secondary contact for the Retirees Committee is Retirees
28 Committee member Gary Ingraham, 209-403-0076, gcingraham@comcast.net.

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1 **II. BACKGROUND INFORMATION**

2 **A. The City.**

3 The City is a municipal corporation and charter city formed and organized under its
4 charter and the California Constitution. Its governing body is a seven-member City Council
5 (including the position of Mayor, who is elected by popular vote rather than appointed by the City
6 Council). The City encompasses approximately 65 square miles in northern San Joaquin County.
7 Approximately 300,000 people reside within the City.

8 **B. The City's Financial Problems.**

9 Over the past several years, the City has struggled with massive budget deficits. These
10 deficits have been the result of a combination of plummeting revenues and increasing costs. In
11 the wake of the Great Recession, housing prices plunged while unemployment skyrocketed,
12 which led to substantial declines in the City's property tax and sales tax revenues. Stockton has
13 been among the top-ranked American cities in terms of foreclosures and declines in home prices
14 for the past several years. The median home price has dropped from \$397,000 in 2006 to
15 \$109,000 as of 2012, a decline of 72%. This collapse in property values and the flood of
16 foreclosures reduced the City's gross property tax collections by roughly 29%, from \$61.1 million
17 in fiscal year 2007-08 to \$43.6 million in fiscal year 2012-13. Because of California tax laws
18 under Proposition 13, also known as the Jarvis-Gann Amendment, changes in ownership that
19 occurred at the bottom of the market due to foreclosures and short sales will suppress property
20 values for many years into the future. Adverse economic conditions also caused a drop in the
21 City's income from assessments and development fees.

22 As the economy suffered, so too did the City's residents, as the City saw its
23 unemployment rate rise steadily from 2007, peaking in early 2011 at 22%. The unemployment
24 rate within the City was 15.5% as of July 2013, and the unemployment rate for the Stockton
25 Metropolitan Area (including San Joaquin County) ranks ninth worst among 372 metropolitan
26 areas nationwide at 12.8%, compared to the national unemployment rate of 7.7%. Partially as a
27 result of the City's employment troubles, the City's sales tax revenues also plummeted, from a
28 peak of \$47.0 million in fiscal year 2005-06 to \$32.7 million in 2009-10 (a drop of roughly 30%).

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1 In addition, the fiscal crisis had an impact on public safety. As Judge Klein recounted,
 2 “[i]n 2010, Stockton’s violent crime rate bucked a nationwide drop and rose to rank it 10th
 3 nationally, with 13.81 violent crimes per 1,000 residents. Homicides were at an all-time record.”
 4 *In re City of Stockton, California*, 493 B.R. 772, 780 (Bankr. E.D. Cal. 2013). Yet, while
 5 homicides increased from 28 in 2008 to 71 in 2012, budget reductions carved away the Stockton
 6 Police Department: 99 police officers, 50 civilian positions, 40 part-time positions, and the
 7 narcotics unit have been eliminated since 2009.³ In response, in 2012 the City began the planning
 8 process for the “Marshall Plan.” Named after the original Marshall Plan that guided Europe’s
 9 economic recovery after World War II, the City’s Marshall Plan aims to reduce homicides and
 10 gun violence in the City. One of the Marshall Plan’s recommendations is to increase the Stockton
 11 Police Department staffing ratio of sworn officers to population, which is well below the average
 12 for cities of its size.⁴ However, implementation of the Marshall Plan, including the hiring of
 13 additional police officers, will require new funding.

14 While the City’s revenues have been dwindling, its expenses have either remained
 15 constant or increased as a result of the City’s population boom. Between 2000 and 2007, the
 16 City’s population grew from roughly 243,000 to 285,000, an increase of around 17%. Since
 17 2007, there has been a more moderate increase to approximately 300,000 today. Not only did the
 18 additional number of residents put an increased demand on existing City services during that
 19 period, but the City also took on substantial financial obligations to expand infrastructure and
 20 essential public services. Moreover, as discussed above, the City is also subject to significant
 21 ongoing obligations in the form of pensions, health care, compensation, and other benefits for its
 22 current and former employees.

23 A large part of the City’s current economic difficulties are the result of imprudent fiscal
 24 decisions and poor accounting practices during better economic times. When the City was flush
 25 with cash, it made financial decisions and commitments based on the assumption that its

26 _____
 27 ³ David M. Bennett and Donna D. Lattin, *The Marshall Plan: Violence Reduction Strategy, Stockton, California*,
 28 March 7, 2013, submitted to Stockton City Council, at 50, available at [http://www.stocktongov.com/files/Council
 Agenda_2013_4_02_item_15_01_MarshallPlan.pdf](http://www.stocktongov.com/files/Council_Agenda_2013_4_02_item_15_01_MarshallPlan.pdf).

⁴ *Id.* at 53-54.

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1 economic growth would continue indefinitely. These commitments included unsustainable labor
 2 costs, retiree health benefits, and public debt. Past inadequate accounting practices also obscured
 3 the severity of the City's impending financial difficulties and in some cases resulted in additional
 4 unrecognized liabilities to the City's General Fund. As a result, when the Great Recession hit, the
 5 City found its financial obligations quickly outpacing its revenues. Compounding these economic
 6 challenges, the City—like all California cities—is limited by law in its ability to generate new
 7 revenues. Under California law, the City was unable to increase tax revenues without voter
 8 approval. As described herein, by placing a 3/4 cent sales tax measure on the November 5, 2013
 9 ballot, the City is attempting to generate necessary revenues that will enable it to both continue to
 10 provide services to its residents and to fund its obligations to its employees and creditors.

11 **C. The City's Pension Obligations.**

12 The City's employee and retiree pensions are managed through the California Public
 13 Employees' Retirement System ("**CalPERS**"). The City's General Fund CalPERS obligation for
 14 the funding of retirement benefits for its employees in fiscal year 2012-13 was \$14.2 million
 15 (9.3% of total General Fund expenditures), and it has forecast its pension obligations from fiscal
 16 year 2012-13 through fiscal year 2020-21 (including the impact of additional staffing under the
 17 Marshall Plan for improved public safety services) to be approximately \$273.7 million (15.6% of
 18 total General Fund expenditures).⁵ A CalPERS defined benefit pension is the industry standard
 19 for city employees throughout California. Over 97% of California cities contract with CalPERS
 20 for pension benefits, and more than 99% of California city employees are covered by CalPERS or
 21 a similar defined benefit plan. Additionally, all county employees in California receive a defined
 22 benefit plan from CalPERS or another similar system, and all state employees receive a CalPERS
 23 pension. Moreover, of the 26 new cities created in California since 1990, almost all have
 24 contracted with CalPERS (92%) or a similar plan. When it comes to public employee pensions in
 25 California, CalPERS is the primary, and often only, option. This has provided a consistent
 26 pension benefit package available to persons employed in public-sector jobs.

27
 28 ⁵ See Exhibit B ("Long Range Financial Plan of City of Stockton") to this Disclosure Statement.

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1 As a result, the City has no ready, feasible, and cost-effective alternative to the CalPERS
 2 system. Nor can the City reduce its CalPERS obligations without serious consequences. City
 3 leadership believes that rejecting its CalPERS contract would impose a significant reduction in
 4 the City's pension benefits to current retirees—by approximately two-thirds, according to
 5 CalPERS. This would result in many retirees receiving benefits below the poverty level.
 6 Meanwhile, current employees would likely lose approximately two-thirds of their current-to-date
 7 earned benefit. Moreover, such pension cuts would be in addition to the elimination of retiree
 8 health benefits that the City has already imposed: the City has completely eliminated retiree
 9 health benefits for those approximately 1,100 retirees who were receiving retiree health benefits.
 10 The elimination of City-paid health benefits for current retirees and their dependents on average
 11 amounted to 30% of their total postemployment benefits (the loss of City-paid health benefits
 12 given up by current employees will reduce their future total postemployment benefits 28-41%).

13 The City's recent labor agreements also made substantial cuts to compensation and benefit
 14 packages for current employees, including eliminating their future retirement health coverage
 15 (worth approximately \$26,000 per employee per year), requiring current employees to pay 100%
 16 of the employee share of their CalPERS contribution (7-9% of salary), and imposing
 17 compensation reductions that varied, but averaged 10% to 33%, of which 7% to 30% was in
 18 pensionable income reductions that would impact future pensions as well as current income.

19 The City believes that the compensation changes made over the last three years, along
 20 with the changes in pension benefits for new hires, have eliminated the excesses in its
 21 compensation/pension system. Through changes in labor agreements as well as changes in state
 22 law, the City has reduced the pension and health benefits for new hires after January 1, 2013 by
 23 50-70% for all new employees and higher for some types of new hires. The major compensation
 24 reductions that have occurred in the last three years will also reduce employee pensions from
 25 what they would have been due to reductions in pensionable income.

26 In light of the severe cuts that City employees and retirees already have experienced, the
 27 City believes that any significant reduction in pension benefits would almost certainly lead to a
 28 mass exodus of City employees, as well as leaving the City hampered in its future recruitment of

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1 new employees—especially experienced police officers—on account of the noncompetitive
 2 compensation package it would be offering new hires. Moreover, due to recent changes in
 3 California law, the exodus of City employees would be massive and sudden. In order to preserve
 4 their pension benefit levels under new state law, Stockton employees would need to leave the
 5 City’s employ and obtain employment with another public agency with CalPERS benefits within
 6 six months of the rejection of the City’s CalPERS contract. Such a sudden loss of trained and
 7 experienced staff would be catastrophic and would seriously jeopardize the City’s ability to
 8 provide even the most basic of essential public protections.

9 The City is unwilling to reduce or eliminate pensions and, in effect, roll the dice to see if
 10 employees flee. In addition to critically impairing the City’s ability to recruit new employees,
 11 were the City to reject its CalPERS contract, California state law provides that such rejection
 12 would also trigger a termination penalty, which CalPERS calculates at \$946 million. Even then,
 13 the City would still have to fund and operate an alternate pension plan providing market-level
 14 benefits in order to remain a competitive employer. The City believes that even if it could locate
 15 or establish such a plan, it could not do so at a cost materially lower than the cost of remaining in
 16 the CalPERS plan. Additionally, because the City has not participated in the federal Social
 17 Security program since 1978, City employees receive no federal pension benefits from that
 18 source, and their CalPERS pension is the only “retirement” provided by the City. The City thus
 19 cannot unilaterally abandon the CalPERS system without incurring additional obligations and
 20 seriously jeopardizing its ability to recruit qualified employees. The current CalPERS benefits
 21 are 85-90% funded according to CalPERS and can be contrasted to the City’s retiree health
 22 program, which was 0% funded.

23 **D. The City’s Attempts to Avoid Insolvency.**

24 In light of its economic crisis, the City took drastic steps in an attempt to avoid
 25 insolvency, including depleting its reserves, renegotiating labor contracts, unilaterally imposing
 26 compensation reduction, cutting jobs and services, defaulting on bond payments, and deferring
 27 payouts to retiring employees, among others.

28

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1 More specifically, the City instituted massive reductions in its workforce and employee
2 compensation. Between fiscal years 2008-09 and 2011-12, the City reduced its General Fund
3 full-time work force by 30%, including large reductions in sworn police positions (25%), non-
4 sworn police positions (20%), fire positions (30%), and non-safety staffing (43%).⁶ The City also
5 reduced its pay and benefits to City employees, imposed furloughs, imposed a hiring freeze, and
6 reduced City operational hours. By taking these extreme measures, the City was able to cut
7 approximately \$90 million in General Fund expenses over three years from fiscal year 2008-09
8 through 2011-12.

9 Despite these heroic efforts, however, the City continued to project annual deficits in the
10 tens of millions of dollars. Revenues remained low, and labor costs, though markedly reduced,
11 were still higher than the City could afford to pay, and were expected to increase. And after four
12 consecutive years of reducing employee staffing, the City could not continue to make additional
13 service reductions without jeopardizing the health, safety, and welfare of its residents. As a
14 result, the City was forced to take further radical steps to balance its budget for fiscal year 2011-
15 12, which included sweeping its remaining available unrestricted funds into its General Fund,
16 suspending some payments to separating employees, and electing not to pay over \$2 million in
17 debt service owed between March 2012 and June 2012. These measures were necessary for the
18 City to maintain sufficient liquidity to continue to operate through June 30, 2012 (the end of fiscal
19 year 2011-12). Even with such measures, however, as of the June 28, 2012, filing of its
20 bankruptcy petition, the City effectively had no remaining reserves, and was facing a projected
21 budget shortfall of almost \$26 million in fiscal year 2012-13.

22 **E. The City's Participation in Pre-Bankruptcy Negotiations.**

23 Pursuant to Assembly Bill 506 ("**AB 506**"), codified at California Government Code
24 section 53760 *et seq.*, the City participated in a "neutral evaluation process" with most of its
25 largest creditors prior to seeking bankruptcy relief. These negotiations occurred over a three-
26 month span, from March 27, 2012 through June 25, 2012, and were conducted under the auspices

27 _____
28 ⁶ See City Budgets for 2008-09, 2009-10, 2010-11, and 2011-12, available on the website of the City of Stockton at <http://www.stocktongov.com> (from the homepage, click "City Government" and then click "Budget").

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1 of the Honorable Ralph Mabey, a former bankruptcy judge and highly accomplished bankruptcy
2 lawyer and mediator. Judge Mabey was selected jointly by the City and its creditors.

3 While the City was unable to avoid insolvency and bankruptcy through the mediation
4 process, the City was able to reach agreements with almost all of its labor unions. The nine labor
5 unions with which the City conducted negotiations are: (1) Operating Engineers 3 (“**OE3**”)—
6 Operations and Maintenance Unit (“**O&M**”); (2) OE3—Water Supervisory Unit; (3) OE3—
7 Trades and Maintenance Unit (“**STAMA**”); (4) IAFF Stockton Firefighters Local 456—Fire Unit;
8 (5) IAFF Stockton Firefighters Local 456—Fire Management Unit, (6) Stockton Police Officers’
9 Association (“**SPOA**”); (7) Stockton Police Management Association (“**SPMA**”); (8) Stockton
10 City Employees’ Association (“**SCEA**”); and (9) Mid-Management/Supervisory Level Unit
11 (“**B&C**”).⁷

12 The City reached agreements with eight of these nine labor unions before or not long after
13 the Petition Date. These agreements, in addition to providing for further compensation and
14 benefit cuts, also eliminated retiree health benefits and other compensation claims that these
15 groups would have had against the City in bankruptcy. An agreement with the SPOA, discussed
16 in the section titled “Post-Bankruptcy Negotiations Conducted by Judge Elizabeth L. Perris,” was
17 reached in December 2012.

18 **III. ADMINISTRATION OF THE CHAPTER 9 CASE**

19 **A. Pendency Plans.**

20 On June 26, 2012, the City Council adopted a “Pendency Plan” budget based on the
21 assumption that it would file its chapter 9 petition prior to the start of the 2012-13 fiscal year less
22 than a week later. The Pendency Plan provided for balanced General Fund expenditures in fiscal
23 year 2012-13, but only by unilaterally modifying the City’s financial obligations in ways that,
24 outside of bankruptcy, would otherwise violate the City’s contractual obligations or state law.
25 Specifically, the City was able to impose further cuts in health care benefits and payments to
26 retirees, as well as suspend General Fund payments on bonds. While these cuts allowed the City

27 _____
28 ⁷ In addition, the Parking Attendant Services Unit is a bargaining unit of part-time parking attendant workers, but they have little to no benefits and do not regularly negotiate. They are represented by OE3.

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1 to continue operating under a “balanced” budget, the effectiveness of the reductions made under
2 the Pendency Plan ultimately depend upon the confirmation of a plan of adjustment. The City has
3 continued to operate under subsequent versions of the Pendency Plan during the Chapter 9 Case.

4 **B. Eligibility Litigation.**

5 On June 5, 2012, the City Council voted to authorize the City to file a petition for relief
6 under chapter 9 of the Bankruptcy Code in the event that its pre-bankruptcy negotiations did not
7 enable it to avoid insolvency. Following the conclusion of the pre-bankruptcy negotiations, the
8 City filed its chapter 9 petition on June 28, 2012.

9 Certain of the City’s creditors—National Public Finance Guaranty Corporation, Assured
10 Guaranty Corporation, Assured Guaranty Municipal Corporation, Franklin High Yield Tax Free
11 Income Fund, and Franklin California High Yield Municipal Fund—objected to the City’s
12 petition for an order for relief under chapter 9. Their objections were joined by Wells Fargo Bank
13 in its capacity as indenture trustee. Following nine months of discovery and briefing, on
14 March 25-27, 2013, the Bankruptcy Court conducted a trial to determine whether the City was
15 eligible for bankruptcy protection. On April 1, 2013, the Bankruptcy Court delivered its oral
16 ruling that the City had established its eligibility, and the Bankruptcy Court entered an order for
17 chapter 9 relief later that day. On June 12, 2013, the Bankruptcy Court issued a written Opinion
18 Regarding Chapter 9 Order for Relief, elaborating on its reasons for its ruling. *In re City of*
19 *Stockton*, 493 B.R. 772 (Bankr. E.D. Cal. 2013).

20 **C. Post-Bankruptcy Negotiations Conducted by Judge Elizabeth L. Perris.**

21 In July 2012, the Honorable Alex Kozinski, Chief Judge of the United States Court of
22 Appeals for the Ninth Circuit, appointed the Honorable Elizabeth L. Perris, a United States
23 Bankruptcy Judge for the District of Oregon, to serve as a judicial mediator in the Chapter 9 Case
24 [Dkt. Nos. 384, 385]. Judge Perris conducted an initial meeting on August 30, 2012, inviting key
25 creditors and the City. Thereafter, and continuing through the date hereof, Judge Perris has
26 devoted countless (but certainly hundreds of) hours conducting face-to-face negotiations among
27 the parties to the Chapter 9 Case. Such negotiations are confidential, and cannot be revealed, but
28 the City can and does represent that it continues to believe that if it is able to reach agreement

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1 with certain key creditors hereafter, such agreement will occur only with the continued proactive
2 participation of Judge Perris.

3 One of the parties with which the City reached agreement in the mediation conducted by
4 Judge Perris is the SPOA. On December 11, 2012, the City Council adopted the Memorandum of
5 Understanding between the City of Stockton and the SPOA. For further discussion of the
6 relevant terms of the SPOA MOU, see Section V(A)(2) below.

7 Judge Perris brokered the settlement between Ambac and the City, the terms of which are
8 reflected in the Plan.

9 After long and arduous negotiations, concluding just before the City first went public with
10 the Plan, Judge Perris also successfully guided the parties to an extremely complex settlement
11 between the City and NPMFG, involving no less than three bond issues and three sets of financing
12 leases involving numerous City properties.

13 Judge Perris continues to preside over the mediation between the City and Assured
14 Guaranty.

15 **D. Formation of an Official Committee to Represent Retirees.**

16 On April 1, 2013, with the support of the City, the United States Trustee appointed the
17 members of the Official Committee of Retirees (“**Retirees Committee**”). As the name indicates,
18 the Retirees Committee represents only the interests of retirees from the City. The Retirees
19 Committee does not represent current City employees or any other creditors. The Retirees
20 Committee consists of retired City employees—namely Dwane Milnes (Chair), Robert Sivell,
21 L. Patrick Samsell, Mark Anderson, Larry Long, Mary Morley, Cynthia Neely, Morris Allen,
22 Rick Butterworth, Anthony Delgado, Shelley Green, Gary Ingraham, and Frank Johnston. The
23 Retirees Committee is represented by Felderstein, Fitzgerald, Willoughby & Pascuzzi LLP.

24 Since its appointment, the Retirees Committee has met with the City and discussed the
25 claims of its constituencies. The overwhelming majority of such claims in dollar amount relate to
26 two categories of claims: (1) health benefits promised by the City and then reduced in the first
27 Pendency Plan for fiscal year 2012-13 and eliminated for the following fiscal year and thereafter
28 (which the City and the Retirees Committee estimate to amount to approximately \$538 million

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1 for the approximately 1,100 retirees and dependents eligible for health benefits); and (2) pension
 2 benefits paid through the CalPERS Pension Plan. As discussed below, the Plan proposes to pay
 3 \$5.1 million on the Effective Date in full satisfaction of the health benefit claims, and the Plan
 4 assumes the City's obligations to CalPERS, preserving in full the pension benefits of the
 5 approximately 2,400 current recipients thereof and of current employees who are participating in
 6 CalPERS. The Retirees Committee has agreed to support the Plan and recommends that retirees
 7 vote to accept the Plan.

8 **E. Motions for Relief from Stay to Pursue or Commence Litigation.**

9 Pursuant to sections 362 and 922, the filing of the Chapter 9 Case imposed an automatic
 10 stay, which, among other things, prohibits the commencement or continuation of actions against
 11 the City on account of claims that arose prior to the commencement of the Chapter 9 Case. The
 12 automatic stay provisions also bar any actions to obtain possession of or control over City
 13 property. Section 922 extends the automatic stay to actions against officers or inhabitants of the
 14 City that seek to enforce claims against the City. The Bankruptcy Court specifically addressed
 15 the application of the automatic stay to suits against City officers in *In re City of Stockton*, 484
 16 B.R. 372 (Bankr. E.D. Cal. 2012) ("*Hittle*"). In *Hittle*, the City's former Fire Chief sued the City,
 17 City Manager, and Deputy City Manager for wrongful termination. The Court, however, ruled
 18 that the stay imposed by section 922 prevented the suit against the officers as an indirect means of
 19 suing the City, which is required by state law to indemnify its officers. *Id.* at 376, 378; CAL.
 20 GOV'T CODE §§ 825, 825.2 (requiring indemnification of officers).

21 Several motions requesting relief from the automatic stay have been filed by plaintiffs in
 22 lawsuits pending in other courts in which damages have been sought based on allegations of civil
 23 rights violations and other General Liability Claims. The City stipulated to relief from the stay
 24 being granted in those cases in which the movant agreed to liquidate its claims in another forum,
 25 agreed not to enforce any claim so liquidated against City assets or property, agreed to look
 26 exclusively to insurance proceeds, or agreed to proceed with its underlying lawsuit but seek
 27 further leave of the court should it obtain a monetary award (but only in cases in which the
 28 continuance of the underlying action would not impose a burden on the Office of the City

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1 Attorney). The City has not opposed relief from the automatic stay for parties with claims strictly
 2 against City Restricted Funds, which are not a part of the Chapter 9 Case (*e.g.*, Preston Pipelines,
 3 Dkt. Nos. 1045, 1092). Nor has the City opposed relief from the automatic stay for the Indenture
 4 Trustee to distribute funds it has collected acting pursuant to a state court receivership order [Dkt.
 5 Nos. 506, 533, 695, 721, 1080, 1097]. The City has also not opposed the commencement or
 6 continuation of actions challenging certain political processes, on the grounds that such actions
 7 are not within the scope of the automatic stay (Ralph Lee White [Dkt. No. 560], Dean Andal
 8 [Dkt. No. 1035]). The Bankruptcy Court agreed with the City's position on such cases in an
 9 opinion rendered in connection with the Dean Andal motion [Dkt. No. 1110]. The City has
 10 successfully opposed other motions for relief from the automatic stay, including motions brought
 11 in *Hittle*, the Association of Retired Employees of the City of Stockton (*see Association of*
 12 *Retired Employees of the City of Stockton v. City of Stockton, California (In re City of Stockton,*
 13 *California)*), 478 B.R. 8 (Bankr. E.D. Cal. 2012)), Greg and Beverly Kent [Dkt. No. 892], and
 14 Salvador Benavides [Dkt. No. 622].

15 **IV. THE CITY'S LIABILITIES AND ASSETS**

16 As noted in Section I(D) and in footnote 2 above, the City's CAFR for its fiscal year
 17 ending June 30, 2011, is not attached, but is available online or by written request. The CAFR
 18 provides all manner of information and financial data and includes the City's independently
 19 audited financial statements. Set forth below is a summary of the liabilities and assets that are
 20 relevant to the Plan.

21 **A. Liabilities.**

22 **1. Liabilities Listed by the City in Its Filings on the Petition Date.**

23 As required by sections 924 and 925, Bankruptcy Rules 1007(a) and 1007(d), and Rule
 24 1007-1 of the Local Rules of Bankruptcy Procedure, on the Petition Date the City filed a list of
 25 creditors and claims (the "**Creditors' List**") [Dkt. No. 2] and a list of creditors holding the 20
 26 largest unsecured claims against the City (the "**20 Largest List**") [Dkt. No. 4]. The cover sheet
 27 to the Creditors' List disclosed as follows:
 28

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1 The Creditors' List represents obligations of the City's General
2 Fund as well as obligations of the City's designated special use
3 funds, for example the Municipal Water Utility Fund. Such
4 obligations are included on the Creditors' List for purposes of full
5 disclosure. The City maintains that California or federal law
6 prohibits the use of such special use funds to pay General Fund
7 obligations. Moreover, certain of such obligations are payable only
8 from such special use funds. Thus, such special use funds are
9 beyond the scope of this chapter 9 case pursuant to Bankruptcy
10 Code §§ 903 and 904.

11 While the City believes that the Creditors' List and 20 Largest List were accurate at the
12 time they were filed, subsequent events have negated if not eliminated the relevance of the
13 amounts disclosed therein. For example, in the Plan, the City assumes the retiree pension
14 obligations to CalPERS listed in the 20 Largest List. And the over \$255 million listed in the 20
15 Largest List as amounts owed to the Indenture Trustee is being adjusted under the Plan. In short,
16 the City submits that while the Creditors' List and 20 Largest List may have been helpful tools at
17 the outset of this case, they are largely irrelevant for purposes of the Plan and the Disclosure
18 Statement.

19 **2. Liabilities Listed by the City in Its Updated Creditors' List.**

20 On October [___], 2013, the City will file an updated list of creditors and claims
21 ("Updated Creditors' List"). The Updated Creditors' List includes new (or newly discovered)
22 claims and updated contact addresses for certain creditors. Although the Updated Creditors' List
23 discloses new estimated claim amounts, many of these estimates are rough. For example, where
24 the value of a liability claim is unknown but is estimated to be more than \$25,000 (the threshold
25 established by Cal. Gov't Code § 85 for unlimited civil claims), its estimated value is listed as
26 \$25,000. Thus, while the Updated Creditors' List should serve as a helpful tool for purposes of
27 identifying the universe of the City's creditors, it is not the final word on the amount of the City's
28 liabilities.

3. Proofs of Claim.

 The Bankruptcy Court established three deadlines for filing proofs of claim against the
 City. The first bar date, August 16, 2013, applied to all claims except those specifically excluded

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1 by the relevant order [Dkt. No. 960]. The excluded claims were primarily those relating to
 2 pension benefits and the loss of retiree healthcare benefits. The second bar date, September 30,
 3 2013, which was set by the same order, was limited to claims of governmental units. The third
 4 bar date, [_____], 2013, which was established by an order filed on [_____], 2013
 5 [Dkt. No. ___], was limited to claims relating to the loss of retiree healthcare benefits.

6 Approximately 241 proofs of claim were filed on or prior to the August 16, 2013, bar date.
 7 Though many of the proofs of claim did not specify their classification as general unsecured,
 8 priority, secured, etc., the City classified these claims to the best of its ability based on other
 9 groups of claims received and on the City's knowledge of property pledged to secure certain
 10 claims. Accordingly, the City catalogued approximately 104 General Unsecured Claims, 16
 11 Unsecured Priority Claims, and 69 Secured Claims. Approximately 34 of the proofs of claim,
 12 rather than listing a specific amount being sought, were filed with amounts shown as "unknown,"
 13 "to be determined," or "unliquidated." The proofs of claim listing a specific amount aggregate
 14 approximately \$1.181 billion, comprised of approximately \$158 million of General Unsecured
 15 Claims as calculated by the filing entities, \$2.8 million of Unsecured Priority Claims, and \$1.021
 16 billion of Secured Claims.

17 [Placeholder for government claims filed before 9/30 and retiree health claims filed before
 18 [_____] (the Retiree Health Bar Date).]

19 In furtherance of its continuing claims analysis and resolution process, the City will be
 20 filing a series of omnibus objections and specific objections to various classes of Claims. Such
 21 objections will be both on the merits as well as to claims based on obligations for which the City
 22 contends it is not liable.

23 Finally, General Liability Claims, as filed, amount to an aggregate of \$156 million. The
 24 \$1 million SIR Claim Portions of such Claims will be Class 14 Claims under the Plan and will
 25 receive the same pro-rata payment received by General Unsecured Creditors in Class 12.

26 Note that although the City is confident in its defenses to the disputed Claims, there is no
 27 assurance that the City will succeed in eliminating or reducing any or all of these claims.

28

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1 **4. General Unsecured Claims, Including General Liability Claims.**

2 Through August 16, 2013, a total of 104 proofs of claim were filed as General Unsecured
3 Claims. The General Unsecured Claims include, but are not limited to: (1) the Retiree Health
4 Benefit Claims; (2) the Claims of Dexia under the Office Building Standby Agreement; (3) the
5 Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (4) the Leave
6 Buyout Claims; (5) the Price Claims; and (6) Other Postpetition Claims.

7 By its analysis and calculations, the City believes that the Allowed amount of General
8 Unsecured Claims in Class 12 will aggregate approximately \$675 million to \$700 million. This
9 estimate is comprised of Claims for (1) loss of retiree healthcare benefits of approximately
10 \$538 million; (2) approximately \$806,000 related to leave buyouts; (3) approximately \$10 million
11 [or approximately \$20 million if rejection of the Office Building leases are included in the
12 absence of a settlement with Assured] for lease rejection claims for the Golf Course/Park leases,
13 as capped by Bankruptcy Code section 502(b)(6); (4) approximately \$125 million for claims
14 related to the Pension Obligation Bonds; and (5) miscellaneous other claims.

15 The General Unsecured Claims, as filed, greatly exceed the high end of such range, and,
16 as noted above, the City has engaged in a process aimed at ascertaining the differences between
17 the amounts asserted in the proofs of claim and the amounts reflected as owing to the claimants in
18 the City's books and records or as otherwise evaluated by the City.

19 If the City's estimate of the allowable amounts of the General Unsecured Claims is too
20 low, the City would likely need to amend the Plan to, among other possibilities, provide for a
21 payout over a term of years as opposed to payment in cash on the Effective Date as is proposed in
22 the Plan.

23 **5. Priority Unsecured Claims.**

24 Sixteen proofs of claim were filed as priority unsecured Claims, which assert an aggregate
25 of approximately \$2.8 million in obligations against the City.

26 The City believes that most, if not all, of these claims are properly characterized as
27 General Unsecured Claims and treats them as such in this Disclosure Statement. Moreover,
28 because chapter 9 incorporates only those administrative claims allowed under section 507(a)(2),

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1 as discussed in Section V(A)(1)(a) below, the City submits that virtually all Claims filed as
2 priority Claims are not entitled to priority status under chapter 9. Accordingly, the City intends to
3 object to the characterization of virtually every Claim filed as a priority Claim. The City expects
4 that this objection and reclassification will substantially reduce the priority claim pool, if not
5 eliminate it altogether.

6 **6. Secured Claims.**

7 The City has categorized one proof of claim as a Secured Claim: the SCC 16 Secured
8 Claims. The SCC 16 Secured Claims relate to any Claim of SCC 16 arising out of that certain
9 “Agreement Regarding Construction Costs,” dated as of April 29, 2008, among SCC 16, the City,
10 and the Redevelopment Agency, relating to the City’s obligation to reimburse SCC 16 for
11 construction costs paid by SCC 16 that the City was otherwise liable to pay, for the construction
12 of improvements to certain premises located in the Edmund S. Coy Parking Structure to be leased
13 by SCC 16, to the extent than any such Claim is secured by the right to offset rent and any other
14 monies owing from SCC 16 to the City.

15 SCC 16 asserts a Secured Claim against the City in the amount of \$455,123.99. A
16 settlement with SCC 16 is being discussed regarding the treatment under the Plan of the SCC
17 Secured Claims and certain other matters, as set forth in that certain “Settlement Term Sheet,
18 SCC 16 Claims” dated as of September [___], 2013, and attached to the Plan as **Exhibit E.** [if and
19 when finalized]

20 **7. Workers Compensation Liabilities.**

21 As of June 30, 2013 (the most recent date for which data is available), the City had an
22 outstanding liability of approximately \$51,087,000 in workers compensation claims. Pursuant to
23 the Plan, such claims will be paid in the ordinary course of business as holders of Class 17 claims.
24 Accordingly, no proofs of claim were required for members of Class 17.

25 **8. Claims Relating to the Lease Out/Lease Back Transactions.**

26 **a. Background.**

27 The City has a number of outstanding General Fund financing lease obligations. The
28 lease financing transactions involving Ambac and NPMG as insurers of the related bond issues

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1 have been compromised and settled during the case (the terms of which are incorporated in the
2 Plan), one will be assumed and thus will be Unimpaired, and the financing leases involving
3 Franklin as the sole holder of the related bonds will be rejected.

4 In general, the financing lease obligations have a similar structure: a lease out of City-
5 owned property to either the Financing Authority or the Redevelopment Agency, and the
6 simultaneous lease back of the same property to the City by the Financing Authority or the
7 Redevelopment Agency. The lease out generally involved pre-paid rent for the entire term of the
8 lease or a token payment of rent plus delivery of the related bond proceeds to the Financing
9 Authority or the Redevelopment Agency. The lease back involved the City paying rent semi-
10 annually for the leased premises.

11 The Financing Authority or the Redevelopment Agency then assigned its right to receive
12 rental payments (along with certain other rights relevant to the enforcement of remedies) under
13 the applicable lease back to an Indenture Trustee. Finally, the Financing Authority or the
14 Redevelopment Agency issued bonds, or the Indenture Trustee executed and delivered certificates
15 of participation, and transferred the proceeds to the City for expenditure on capital improvements.
16 Payment of the principal of and interest on the bonds and certificates is made through the
17 applicable Indenture Trustee, pursuant to, *inter alia*, the terms of the related indenture or trust
18 agreement, from the proceeds of rental payments received from the City pursuant to the terms of
19 the applicable lease back and related assignment.

20 For transactions involving certificates of participation, the lease payments are divided into
21 “principal components” and “interest components,” the sum of which in each rental period make
22 up the rent payable for that rental period. This allocation is required in order for the interest
23 components to be treated as tax-exempt under federal tax law. The sum of the principal
24 components is referred to as the principal amount of the transaction. Transactions such as the
25 ones into which the City entered are structured this way to comply with the so-called “lease
26 exception” to the indebtedness limitations in article XVI, section 18 of the California
27 Constitution, as described in *City of Los Angeles v. Offner*, 19 Cal. 2d 483 (1942) and *Dean v.*
28 *Kuchel*, 35 Cal. 2d 444 (1950), the California Supreme Court cases that establish the lease

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1 exception. These types of leases are often referred to as “Offner-Dean” leases (referred to herein
2 as financing leases).⁸

3 An important feature of these leases is that they cannot be accelerated, which is a
4 corollary to the requirement of the *Offner* and *Dean* cases that the City’s obligation to pay rent
5 under the leases back is limited to payment for beneficial use and occupancy of the leased
6 premises during the rental period for which payment is due.

7 **b. 2003 Fire/Police/Library Leases.**

8 The Ambac Settlement Agreement restructures the City’s obligations under the 2003
9 Fire/Police/Library Certificates and provides additional liquidity for the City.

10 (i) *Financial Instruments Involved.*

11 The financial instruments involved in this transaction are the City of Stockton Certificates
12 of Participation (Redevelopment Housing Projects) Series 2003A, issued on June 27, 2003, in the
13 original principal amount of \$1,160,000 (the “**2003A Fire/Police/Library Certificates**”) and the
14 Certificates of Participation (Redevelopment Housing Projects) Taxable Series 2003B, issued on
15 June 27, 2003, in the original principal amount of \$12,140,000 (the “**2003B Fire/Police/Library**
16 **Certificates**”, and together with the 2003A Fire/Police/Library Certificates, the “**2003**
17 **Fire/Police/Library Certificates**”). Wells Fargo is the trustee under the 2003
18 Fire/Police/Library Certificates Trust Agreement (together with any successor trustee, the “**2003**
19 **Fire/Police/Library Certificates Trustee**”). A reserve fund exists for the 2003A
20 Fire/Police/Library Certificates with a balance as of September 1, 2013 of \$59,746.48 and for the
21 2003B Fire/Police/Library Certificates with a balance as of September 1, 2013 of \$706,781.35
22 (together, the “**2003 Fire/Police/Library Certificates Reserve Fund**”). The funds in the 2003
23 Fire/Police/Library Certificates Reserve Fund are pledged to support payment of the lease
24 payments under the Fire/Police/Library Lease Out evidenced and represented by the 2003
25 Fire/Police/Library Certificates. The 2003 Fire/Police/Library Certificates are insured by Ambac.

26
27
28 ⁸ Were the obligations to stretch over more than one year, they would require voter approval as per Article XVI,
Section 18.

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1 (ii) *Leased Properties.*

2 As described in more detail below, the properties that are involved in this transaction are
 3 three fire stations, the City's Main Police Facility, and the Maya Angelou Southeast Branch
 4 Library (collectively, the "**Fire/Police/Library Properties**"). In order to facilitate the financing
 5 to be provided by the 2003 Fire/Police/Library Certificates, the City, as owner of the
 6 Fire/Police/Library Properties, leased the properties to the Financing Authority pursuant to that
 7 certain Site and Facility Lease dated as of June 1, 2003, for a term ending on June 1, 2033, with a
 8 possible extension of the term to the date upon which the 2003 Fire/Police/Library Certificates
 9 are paid in full (the "**Fire/Police/Library Lease Out**"). Pursuant to section 510 of the City
 10 Charter, the term of the Fire/Police/Library Lease Out cannot extend for more than 55 years or to
 11 May 31, 2058. The City contemporaneously leased the Fire/Police/Library Properties back from
 12 the Financing Authority for the same number of years pursuant to the terms of a Lease Agreement
 13 dated as of June 1, 2003 (the "**Fire/Police/Library Lease Back**"). Thus, the City is the lessor
 14 and the Financing Authority is the tenant under the Fire/Police/Library Lease Out, and the
 15 Financing Authority is the lessor and the City is the tenant in the Fire/Police/Library Lease Back.

16 As tenant under the Fire/Police/Library Lease Out, the Financing Authority paid rent for
 17 the entire lease term in a lump sum payment in the amount of \$11,838,678.30, being the net
 18 proceeds of the 2003 Fire/Police/Library Bonds. As tenant under the Fire/Police/Library Lease
 19 Back, the City agreed to make semi-annual rental payments in varying amounts (the
 20 "**Fire/Police/Library Lease Back Rental Payments**"). The Financing Authority assigned to the
 21 2003 Fire/Police/Library Certificates Trustee its rights under the Fire/Police/Library Lease Back,
 22 including the rights to enforce the lease after default by the City, and including the stream of
 23 Fire/Police/Library Lease Back Rental Payments from the City, to support the repayment of the
 24 2003 Fire/Police/Library Certificates. No other revenues or assets are pledged to support the
 25 repayment of the 2003 Fire/Police/Library Certificates, the repayment obligation is non-recourse
 26 to the Financing Authority, and the 2003 Fire/Police/Library Certificates are payable solely from
 27 the 2003 Fire/Police/Library Certificates Reserve Fund and the Fire/Police/Library Lease Back
 28 Rental Payments.

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1 The subject properties are the Fire/Police/Library Properties, which consist of City's Main
2 Police Facility, located at 22 E. Market Street; the Maya Angelou Southeast Branch Library,
3 located at 2324 Pock Lane; Fire Station No. 1, located at 1818 Fresno Avenue; Fire Station No. 5,
4 located at 3499 Manthey Road; and Fire Station No. 14, located at 3019 McNabb Street.

- 5 • **Fire Stations.** The City owns 13 fire stations, of which 12 are operating. Fire
6 Stations No. 1, 5, and 14 were built in 1995-96. Each station primarily serves the
7 neighborhood in which it is located and occupies a half-acre site with a building of
8 approximately 5,000 square feet. Station No. 1 is located in the south area of the
9 City in the South Stockton Redevelopment Project Area; it was closed as a result
10 of budget cuts. Station No. 5 is located in the south area off Interstate 5 in the
11 Weston Ranch Subdivision. Station No. 14 is located in the north area in a newer
12 residential community commonly referred to as Spanos Park located off
13 Interstate 5 and Eight Mile Road.
- 14 • **Main Police Facility.** The Main Police Facility is located in the downtown area of
15 the City. It was built in 1970 on a two-acre site and includes approximately
16 44,000 square feet of building space with 140 parking spaces.
- 17 • **Library.** The Maya Angelou Southeast Branch Library is located in the south
18 area of the City. It was built in 1996 on a 1.8-acre site and includes approximately
19 20,000 square feet of building space. The library serves the residents of both the
20 City and San Joaquin County in multiple South Stockton neighborhoods and is one
21 of 10 libraries that comprise the Stockton-San Joaquin County Library System.

22 (iii) *Ambac Settlement Agreement.*

23 On February 26, 2013, the City filed a motion with the Bankruptcy Court in which it
24 requested the Bankruptcy Court to enter an order approving the Ambac Settlement Agreement
25 [Dkt. No. 723]. A copy of the Ambac Settlement Agreement is attached as Exhibit A to the
26 Declaration of Robert Deis in Support of the City of Stockton's Motion Under Bankruptcy
27 Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed on
28 February 26, 2013 [Dkt. No. 725]. On April 24, 2013, the Bankruptcy Court entered its order

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1 granting the Ambac Settlement Agreement Motion in its entirety and approving the Ambac
2 Settlement Agreement in its entirety [Dkt. No. 888].

3 Pursuant to the Ambac Settlement Agreement, Ambac and the 2003 Fire/Police/Library
4 Certificates Trustee will forbear from exercising their rights under the 2003 Fire/Police/Library
5 Certificates in exchange for payment of their attorneys' fees, certain General Fund payments
6 towards the principal of and interest on the Certificates, the assignment to the 2003
7 Fire/Police/Library Certificates Trustee of the City's rights under the Certificates, and the sale of
8 certain City and Successor Agency (i.e., the City as successor to the Redevelopment Agency as
9 per California Assembly Bill AB x1 26 (2011-12), which dissolved California's redevelopment
10 agencies as of February 1, 2012) properties for proceeds that will be paid toward the principal of
11 and interest on the Certificates. It also requires that the 2003 Fire/Police/Library Certificates
12 Reserve Fund be distributed toward the principal of and interest on the Certificates. Finally, the
13 agreement requires that Ambac support and vote in favor of the Plan so long as it is consistent
14 with the agreement approved by the Bankruptcy Court.

15 c. **2004 Arena Leases.**

16 Pursuant to the terms of the NPMG Settlement and the Plan, the City will assume the
17 Arena Lease Out and the Arena Lease Back as modified by the NPMG Settlement.

18 (i) *Financial Instruments Involved.*

19 The financial instruments involved in this transaction are the Redevelopment Agency of
20 the City of Stockton Revenue Bonds, Series 2004, (Stockton Events Center – Arena Project)
21 issued on March 16, 2004, in the aggregate principal amount of \$47,000,000 (the "**2004 Arena**
22 **Bonds**"). Wells Fargo is the indenture trustee under the 2004 Arena Bonds Indenture (together
23 with any successor trustee, the "**2004 Arena Bond Trustee**"). A reserve fund exists for the 2004
24 Arena Bonds with a balance as of September 1, 2013, of \$3,511,392.02 (the "**2004 Arena Bond**
25 **Reserve Fund**"). The funds in the 2004 Arena Bond Reserve Fund are pledged to support
26 repayment of the 2004 Arena Bonds. The 2004 Arena Bonds are insured by NPMG.

27 As described in more detail below, the property and facility involved in this transaction is
28 the Stockton Arena (as more particularly described below, the "**Arena**"). In order to facilitate the

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1 financing provided by the 2004 Arena Bonds, the City, as owner of the Arena, leased the Arena to
 2 the Redevelopment Agency pursuant to that certain Site Lease dated as of March 1, 2004, for a
 3 term ending on September 1, 2036, with a possible extension of the term, or reduction in term, to
 4 the date upon which the 2004 Arena Bonds are paid in full (the “**Arena Lease Out**”). Under
 5 section 510 of the City Charter, the Arena Lease Out may not extend for more than 55 years, or
 6 until February 28, 2059. The City contemporaneously leased the Arena back from the
 7 Redevelopment Agency for the same number of years (but the lease term cannot extend beyond
 8 September 1, 2046) pursuant to the terms of that certain Lease Agreement dated as of March 1,
 9 2004 (the “**Arena Lease Back**”). Thus, the City is the lessor and the Redevelopment Agency is
 10 the tenant under the Arena Lease Out transaction, and the Redevelopment Agency is the lessor
 11 and the City is the tenant in the Arena Lease Back transaction.

12 As tenant under the Arena Lease Out, the Redevelopment Agency paid rent for the entire
 13 lease term in the amount of \$1.00. The Redevelopment Agency agreed under the Arena Lease
 14 Back to allow the City to use the proceeds of the 2004 Arena Bonds to construct the Arena
 15 facilities. As tenant under the Arena Lease Back, the City agreed to make semi-annual rental
 16 payments in varying amounts (\$2,570,687 for fiscal year 2012-13, \$2,621,346 for fiscal year
 17 2013-14, \$2,673,221 for fiscal year 2014-15, etc.) (the “**Arena Lease Back Rental Payments**”).
 18 The Redevelopment Agency assigned its rights under the Arena Lease Back, including the rights
 19 to enforce the lease after default by the City, and including the stream of Arena Lease Back
 20 Rental Payments from the City, to support the repayment of the 2004 Arena Bonds. In addition,
 21 pursuant to the terms of that certain Pledge Agreement between the City as pledgor and the
 22 Redevelopment Agency as pledgee dated as of March 1, 2004 (the “**Arena Pledge Agreement**”),
 23 the City pledged certain incremental tax revenues (the “**Pledged Tax Increment**”) expected to be
 24 collected from the West End Urban Renewal Project No. 1, a former development project area
 25 consisting of 642 acres surrounding and including the Arena, located in the heart of downtown
 26 Stockton, just north of the City’s Crosstown Freeway and east of Interstate 5, containing a mix of
 27 commercial, industrial, and residential uses (the “**West End Project Area**”). No other revenues
 28 or assets are pledged to support the repayment of the 2004 Arena Bonds, the repayment

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1 obligation is non-recourse to the Redevelopment Agency, and the 2004 Arena Bonds are payable
2 solely from the 2004 Arena Bond Reserve Fund, the Arena Lease Back Rental Payments, and the
3 Pledged Tax Increment.

4 (ii) *Leased Property.*

5 The subject property is the land described as Parcel 4, as shown on the Parcel Map filed
6 for record in the office of the Recorder of the County of San Joaquin, State of California, on
7 March 4, 2003, in Book 23 of Maps, Page 15, and the Arena located thereon, an indoor facility
8 capable of hosting events such as ice hockey, indoor football, indoor soccer, concerts, boxing
9 events, rodeos, and other such indoor events, and located at 248 West Fremont Street in
10 downtown Stockton. The Arena includes officials' facilities, media facilities, food services
11 facilities, 24 luxury suites for approximately 288 patrons, the Record Press Club Level with 344
12 Club Seats, 5,000 square feet of conference space, and ample backstage amenities. The Arena
13 can be configured for 8,600 to 12,000 seats, based upon the nature of the event. The Arena sports
14 an 85 by 200 foot NHL regulation ice sheet and is home to the Stockton Thunder ice hockey
15 team.

16 The Arena is part of the Stockton Events Center project (the "Events Center Project"),
17 which also includes a baseball stadium with a seating capacity of approximately 5,000 people, the
18 University Plaza Waterfront Hotel and University Lofts, the Stockton Events Center Parking
19 Structure, and approximately 60,000 square feet of retail/commercial space. The Events Center
20 Project, including the Arena, is located in downtown Stockton on approximately 24 acres
21 immediately north of and adjacent to the Stockton Channel and within the West End Project Area.

22 The Arena currently operates at a net loss before debt service and requires a General Fund
23 subsidy to support operations.

24 (iii) *NPFG Settlement as Applicable to the Arena.*

25 The City has reached an agreement with NPFG and the 2004 Arena Bond Trustee
26 regarding the Arena Lease Out, the Arena Lease Back and the Pledged Tax Increment. The terms
27 are contained in the NPFG Settlement. In general, with respect to the Arena, the NPFG
28 Settlement provides that, after modification of the payment terms of the Arena Lease Back that

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1 will reduce the exposure of the General Fund for making Lease Back Rental Payments, the City
2 will assume the Arena Lease Back, and as a result, the City will continue to remain in possession,
3 custody and control of the Arena.

4 **d. 2004 Parking Structure Leases.**

5 Pursuant to the terms of the NPFPG Settlement and the Plan, the City will assume the
6 Parking Structure Lease Out and the Parking Structure Lease Back as modified by the NPFPG
7 Settlement.

8 **(i) *Financial Instruments Involved.***

9 The financial instruments involved in this transaction are the Stockton Public Financing
10 Authority Lease Revenue Bonds, Series 2004, (Parking and Capital Projects) issued on June 25,
11 2004, in the aggregate principal amount of \$32,785,000 (the "**2004 Parking Bonds**"). Wells
12 Fargo is the indenture trustee under the 2004 Parking Bonds Indenture (together with any
13 successor trustee, the "**2004 Parking Bond Trustee**"). A reserve fund exists for the 2004
14 Parking Bonds with a balance as of September 1, 2013, of \$78,693.23 (the "**2004 Parking Bond**
15 **Reserve Fund**"). The funds in the 2004 Parking Bond Reserve Fund are pledged to support
16 repayment of the 2004 Parking Bonds. The 2004 Parking Bonds are insured by NPFPG.

17 As described in more detail below, the properties and facilities involved in this transaction
18 are the Edmund S. Coy Parking Structure, the Stockton Events Center Parking Structure, and the
19 Market Street Garage (as more particularly defined below, the "**Parking Structure Properties**").
20 In order to facilitate the financing provided by the 2004 Parking Bonds, the City, as owner of the
21 Parking Structure Properties, leased the properties to the Financing Authority, pursuant to a site
22 and facility lease dated as of June 1, 2004, for a term ending on September 1, 2034, with a
23 possible extension of the term to the date upon which the 2004 Parking Bonds are paid in full (the
24 "**Parking Structure Lease Out**"). Pursuant to section 510 of the City Charter, the term of the
25 Parking Structure Lease Out cannot extend for more than 55 years or to May 31, 2059. The City
26 contemporaneously leased the properties back from the Financing Authority for the same number
27 of years pursuant to the terms of the Lease Agreement dated as of September 1, 2004 (the
28 "**Parking Structure Lease Back**"). Thus, the City is the lessor and the Financing Authority is

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1 the tenant under the Parking Structure Lease Out transaction, and the Financing Authority is the
2 lessor and the City is the tenant in the Parking Structure Lease Back transaction.

3 As tenant under the Parking Structure Lease Out, the Financing Authority paid rent for the
4 entire lease term in the amount of \$1.00. Pursuant to the Parking Structure Lease Back, the
5 Financing Authority agreed to provide to the City the net proceeds of the 2004 Parking Bonds
6 (with gross proceeds equal to \$32,785,000), which were used by the City to fund the construction
7 of the Edmund S. Coy Parking Structure (described below) and other capital improvements. As
8 tenant under the Parking Structure Lease Back, the City agreed to make semi-annual rental
9 payments in varying amounts (\$1,960,916 for fiscal year 2012-13) (the “**Parking Structure**
10 **Lease Back Rental Payments**”). The Financing Authority assigned its rights under the Parking
11 Structure Lease Back, including the rights to enforce the lease after default by the City, and
12 including the stream of Parking Structure Lease Back Rental Payments from the City, to support
13 the repayment of the 2004 Parking Bonds. No other revenues or assets are pledged to support the
14 repayment of the 2004 Parking Bonds, the repayment obligation is non-recourse to the Financing
15 Authority, and the 2004 Parking Bonds are payable solely from the Parking Structure Lease Back
16 Rental Payments.

17 Even before filing the Chapter 9 Case, due to a lack of revenues generated by the Parking
18 Structure Properties, and as a result of the deteriorating finances of the City, the City defaulted in
19 the payment of the Parking Structure Lease Back Rental Payments. As a result of these
20 circumstances, the 2004 Parking Bond Trustee filed suit to enforce the Parking Structure Lease
21 Back, with the result that the Superior Court of the State of California for the County of San
22 Joaquin issued two decisions on April 19, 2012, one granting the 2004 Parking Bond Trustee
23 “Judgment of Possession After Unlawful Detainer” and also appointing a receiver for the Parking
24 Structure Properties under an “Order Appointing Receiver.” *See Wells Fargo Bank, National*
25 *Association v. City of Stockton*, Superior Court of the State of California, County of San Joaquin,
26 case no. 39-2012-00277622-CU-UD-STK.

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1 (ii) *Leased Properties.*

2 The subject properties consist of three parking structures that continue to be owned by the
3 City (subject to the Parking Structure Lease Out to the Financing Authority and the Parking
4 Structure Lease Back from the Financing Authority) (the "**Parking Structure Properties**").

5 (a) **Edmund S. Coy Parking Structure.**

6 This structure is located in the vicinity of Harbor and Channel Streets in downtown
7 Stockton. The six-story parking structure provides approximately 575 parking spaces to the
8 Central Business District to accommodate parking for existing retail, commercial, and office
9 development. The structure has approximately 7,500 square feet of ground-level
10 commercial/retail fronting Harbor Street and was constructed using a single-threaded helix
11 design. The total cost of construction was originally estimated at \$9,540,000, with all such
12 amounts provided by proceeds of the 2004 Parking Bonds.

13 (b) **Stockton Events Center Parking Structure.**

14 This structure is located in the vicinity of Fremont and Van Buren Streets in downtown
15 Stockton. The seven-story parking structure provides approximately 600 parking spaces on the
16 north shore of the Stockton Channel to accommodate sports fans, concert goers, and event
17 attendees. The structure has approximately 7,500 square feet of ground-level commercial/retail
18 fronting Fremont Street and was constructed using a single-threaded helix design. The total cost
19 of construction was originally estimated at \$9,595,000, with all such amounts provided by
20 proceeds of the 2004 Parking Bonds.

21 (c) **Market Street Garage.**

22 This structure is located within the City's Central Parking District on Market Street
23 between Sutter and California Streets and was constructed in 1989. The four-story parking
24 structure provides approximately 780 parking spaces and provides both monthly parking for
25 employees of downtown businesses and hourly parking for patrons of downtown businesses. The
26 structure also houses the Central Parking District management offices.

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1 (iii) *NPFG Settlement as Applicable to the Parking Structure*

2 *Properties.*

3 The City has reached an agreement with NPFG and the 2004 Parking Structure Bond
4 Trustee regarding the Parking Structure Lease Out and the Parking Structure Lease Back. The
5 terms are contained in the NPFG Settlement. In general, with respect to the Parking Structures,
6 the NPFG Settlement provides that the City will create a new parking authority for the City of
7 Stockton that will be comprised of the Parking Structure Properties plus other downtown parking
8 structures and lots, and downtown parking meters and parking enforcement revenues; that
9 revenues from the newly created parking authority will be pledged to the 2004 Parking Bond
10 Trustee in support of a modified schedule of payments on the Parking Structure Lease Back, and
11 the City's General Fund will have no liability for the modified payment schedule. As a result, the
12 City will regain possession, custody and control of the Parking Structure Properties.

13 e. **2006 SEB Leases.**

14 The City will assume the SEB Lease Back and the SEB Lease Out under section 365(a).
15 No later than 60 days after the Effective Date or 60 days after entry of an order approving the
16 Assumption Motion, whichever is later, the City will make the payments to the 2006 Bond
17 Trustee necessary to cure past defaults under the SEB Lease Back, if any, as well as any actual
18 pecuniary loss suffered by the 2006 Bond Trustee as a result of the City's default of the SEB
19 Lease Back, if any.

20 (i) *Financial Instruments Involved.*

21 The financial instruments involved in this transaction are the Stockton Public Financing
22 Authority 2006 Lease Revenue Refunding Bonds, Series A, issued on April 6, 2006, in the
23 aggregate principal amount of \$13,965,000 (the "**2006 SEB Bonds**"). Wells Fargo is the
24 indenture trustee under the 2006 SEB Bonds Indenture (together with any successor trustee, the
25 "**2006 Bond Trustee**"). A reserve fund exists for the 2006 SEB Bonds in an amount equal to the
26 initial reserve requirement funded by a surety policy for the reserve fund issued by NPFG, which
27 such initial reserve requirement equals \$919,093.75 (the "**2006 SEB Bond Reserve Fund**"). The
28

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1 funds in the 2006 Bond Reserve Fund are pledged to support repayment of the 2006 SEB Bonds.

2 The 2006 SEB Bonds are insured by NPMG.

3 As described in more detail below, the properties that are involved in this transaction are
 4 the Stewart/Eberhardt Building and the adjacent parking facility (the "**SEB Properties**"). In
 5 order to facilitate the financing to be provided by the 2006 SEB Bonds, the City, as owner of the
 6 SEB Properties, leased the properties to the Financing Authority pursuant to that certain Ground
 7 Lease dated as of March 1, 2006, for a term ending on August 1, 2031, with a possible extension
 8 of the term to the date upon which the 2006 SEB Bonds are paid in full, but in any event no later
 9 than August 1, 2041 (the "**SEB Lease Out**"). The City contemporaneously leased the SEB
 10 Properties back from the Financing Authority for the same number of years pursuant to the terms
 11 of Lease Agreement dated as of March 1, 2006 (the "**SEB Lease Back**"). Thus, the City is the
 12 lessor and the Financing Authority is the tenant under the SEB Lease Out transaction, and the
 13 Financing Authority is the lessor and the City is the tenant in the SEB Lease Back transaction.

14 As tenant under the SEB Lease Out, the Financing Authority paid rent for the entire lease
 15 term in the amount of \$1.00. As tenant under the SEB Lease Back, the City agreed to make semi-
 16 annual rental payments in varying amounts (\$907,494 for fiscal year 2012-13, \$906,194 for fiscal
 17 year 2013-14, \$909,194 for fiscal year 2014-15, etc.) (the "**SEB Lease Back Rental Payments**").
 18 The Financing Authority assigned to the 2006 SEB Bond Trustee its rights under the SEB Lease
 19 Back, including the rights to enforce the lease after default by the City, and including the stream
 20 of SEB Lease Back Rental Payments from the City, to support the repayment of the 2006 SEB
 21 Bonds. No other revenues or assets are pledged to support the repayment of the 2006 SEB
 22 Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2006 SEB
 23 Bonds are payable solely from the 2006 Bond Reserve Fund and the SEB Lease Back Rental
 24 Payments. The City is not in default under the SEB Lease Back, and to date all amounts due on
 25 the 2006 SEB Bonds have been paid in full and on time.

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1 (ii) *Leased Properties.*

2 The subject properties consist of the Stewart/Eberhardt Building (the “**Eberhardt**
3 **Building**”) located at 22 East Weber Avenue and the adjacent public parking facility located at
4 15 North El Dorado Street in downtown Stockton, both of which continue to be owned by the
5 City (subject to the SEB Lease Out to the Financing Authority and the SEB Lease Back from the
6 Financing Authority) (as described below, the “**SEB Properties**”).

7 (a) **Stewart/Eberhardt Building.**

8 The Eberhardt Building is a four-story, 99,792-square-foot, steel and precast concrete-clad
9 office building constructed in 2001. It was designed to meet the standard for, and is certified as,
10 an Essential Services Building, as defined in the Essential Services Buildings Seismic Safety Act
11 of 1986, commencing with section 16000 of the California Health and Safety Code. It currently
12 houses several city departments including Human Resources, Police Investigations, Public
13 Works, and the Police Crime Lab.

14 (b) **SEB Parking Facility.**

15 The SEB public parking facility is a 284,423-square-foot, eight-level, reinforced masonry
16 and cast-in-place concrete structure with approximately 780 parking spaces. Constructed in 2001,
17 it also includes approximately 7,000 square feet for Police Department property storage and a
18 “sally port” exclusively for police functions on the ground floor.

19 (iii) *Lease Assumption; NPMG Settlement as Applicable to the SEB*
20 *Properties.*

21 The City has determined that the SEB Properties constitute mission-critical facilities for
22 the continued operations of City departments housed in the SEB Properties, and that rejection of
23 the SEB Lease Back and the SEB Lease Out and the resulting need for the City to provide
24 alternative facilities for the City departments located at the SEB Properties, would result in
25 serious jeopardy to the uninterrupted provision of essential services to the citizens of the City, and
26 would cause the City to incur significant relocation expenses and alternative facility expenses. As
27 a result, the City has decided to assume the SEB Lease Back and the SEB Lease Out under
28 section 365(a).

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1 The City has reached an agreement with NPMG and the 2006 SEB Bond Trustee regarding
2 the SEB Lease Out and the SEB Lease Back. The terms are contained in the NPMG Settlement.
3 In general, with respect to the SEB Properties, the NPMG Settlement provides that the City will
4 assume the SEB Lease Back, and as a result, the City will continue to remain in possession,
5 custody and control of the SEB Properties.

6 No later than 60 days after the Effective Date or 60 days after entry of an order approving
7 the Assumption Motion, whichever is later, the City will make the payments to the 2006 SEB
8 Bond Trustee necessary to cure past defaults under the SEB Lease Back and the SEB Lease Out,
9 if any, as well as any actual pecuniary loss suffered by the 2006 Bond Trustee as a result of the
10 City's default of the SEB Lease Back and the SEB Lease Out, if any.

11 **f. 2007 Office Building Leases.**

12 **(i) *Financial Instruments Involved.***

13 The financial instruments involved in this transaction are the Stockton Public Financing
14 Authority Variable Rate Demand Lease Revenue Bonds, 2007 Series A (Building Acquisition
15 Financing Project), issued on November 29, 2007, in the aggregate principal amount of
16 \$36,500,000 (the "**2007 Series A Bonds**") and the Stockton Public Financing Authority Variable
17 Rate Demand Lease Revenue Bonds, 2007 Series B (Building Acquisition Financing Project),
18 issued on November 29, 2007, in the aggregate principal amount of \$4,270,000 (the "**2007**
19 **Series B Bonds**" and together with the 2007 Series A Bonds, the "**2007 Office Building**
20 **Bonds**"). Wells Fargo is the indenture trustee under the 2007 Office Building Bonds Indenture
21 (together with any successor trustee, the "**2007 Office Building Bond Trustee**"). A reserve fund
22 exists for the 2007 Office Building Bonds in an amount equal to the initial reserve requirement
23 funded by a surety policy for the reserve fund issued by Assured Guaranty, which such initial
24 reserve requirement equals \$2,973,431.75 (the "**2007 Office Building Bond Reserve Fund**").
25 The funds in the 2007 Office Building Bond Reserve Fund are pledged to support repayment of
26 the 2007 Office Building Bonds. The 2007 Office Building Bonds are insured by Assured
27 Guaranty.

28

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1 As described in more detail below, the property that is involved in this transaction is an
 2 office building that was purchased with the net proceeds of the 2007 Office Building Bonds and
 3 located at 400 E. Main Street in Stockton (the “**400 E. Main Office Building Property**”). In
 4 order to facilitate the financing to be provided by the 2007 Office Building Bonds, the City, as
 5 prospective owner of the 400 E. Main Office Building Property, leased the property to the
 6 Financing Authority pursuant to that certain Site and Facility Lease dated as of November 1,
 7 2007, for a term ending on September 1, 2048, with a possible extension of the term to the date
 8 upon which the 2007 Office Building Bonds are paid in full, but in any event no later than
 9 September 1, 2058 (the “**Office Building Lease Out**”). The City contemporaneously leased the
 10 400 E. Main Office Building Property back from the Financing Authority for the same number of
 11 years pursuant to the terms of the Lease Agreement dated as of November 1, 2007 (the “**Office**
 12 **Building Lease Back**”). Thus, the City is the lessor and the Financing Authority is the tenant
 13 under the Office Building Lease Out transaction, and the Financing Authority is the lessor and the
 14 City is the tenant in the Office Building Lease Back transaction.

15 As tenant under the Office Building Lease Out, the Financing Authority paid rent for the
 16 entire lease term in the amount of \$1.00. Pursuant to the Office Building Lease Back, the
 17 Financing Authority agreed to provide to the City the net proceeds of the 2007 Office Building
 18 Bonds (with gross proceeds equal to \$40,355,000), which the City then used to acquire the 400 E.
 19 Main Office Building Property. As tenant under the Office Building Lease Back, the City agreed
 20 to make annual rental payments in the amount of interest accruing on the 2007 Office Building
 21 Bonds plus principal amortization specified in the Office Building Lease Back (such principal
 22 amortization is scheduled as \$155,000 due on September 1, 2012, \$165,000 due on September 1,
 23 2013, and \$175,000 due on September 1, 2014) (the “**Office Building Lease Back Rental**
 24 **Payments**”). The Financing Authority assigned its rights under the Office Building Lease Back,
 25 including the rights to enforce the lease after default by the City, and including the stream of
 26 Office Building Lease Back Rental Payments from the City, to support the repayment of the 2007
 27 Office Building Bonds. No other revenues or assets are pledged to support the repayment of the
 28 2007 Office Building Bonds, the repayment obligation is non-recourse to the Financing

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1 Authority, and the 2007 Office Building Bonds are payable solely from the Office Building Lease
 2 Back Rental Payments. Even before filing its Chapter 9 Case, due to a lack of revenues generated
 3 by the 400 E. Main Office Building Property, and as a result of the deteriorating finances of the
 4 City, the City defaulted in the payment of the Office Building Lease Back Rental Payments. As
 5 a result, the 2007 Office Building Bond Trustee filed suit to enforce the Office Building Lease
 6 Back, with the result that the Superior Court of the State of California for the County of San
 7 Joaquin entered an order authorizing the 2007 Office Building Bond Trustee to take over the
 8 management of the 400 E. Main Office Building Property, which was accomplished by tasking
 9 the existing property management company to manage the property for the benefit of and at the
 10 direction of the 2007 Office Building Bond Trustee. *See Judgment of Possession, Wells Fargo*
 11 *Bank, National Association v. City of Stockton*, Superior Court of California, County of San
 12 Joaquin, case no. 39-2012-00280741-CU-UD-STK.

13 The 2007 Office Building Bonds were issued as variable rate demand bonds under the
 14 terms of which the interest rate was reset on a weekly basis. Holders of the 2007 Office Building
 15 Bonds had the right to tender their bonds for purchase by the 2007 Office Building Bonds
 16 Trustee, acting as tender agent, on any date. Tendered bonds were to be remarketed to other
 17 investors pursuant to a remarketing agreement between the Financing Authority and a registered
 18 broker dealer. In order to provide liquidity to holders of the 2007 Office Building Bonds in the
 19 event that the tendered bonds could not be so remarketed, the Financing Authority and the City
 20 entered into a Standby Bond Purchase Agreement, dated as of November 29, 2007 (the "**Office**
 21 **Building Standby Agreement**"), with Dexia. Under the Office Building Standby Agreement,
 22 Dexia agreed to purchase any 2007 Office Building Bonds that could not be remarketed. In the
 23 event of such a purchase, the bonds so purchased ("**Bank Bonds**") were subject to adjustments to
 24 their terms so long as they were held by Dexia. On February 28, 2012, the City Council voted to
 25 commence the AB 506 process, and on May 1, 2012 an event of default of occurred in the
 26 payment by the City of the amounts due under the Office Building Lease Back. As a result of the
 27 announcement of the commencement of the AB 506 process, the occurrence of the default, and
 28 the filing of the Chapter 9 Case, all of the 2007 Office Building Bonds were tendered for

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1 purchase and were unable to be remarketed (the final notice of tender for the 2007 Series A
2 Bonds is dated February 29, 2012, and the final tender date for the 2007 Series B Bonds is
3 September 14, 2012). Accordingly, Dexia purchased the 2007 Office Building Bonds and is now
4 the sole holder thereof. As Bank Bonds, the 2007 Office Building Bonds now bear interest at the
5 Default Rate under the Office Building Standby Agreement, which is equal to the Base Rate plus
6 3% (currently, 6.25%).⁹ In addition, the Bank Bonds are subject to mandatory early redemption
7 over a seven-year period.

8 (ii) *Leased Property.*

9 The 400 E. Main Office Building Property is located at 400 East Main Street, Stockton. It
10 consists of a Class A, eight-story, steel-framed office building totaling approximately 246,541
11 square feet. The office building is situated on a 2.07-acre site, which is a square block fronting on
12 East Main Street, Market Street, South California Street, and South Sutter Street. The building
13 has an “H”-shaped floor plate with office wings flanking a central lobby on the first floor. The
14 lower three floors step back successively to form terraces extending around the building at
15 Floors 2, 3, and 4, while the tower above Floor 4 has planar walls. The building’s exterior
16 consists of polished granite walls with tinted single-pane glass window and painted bronze
17 aluminum sections. It was constructed in 1988 and is supported by a foundation of cast-in-place
18 concrete pile in the form of a two-floor subterranean parking garage, which offers a parking ratio
19 of approximately 2.1 per 1,000 square feet, for a total of approximately 518 stalls. The
20 400 E. Main Office Building Property continues to be owned by the City (subject to the Office
21 Building Lease Out to the Financing Authority and the Office Building Lease Back from the
22 Financing Authority).

23 The City entered into the Office Building Lease Back in the expectation of making the
24 400 E. Main Office Building Property its new City Hall—replacing the outdated and crumbling

25 ⁹ As defined in the Office Building Standby Agreement, Default Rate “means a rate per annum equal to the Base
26 Rate plus an amount equal to three hundred basis points (3.00%).” Base Rate “means the higher of (a) the fluctuating
27 rate per annum equal to the ‘prime rate’ listed daily in the ‘Money Rate’ section of *The Wall Street Journal*, or if *The*
28 *Wall Street Journal* is not published on a particular Business Day, then, the ‘prime rate’ published in any other
national financial journal or newspaper selected by Dexia, and if more than one such rate is listed in the applicable
publication, the highest such rate shall be used or (b) the Fed Funds Rate plus fifty basis points (0.5%). Any change
in the Base Rate shall take effect on the date specified in the announcement of such change.”

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1 City Hall built over 100 years ago. While the 400 E. Main Office Building Property did not
2 become the new City Hall, the City did move certain of its operations there, including its
3 information technology, and invested approximately several million dollars in upgrades to
4 provide the necessary cabling and chillers for its main computer servers and related equipment.

5 Because of this investment, after the 2007 Office Building Bond Trustee took possession
6 of the 400 E. Main Office Building Property, the City and the 2007 Office Building Bond Trustee
7 entered into a short-term lease pursuant to which the City occupies the fourth floor of the building
8 (the "**Fourth Floor Lease of 400 E. Main**"). The treatment of the Fourth Floor Lease of 400 E.
9 Main is specified in the Assured Guaranty Settlement [to be finalized]. The City currently
10 occupies (and pays above market rent for) only the fourth floor of the 400 E. Main Office
11 Building Property. Including the City's occupancy, the 400 E. Main Office Building Property is
12 approximately 60% vacant as of September 2013, and barely breaks even on an operating basis
13 before debt service.

14 (iii) *Assured Guaranty Settlement as Applicable to the 400 E. Main*
15 *Office Building Property.*

16 The City has reached an agreement with the 2007 Office Building Bond Trustee, the
17 Pension Obligation Bonds Trustee, and Assured Guaranty regarding the treatment under the Plan
18 of the Claims arising out of the Office Building Lease Back Transaction (as well as the Pension
19 Obligation Bonds). The terms are contained in the Assured Guaranty Settlement. [major terms to
20 be inserted when finalized]

21 **g. 2009 Golf Course/Park Leases.**

22 (i) *Financial Instruments Involved.*

23 The financial instruments involved in this transaction are the Stockton Public Financing
24 Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects), issued on
25 September 9, 2009, in the aggregate principal amount of \$35,080,000 (the "**2009 Golf**
26 **Course/Park Bonds**"). Wells Fargo is the indenture trustee under the 2009 Golf Course/Park
27 Bonds Indenture (together with any successor trustee, the "**2009 Golf Course/Park Bond**
28 **Trustee**"). A reserve fund exists for the 2009 Golf Course/Park Bonds with a balance as of

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1 September 1, 2013, of \$904,380.81 (the “**2009 Golf Course/Park Bond Reserve Fund**”). The
 2 funds in the 2009 Golf Course/Park Bond Reserve Fund are pledged to support repayment of the
 3 2009 Golf Course/Park Bonds. The 2009 Golf Course/Park Bonds are not insured; however,
 4 Franklin is the sole holder of the bonds.

5 (ii) *Leased Properties.*

6 As described in more detail below, the properties that are involved in this transaction are
 7 Oak Park, the Van Buskirk Golf Course, and the Swenson Golf Course (as defined below, the
 8 “**Golf Course/Park Properties**”). In order to facilitate the financing to be provided by the 2009
 9 Golf Course/Park Bonds, the City, as owner of the Golf Course/Park Properties, leased the
 10 properties to the Financing Authority, pursuant to a site and facility lease dated as of
 11 September 1, 2009, for a term ending on September 1, 2038, with a possible extension of the term
 12 to the date upon which the 2009 Golf Course/Park Bonds are paid in full. Pursuant to section 510
 13 of the City Charter, the term of the lease cannot extend for more than 55 years or to August 31,
 14 2064 (the “**Golf Course/Park Lease Out**”). The City contemporaneously leased the properties
 15 back from the Financing Authority for the same number of years pursuant to the terms of the
 16 Lease Agreement dated as of September 1, 2009 (the “**Golf Course/Park Lease Back**”). Thus,
 17 the City is the lessor and the Financing Authority is the tenant under the Golf Course/Park Lease
 18 Out transaction, and the Financing Authority is the lessor and the City is the tenant in the Golf
 19 Course/Park Lease Back transaction.

20 As tenant under the Golf Course/Park Lease Out, the Financing Authority paid rent for the
 21 entire lease term in a lump sum payment in the amount of \$1.00. Pursuant to the terms of the
 22 Golf Course/Park Lease Back, the Financing Authority agreed to provide the net proceeds of the
 23 2009 Golf Course/Park Bonds (with gross proceeds equal to \$35,080,000) to the City for the
 24 purpose of financing various capital projects. As tenant under the Golf Course/Park Lease Back,
 25 the City agreed to make semi-annual rental payments in varying amounts (\$2,415,838 fiscal year
 26 2012-13, \$2,923,119 for fiscal year 2013-14, \$2,926,332 for fiscal year 2014-15, etc.) (the “**Golf**
 27 **Course/Park Lease Back Rental Payments**”). The Financing Authority assigned to the 2009
 28 Golf Course/Park Bond Trustee its rights under the Golf Course/Park Lease Back, including the

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1 rights to enforce the lease after default by the City, and including the stream of Golf Lease Back
2 Rental Payments from the City, to support the repayment of the 2009 Golf Course/Park Bonds.
3 No other revenues or assets are pledged to support the repayment of the 2009 Golf Course/Park
4 Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2009 Golf
5 Course/Park Bonds are payable solely from the Golf Lease Back Rental Payments. A default
6 occurred on March 1, 2012 in the payment by the City of amounts due under the Golf
7 Course/Park Lease Back.

8 The subject properties consist of three separate properties, each of which continues to be
9 owned by the City (subject to the Golf Course/Park Lease Out to the Financing Authority and the
10 Golf Course/Park Lease Back from the Financing Authority) (as described below, the “**Golf**
11 **Course/Park Properties**”).

12 (a) **Oak Park.**

13 This property is a public park of approximately 61.2 acres, bounded on the east by Union
14 Pacific railroad tracks, on the north by East Fulton Street, on the south by East Alpine Street, and
15 on the west by North Sutter and Alvarado Streets. This park features group picnic areas, 20 picnic
16 tables, two tot lots, 15 barbecue pits, and four restrooms. In addition, Oak Park features 11 tennis
17 courts; two regulation softball fields; the Billy Hebert Field; a 6,000 seat, regulation professional
18 minor league baseball field (renovated in 2002); a multi-use field; a community swimming pool
19 complex with changing facilities; and an approximately 13,875-square-foot ice-rink facility with
20 seating for 350. A one-story senior center of approximately 5,000 square feet, which is available
21 for rental to the public is also located at Oak Park.

22 (b) **Swenson Golf Course.**

23 This property was opened in 1952 and is located on approximately 219 acres at 6803
24 Alexandria Place. Swenson Golf Course features a classic championship 18-hole, par 72 course;
25 a nine-hole executive, par three course; a 15-station driving range; two putting greens and a
26 practice bunker; and paved cart paths. Also located on this property is a clubhouse, an
27 approximately 2,000-square-foot pro shop, an approximately 5,000-square-foot maintenance and
28 storage facility, and an approximately 2,500-square-foot café with seating.

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(c) Van Buskirk Golf Course.

This property was opened in 1962 and is located on approximately 214.0 acres at 1740 Houston Avenue. The Van Buskirk Golf Course features a classically designed par 72, 18-hole course, an all-grass driving range with 15 stations, two practice greens, and partially paved cart paths. Also located on this Property is a clubhouse, an approximately 2,000-square-foot pro shop, an approximately 5,000-square-foot maintenance and storage facility, and an approximately 2,500-square-foot cafe with seating. The Van Buskirk real property is subject to a senior reversionary interest, and if it were to be converted from a public recreational use it may revert to private parties.

All three properties are zoned for their current use, and it would be unlikely that the zoning could be changed for commercial development, even assuming that commercial development of any of the properties would be economically viable given Stockton’s current real estate market.

(iii) *Operating Revenue Shortfalls Experienced for the Golf Course/Park Properties.*

The Golf Course/Park Properties generate revenues, but these revenues have historically been short of the amounts necessary to cover operating expenses.

The table below lists revenues, expenses, and operating deficits for the two golf courses:¹⁰

¹⁰ Data from “Community Services Department, Golf – 481, 2013-14 Adopted Budget,” in *City of Stockton 2013-2014 Annual Budget* (2013) at H-23, available at http://www.stocktongov.com/files/2013-2014_Adopted_Budget.pdf.

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	FY 2010-11 Actual (\$)	FY 2011-12 Unaudited Actual (\$)	FY 2012-13 Projected (\$)
Revenues			
Swenson Golf Course	1,126,374	1,260,192	1,073,415
Van Buskirk Golf Course	532,091	597,066	495,366
Expenses			
Swenson Golf Course	1,195,093	1,390,097	1,289,120
Van Buskirk Golf Course	802,591	816,755	702,248
Operating Deficit			
Swenson Golf Course	(68,719)	(129,905)	(215,705)
Van Buskirk Golf Course	(270,500)	(219,689)	(206,882)

Operating deficits for Oak Park are difficult to calculate with precision because revenues for certain facilities, such as the pool, the softball fields, and the senior center, are pooled with revenues from related City facilities. For the past three years, however, these operating deficits are estimated to be approximately \$400,000 per year.

As a result, each of the properties generates no revenues at all to service the debt obligations of the 2009 Golf Course/Park Bonds. Instead, the City has historically utilized certain non-pledged revenues and made expenditures from the General Fund to cover the operating shortfalls of the Golf Course/Park Properties and to pay debt service on the 2009 Golf Course/Park Bonds.

(iv) Lease Rejection by City.

The City has determined that it cannot afford to pay the debt service on the 2009 Golf Course/Park Bonds from General Fund revenues or from other unpledged revenues. As a result, the City has decided to reject the Golf Course/Park Lease Out and the Golf Course/Park Lease Back under section 365(a).

The practical consequences of such lease rejection are difficult to predict. As a result of the rejection by the City of the Golf Course/Park Lease Out, the 2009 Golf Course/Park Bond Trustee, as the tenant pursuant to the assignment from the Financing Authority of all of its rights under the Golf Course/Park Lease Out, may have the option under section 365(h) to remain in possession of the Golf Course/Park Properties for the balance of the term of the Golf Course/Park Lease Out so long as the rent is paid and other amounts to be paid by it under the Golf Course/Park Lease Out are paid (and the City reserves its rights to contest or place limitations

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1 upon such election), or to treat the rejection of the Golf Course/Park Lease Out as a termination
 2 of the same and thereby allow possession and control of the Golf Course/Park Properties to
 3 remain with the City. Should the 2009 Golf Course/Park Bond Trustee succeed in remaining in
 4 possession and control of the Golf Course/Park Properties, the City would be relieved of the
 5 obligation under the Golf Course/Park Lease Back to pay for expenses associated with the Golf
 6 Course/Park Properties, including utilities, insurance, and maintenance expenses, all of which
 7 would instead be borne by the 2009 Golf Course/Park Bond Trustee. The rent under the Golf
 8 Course/Park Lease Out was paid in a lump sum from the proceeds of the 2009 Golf Course/Park
 9 Bonds. The City would, however, continue to ensure that the Golf Course/Park Properties are run
 10 in a professional manner.

11 The actual decision will likely be made by Franklin, as the current holder of the 2009 Golf
 12 Course/Park Bonds, or its successor(s) should Franklin transfer ownership of the bonds. Franklin
 13 would have at least these options: (1) treat the rejection as a breach of the lease, make a claim for
 14 damages for breach of lease and allow possession and control of the Golf Course/Park Properties
 15 to remain with the City (and the City would then need to make the decision of whether to
 16 continue to operate the Golf Course/Park Properties and underwrite the operating losses or close
 17 the Golf Course/Park Properties and pay for the closure, maintenance and other holding costs);
 18 (2) attempt to exercise the option under section 365(h) to remain in possession and either operate
 19 the Golf Course/Park Properties (and underwrite the operating deficits, likely in the hope that
 20 such operating deficits can be converted into operating profits), or hold the Golf Course/Park
 21 Properties without operating them (and underwrite the closure, maintenance and other holding
 22 costs) in order to sell the rights to the remaining term of the Golf Course/Park Lease Out to a third
 23 party. Although theoretically possible, the City believes it is unlikely that Franklin would decide
 24 to remain in possession of the Golf Course/Park Properties for the balance of the term of the Golf
 25 Course/Park Lease Out and shut the properties down, which would obligate Franklin to pay all of
 26 the holding costs of the Golf Course/Park Properties without realizing any revenue at all from the
 27 operation of the properties.

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1 The City is party to executory contracts with vendors, managers and operators of services
2 and facilities located at the Golf Course/Park Properties (e.g., the Golf Courses are operated by a
3 management company, as is the ice rink, etc.). Should the City not be in a position to continue to
4 operate the Golf Course/Park Properties (because Franklin is successful in causing the 2009 Golf
5 Course/Park Bond Trustee to remain in possession), the City will likely reject the executory
6 contracts related to the properties. However, if the City remains in possession and control of the
7 properties, the City will likely re-negotiate such contracts or may assume such executory
8 contracts.

9 At this time the City does not know whether the 2009 Golf Course/Park Bond
10 Trustee/Franklin would decide to attempt to remain in possession (which the City may contest or
11 attempt to impose conditions upon). When the City is in a position to make such decisions, the
12 City will decide to reject, assume or renegotiate executory contracts with such vendors and other
13 parties.

14 Should the 2009 Golf Course/Park Bond Trustee/Franklin be successful in remaining in
15 possession of the Golf Course/Park Properties, at the end of the term of the Golf Course/Park
16 Lease Out, possession, custody and control of the Golf Course/Park Properties will revert to the
17 City as the owner of the Golf Course/Park Properties.

18 **9. Pension Obligation Bonds.**

19 The Pension Obligation Bonds are the City of Stockton 2007 Taxable Pension Obligation
20 Bonds issued on April 5, 2007 in the aggregate principal amount of \$125,310,000 pursuant in part
21 to an Indenture of Trust, dated as of April 1, 2007, by and between the City and the Pension
22 Obligation Bonds Trustee, to refinance the obligation of the City to make payments to CalPERS
23 for retirement benefits accruing to the City's employees and retirees. The Pension Obligation
24 Bonds are insured by Assured Guaranty. The unpaid principal balance of the Pension Obligation
25 Bonds is approximately \$124,280,000.

26 The City has reached an agreement with the 2007 Office Building Bond Trustee, the
27 Pension Obligation Bonds Trustee, and Assured Guaranty regarding the treatment under the Plan
28 of the Claims arising out of the Pension Obligation Bonds (as well as the Office Building Lease

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1 Back Transaction). The terms are contained in the Assured Guaranty Settlement. In general,
2 with respect to the Pension Obligation Bonds, this agreement provides as follows: [major terms
3 to be inserted when finalized].

4 **10. Statement Regarding Liabilities.**

5 While the City's review and analysis of Claims is ongoing, the City disputes a number of
6 the Claims that have been asserted against it. Given the inherent uncertainty of litigation, no
7 assurance can be given regarding the successful outcome of any litigation that may be initiated in
8 objection to Claims or regarding the ultimate amount of unsecured Claims that will be allowed
9 against the City.

10 As described below, the Plan enables the City to file objections to Claims at any time
11 within 180 days after the Effective Date. The Plan also provides for the City to retain any and all
12 defenses, offset and recoupment rights, and counterclaims that may exist with respect to any
13 disputed Claim, whether under the Bankruptcy Code or otherwise. The City reserves all rights
14 with respect to the allowance and disallowance of any and all Claims. **In voting on the Plan,**
15 **creditors may not rely on the absence of a reference in this Disclosure Statement or the Plan**
16 **or the absence of an objection to their proof(s) of claim as any indication that the City**
17 **ultimately will not object to the amount, priority, security, or allowance of their Claims.**

18 **B. Assets.**

19 **1. Capital Assets; Valuation and Sale Thereof.**

20 The City owns numerous and varied capital assets, including buildings, roads,
21 infrastructure and utility improvements, parks, undeveloped real property and service vehicles
22 (such as fire trucks, police cars and street equipment). Virtually all of these municipal assets are
23 used daily in the performance of public functions and cannot be easily liquidated, particularly in
24 current market conditions. They are valued in the City's books and records at depreciated
25 historical cost, which does not represent the cash value that could be recognized by the City in a
26 voluntary sale. California law does not permit the levy on or sale of a city's assets in order to
27 satisfy a court judgment. CAL. GOV'T CODE § 900 *et seq.* Thus, the City has not sought a
28 valuation of or attempted to sell its necessary capital assets. It has valued its structures for

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1 insurance purposes. Such values, however, do not and cannot reflect the value to the City and its
2 residents of, for example, fire and police stations or libraries.

3 On May 21, 2013, the City Council authorized the City Manager to approve the sale
4 within predetermined guidelines of certain surplus real properties owned by the City. The surplus
5 properties approved for sale do not relate to core City functions, and include older residential
6 properties, vacant commercial buildings, vacant parcel remnants with potential reuse value, and
7 grazing pasture. The guidelines authorized by the City Council permit the City Manager to
8 approve the sale of a surplus property without formal bidding procedures so long as the sale price
9 is 85% of the property's appraised value or greater. Individual sales of \$500,000 or more must
10 also be approved by the City Council. The City Manager's authority to approve sales of these
11 surplus properties under the guidelines approved by the City Council ends on May 21, 2015
12 unless otherwise extended by the City Council.

13 The City's property broker, CBRE, Inc., has provided broker's opinions of value for the
14 surplus properties approved for sale. The aggregated broker's opinions of value total from \$2.3
15 million to \$3 million. The City has sold one of these surplus properties for \$65,000. Five of the
16 surplus properties, valued collectively at \$973,500, were transferred as part of the City's
17 settlement with Marina Towers, LLC, pursuant to which Marina Towers, LLC agreed to
18 withdraw its proof of claim for \$1,875,000. The settlement with Marina Towers, LLC puts these
19 five properties back on the tax roll in the hands of a capable developer. In addition, it resolves a
20 legal issue of first impression regarding the interplay between eminent domain and bankruptcy
21 law.

22 **2. Claims and Causes of Action Against Third Parties.**

23 Parties in interest may not rely on the absence of a reference in this Disclosure Statement
24 or in the Plan as any indication that the City ultimately will not pursue any and all available
25 claims, rights and causes of action against them. **All parties who previously dealt with the City**
26 **are hereby on notice** that the Plan preserves the City's rights, claims, causes of action, interests
27 and defenses. The City expects that any and all meritorious claims will be pursued and litigated
28 after the Effective Date to the extent they remain vested in the City.

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1 **C. Financial Projections Regarding City Finances.**

2 Under the auspices of Judge Perris, the City has engaged in lengthy negotiations with
3 representatives of Franklin and the Indenture Trustee in attempts to gain support for a consensual
4 plan of adjustment, which to date, has not been forthcoming. Although the City cannot discuss in
5 any detail the content of privileged settlement negotiations, it is clear to the City that reaching
6 agreement with such parties on a consensual plan of adjustment will greatly increase the
7 payments that must be made out of the General Fund in the coming years, and should the City
8 achieve its goal of reaching agreement on a consensual plan of adjustment with such creditors, the
9 passage of Measure A would become even more important than under this Plan.

10 There can be no assurances that the finances of the City in future years will be consistent
11 with any of the financial projections submitted herewith and creditors should review such
12 financial statements with this caveat in mind (see the discussion of risk factors associated with the
13 Plan in Section VII below).

14 **D. Impact of Measure A upon Future City Finances and Ability of City to**
15 **Confirm the Plan.**

16 The City believes that passage on November 5, 2013 of Measure A will produce
17 approximately \$30 million per year in new revenue from a 3/4 of one percent increase in sales
18 taxes (from 8.25% to 9%), and that such revenue is critical to the viability of the Plan.
19 Measure A may be difficult for some Stocktonians to accept, but it is not unusual in California's
20 current financial environment. According to California State Board of Equalization's website,
21 www.boe.ca.gov:

- 22 • 18 California cities have higher sales tax rates than Stockton's proposed 9%.
- 23 • 125 California cities are already at 9%.

24 The Plan Financial Projections assume that Measure A will pass. The City expects that
25 approximately 65% of the revenue generated by Measure A will be used over time to enhance
26 depleted police services under the Marshall Plan, and the remainder will be used to fund the
27 City's ongoing expenses, including the cost of implementing the Plan. Conversely, as discussed
28 in the "Risk Factors" below and in the graphs included with the Plan Financial Projections, the

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1 failure of Measure A would mean that the City would continue to incur a substantial structural
2 operating deficit even if the additional hires of police and other safety officers contemplated by
3 the Marshall Plan do not take place. Moreover, the City would be incapable of fulfilling its
4 obligations under the Plan, and the City would be required to make significant additional cuts to
5 existing City services, including cuts to the fire department. The City cannot predict whether it
6 would be able to continue to function under such a scenario and does not have detailed plans in
7 place at this point to deal with such across the board additional staffing and service reductions.

8 Assuming the cram-down level of savings envisioned by adoption of this Plan, without the
9 tax and without the Marshall Plan expenditures, the City would have to reduce annual projected
10 General Fund expenditures by \$8 million on an ongoing basis effective with fiscal year 2014-15
11 in order for a minimal level of balance averaging 2.9% to be maintained through fiscal year 2020-
12 21. If negotiated agreements produced a lesser amount of savings, the required ongoing General
13 Fund expenditure reduction could increase to \$11 million.¹¹

14 In addition, at the time of preparation of this Disclosure Statement, the City is still
15 involved in intense negotiations with Franklin and the Indenture Trustee and is hopeful that those
16 negotiations will culminate in agreements with such creditors on the terms of a consensual plan of
17 adjustment that would retain City control of the affected properties. However, no such plan will
18 be financially feasible unless additional funds flow to the General Fund through Measure A.

19 In short, the City believes that Measure A is necessary to address the depleted ranks of
20 Stockton's police, fire and other safety officers, and is necessary to confirm the Plan or any other
21 plan of adjustment that incorporates agreements hoped to be reached with all or some of the
22 capital markets creditors that preserve or return City real estate assets.

23 **V. SUMMARY OF THE PLAN OF ADJUSTMENT**

24 The discussion of the Plan set forth below is qualified in its entirety by reference to the
25 more detailed provisions set forth in the Plan and its exhibits, the terms of which are controlling.
26 Holders of claims and other interested parties are urged to read the Plan and its exhibits, copies of

27 _____
28 ¹¹ See "Alternative Scenarios" on pp. B-17 and B-18 of Exhibit B ("Long Range Financial Plan of City of Stockton")
to this Disclosure Statement.

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1 which are attached to this Disclosure Statement as Exhibit A, in their entirety so that they may
2 make an informed judgment regarding the Plan.

3 The Plan involves claims of approximately \$299,505,000 of publicly held securities,
4 certain of which evidence and represent undivided fractional interests in General Fund leases of
5 many of the City's capital assets. Some of these assets are important or even essential to
6 municipal operations. The Plan also addresses and resolves the City's obligations to current and
7 former employees and various other claims. While the Plan permits the City to continue to
8 maintain minimally acceptable levels of vital municipal services for its residents and businesses,
9 and while it devotes substantial resources to the repayment of the City's creditors, it nevertheless
10 further defers infrastructure maintenance as well as the optimal staffing of City service units such
11 as police and fire.

12 Importantly, while the Plan significantly impairs the interests of former employees and
13 retirees with respect to health benefits, it does not impair the City's obligations to CalPERS in its
14 capacity as trustee for the City's pension trust for the City's retired workers and their dependents
15 who are the beneficiaries of this trust as well as current employees and their dependents (the City
16 has one contract with CalPERS, but there are three contract groups: police, fire, and
17 miscellaneous). In other words, current and future pension CalPERS payments to such persons
18 will not be altered by the Plan. However, outside of the Plan, retirement benefits for current and
19 future employees have been impacted by negotiated changes in the City's labor agreements.
20 Retiree health benefits worth approximately \$1 billion for current employees have been
21 eliminated as a result of negotiated agreements. This loss of retiree health benefits constitutes an
22 approximate reduction in pension benefits, which along with certain compensation changes for
23 these employees, amounts to a 30-50% reduction from what they otherwise would have received.
24 Additionally, pension benefits for new employees hired after January 1, 2013 have been reduced
25 by approximately 50-70% (including lost retiree health benefits) for all employees and in some
26 cases higher for certain types of employees as a result of changes in state law and changes in
27 labor agreements that the City has negotiated. New hires are also required to pay a greater share
28 of their future pension benefits. Additionally, because of compensation reductions of up to 30%

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1 in pensionable income negotiated in 2011 and 2012, the future pensions of employees will be
2 lower than they otherwise would have been, though no further reduction is imposed by the Plan.

3 Payment to holders of General Unsecured Claims—which holders include, but are not
4 limited to, institutions that are exposed to bondholders for any shortfall in the payment by the
5 City of six bond issuances, the Retiree Health Benefit Claimants, the holders of Leave Buyout
6 Claims, and the holders of Pension Obligation Bond Claims—shall receive cash payment on the
7 Effective Date in an amount equal to a set percentage of the Allowed amount of such Claims. The
8 percentage of the Allowed amount paid on such claims will be the Unsecured Claim Payout
9 Percentage or such other amount as is determined by the Bankruptcy Court before confirmation
10 of the Plan to constitute a pro-rata payment on such other General Unsecured Claims. While the
11 City regrets that it cannot pay a higher dividend to holders of General Unsecured Claims, the fact
12 is that the City lacks the revenues to do so if it is to maintain an adequate level of municipal
13 services such as the provision of fire and police protection, the maintenance and repair of the
14 City's streets and other public facilities, and the continued availability of important municipal
15 services such as library, recreation, and parks.

16 The Plan does not alter the obligations of those City funds that are restricted by grants, by
17 federal law, or by California law; pursuant to the Tenth Amendment to the United States
18 Constitution and the provisions of the Bankruptcy Code that implement the Tenth Amendment,
19 such funds cannot be impacted in the Chapter 9 Case. Thus, securities payable solely from
20 restricted funds are not altered by the Plan.

21 **A. Classification and Treatment of Claims.**

22 **1. Unclassified Claims.**

23 Section II of the Plan governs the treatment of certain claims that are not classified into
24 Classes under the Plan.

25 **a. Administrative Claims.**

26 Administrative Claims, as defined in the Plan, are dealt with in Section II(A) of the Plan.
27 Throughout the course of the Chapter 9 Case, the City has endeavored to satisfy postpetition
28 expenses as they became due. Accordingly, the City believes that most claims that otherwise

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1 would constitute Allowed Administrative Claims previously have been or will be satisfied in the
2 ordinary course of business prior to and after the Effective Date.

3 (i) *Treatment of All Other Administrative Claims Other Than*
4 *Professional Claims.*

5 The Plan provides that, except as provided in Section II(B) of the Plan, with respect to
6 Professional Claims, or to the extent that the holder of an Allowed Administrative Claim agrees
7 to a different treatment, the City or its agent will pay to each holder of an Allowed Administrative
8 Claim, in full satisfaction, release, and discharge of such claim, cash in an amount equal to such
9 Allowed Administrative Claim on the later of (i) the Effective Date or (ii) the date on which such
10 Claim becomes an Allowed Administrative Claim, or as soon thereafter as is practicable.

11 Professional Claims are claims of professionals for services and costs during the Chapter 9
12 Case or incident to the Plan to be paid by the City. Section II(B) of the Plan provides that
13 pursuant to section 943(a)(3), all amounts paid following the Effective Date or to be paid
14 following the Effective Date for services or expenses in the Chapter 9 Case or incident to the Plan
15 must be disclosed to the Bankruptcy Court and must be reasonable. There shall be paid to each
16 holder of a Professional Claim, in full satisfaction, release, and discharge of such Claim, Cash in
17 an amount equal to that portion of such Claim that the Bankruptcy Court approves as reasonable,
18 on or as soon as reasonably practicable following the date on which the Bankruptcy Court enters
19 a Final Order determining such reasonableness. The City, in the ordinary course of its business,
20 and without the requirement for Bankruptcy Court approval, may pay for professional services
21 rendered and costs incurred following the Effective Date.

22 During the course of the Chapter 9 Case, the City has, in the ordinary course of business,
23 paid the fees (and reimbursed the costs) of its various counsel (including bankruptcy counsel,
24 labor counsel, litigation counsel, and elections counsel). The City has also paid the fees of
25 management and financial professionals, as well as the fees of counsel for the Retirees
26 Committee, on a regular basis during the Chapter 9 Case.

27 The fees described in the preceding paragraph **are not** Professional Fees because they
28 have been paid prior to the Effective Date. Nor are such fees subject to Bankruptcy Court review

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1 or approval, as sections 326 *et seq.* do not apply in chapter 9 cases. As of the date of this
2 Disclosure Statement, the City is not aware of any Claims for Professional Fees.

3 **b. Bar Date for Assertion of Requests for Payment of**
4 **Administrative Claims (Other Than Ordinary Course Administrative Claims) and**
5 **Professional Claims.**

6 Section II(D) of the Plan provides that all requests for approval of Administrative Expense
7 and Professional Claims must be filed with the Bankruptcy Court and served upon the City no
8 later than 30 days after the date on which the Notice of Effective Date is mailed pursuant to the
9 Plan.

10 *Any request for payment of an Administrative Claim, and any request for a finding that*
11 *a Professional Claim is reasonable, that is not timely filed by that deadline will be forever*
12 *barred, and holders of such claims will be barred from asserting such claims in any manner*
13 *against the City.*

14 **2. Classified Claims**

15 **a. Class 1A – Claims of Ambac – 2003 Fire/Police/Library**
16 **Certificates.**

17 Ambac's Claims shall receive the treatment set forth in the Ambac Settlement Agreement,
18 which is attached as Exhibit A to the Declaration of Robert Deis in Support of the City of
19 Stockton's Motion under Bankruptcy Rule 9019 for Approval of Its Settlement with Ambac
20 Assurance Corporation, filed in the Chapter 9 Case on February 26, 2013 [Dkt. No. 725].

21 **b. Class 1B – Claims of Holders of 2003 Fire/Police/Library**
22 **Certificates.**

23 The treatment of the Class 1B claimants, the 2003 Fire/Police/Library Certificates holders,
24 is identical to the treatment of Ambac, the Class 1A claimant.

25 **c. Class 2 – SEB Claims of the 2006 SEB Bond Trustee/NPFG –**
26 **2006 SEB Bonds.**

27 The City will assume the SEB Lease Back and the SEB Lease Out under section 365(a)
28 pursuant to the Assumption Motion and the NPFG Settlement. No later than 60 days after the
Effective Date or 60 days after approval of the Lease Assumption Motion, whichever is later, the
City will make the payments to the 2006 SEB Bond Trustee necessary to cure past defaults under

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1 the SEB Lease Back and the SEB Lease Out, if any, as well as any actual pecuniary loss suffered
 2 by the 2006 SEB Bond Trustee as a result of the City's default of the SEB Lease Back and the
 3 SEB Lease Out, if any, but, pursuant to the terms of the NPFPG Settlement, not any attorneys' fees
 4 or other professional expenses incurred by the 2006 SEB Bond Trustee. Further, the finding by
 5 the Bankruptcy Court that the Plan is feasible shall constitute adequate assurance of future
 6 performance of the SEB Lease Back and the SEB Lease Out.

7 **d. Class 3 – Arena Claims of the 2004 Arena Bond Trustee/NPFPG**
 8 **– 2004 Arena Bonds.**

9 The treatment of the Class 3 Claims will be as set forth in the NPFPG Settlement.

10 **e. Class 4 – Parking Structure Claims of the 2004 Parking Bond**
Trustee/NPFPG – 2004 Parking Bonds.

11 The treatment of the Class 4 Claims will be as set forth in the NPFPG Settlement.

12 **f. Class 5 – Office Building Claims of the 2007 Office Building**
 13 **Bond Trustee/Assured Guaranty**

14 The treatment of the Class 5 Claims will be as set forth in the Assured Guaranty
 15 Settlement.

16 **g. Class 6 – Pension Obligation Bonds Claims of Assured**
Guaranty

17 The treatment of the Class 6 Claims will be as set forth in the Assured Guaranty
 18 Settlement.

19 **h. Class 7 – Claims of DBW.**

20 The General Fund will not be required to pay debt service on this obligation, or to
 21 reimburse operating expenses to DBW should DBW take over operations of the Marina Project.
 22 DBW will retain its pledge of rents and leases generated from the Marina Project. However, the
 23 pledge of gross revenues will be converted to a pledge of revenues net of all reasonable and direct
 24 operating expense of the Marina Project, calculated on a fiscal year basis ending June 30 of each
 25 year. Should DBW decide to take over operations of the Marina Project, DBW will be
 26 responsible for payment of all operating expenses of the Marina Project and the City will have the
 27 right to ensure that the Marina Project is operated in a responsible and safe manner, including
 28 providing adequate security, and the City shall have the right to compel DBW to alter its manner

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1 of operations if such operations pose a threat to the public welfare or if such operations abet a
2 public nuisance. The General Fund shall have no liability, directly or indirectly, for the Claims of
3 DBW, and the City may decide at any time to cease subsidizing the operating deficits of the
4 operation of the Marina Project. DBW has stated to the City an interest in exercising its remedy
5 of taking possession of the Marina Project.

6 **i. Class 8 – SCC 16 Secured Claims.**

7 The treatment of the Class 8 Claims will be as set forth in the SCC 16 Settlement.

8 **j. Class 9 – Thunder Claims.**

9 The treatment of the Class 9 Claims will be as set forth in the Thunder Settlement.

10 **k. Class 10 – Claims of Holders of Restricted Revenue Bond and**
11 **Note Payable Obligations.**

12 The City's Restricted Revenue Bond and Notes Payable Obligations are secured by a
13 pledge of and lien on revenues of various of the City's systems and enterprises, which are
14 restricted revenues pursuant to the California Constitution, and are "special revenues" as defined
15 in section 902(2). These revenues are not a part of or available to the General Fund, and the
16 General Fund is not obligated to make any payment on the Restricted Revenue Bond and Notes
17 Payable Obligations. The City may transfer amounts from the restricted revenues to the General
18 Fund only to pay costs which are incurred by the General Fund to provide the facility or
19 enterprise-related services and are allocated to the enterprises on a reasonable basis in accordance
20 with the City's accounting and allocation policies. Such transfers are treated by the facility or
21 enterprise as operation and maintenance expenses. The City will continue to apply restricted
22 revenues to pay the Restricted Revenue Bond and Notes Payable Obligations as required by the
23 terms of such obligations.

24 **l. Class 11 – Claims of Holders of Special Assessment and Special**
25 **Tax Obligations.**

26 The City's Special Assessment and Special Tax Obligations are secured by certain special
27 assessments and special taxes levied on specific real property within the respective districts for
28 which these obligations were issued. These special assessment and special tax revenues are
legally restricted to the payment of debt service on the Special Assessment and Special Tax

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1 Obligations under California statutes and the California Constitution, are “special revenues” as
 2 defined in section 902(2), and cannot be used for any other purpose or be transferred to the
 3 General Fund. The General Fund is not obligated to pay debt service on the Special Assessment
 4 and Special Tax Obligations. The City will continue to apply revenues from the applicable
 5 special assessments and special taxes to pay the Special Assessment and Special Tax Obligations
 6 as required by the terms of such obligations.

7 **m. Class 12 – General Unsecured Claims.**

8 The major claims in this Class include without limitation: (1) the Retiree Health Benefit
 9 Claims; (2) the Claims of Dexia under the Office Building Standby Agreement; (3) the Golf
 10 Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (4) the Leave Buyout
 11 Claims; (5) the Price Claims; and (6) Other Postpetition Claims.

12 The Retiree Health Benefit Claims are held by approximately 1,100 of the City’s former
 13 employees plus their dependents. The Retirees Committee maintains that the aggregate amount
 14 of the Retiree Health Benefit Claims is approximately \$538,000,000.¹² Pursuant to the Retirees
 15 Settlement, on the Effective Date, the City will pay the Retirees an aggregate amount of
 16 \$5,100,000 in full satisfaction of Allowed Retiree Health Benefit Claims, and no other retiree
 17 health benefits will be provided by the City. If required by state or federal law, the City will
 18 withhold from the aggregate \$5,100,000 payment any taxes or other deductions to be withheld
 19 from the individual payment to each Retiree Health Benefit Claimant. The individual recipient is
 20 responsible for any tax liability for this payment, and the City will not provide any advice to any
 21 recipient as to the taxable impact of this payment.

22 All other General Unsecured Claims shall receive cash payment on the Effective Date in
 23 the amount equal to a percentage of the Allowed Amount of such Claims, which such percentage
 24 equals the Unsecured Claim Payout Percentage, or such other amount as is determined by the
 25 Bankruptcy Court before confirmation of this Plan to constitute a pro-rata payment on such other
 26 General Unsecured Claims; *provided, however*, that the dollar amount to be paid shall not exceed

27 ¹² This does not include the retiree health benefit claims of employees employed as of July 1, 2012, who waived their
 28 claims of approximately \$1 billion of previously earned benefits for no additional compensation, as part of
 memoranda of understanding negotiated in 2012.

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1 in the aggregate \$[_____]; and *provided further*, if such amount is in excess of \$[_____],
 2 the City retains the right to and intends to modify this Plan to provide alternative treatment to
 3 such General Unsecured Claims, which alternative treatment may involve payment over a number
 4 of years on account of such General Unsecured Claims.

5 **n. Class 13 – Convenience Class Claims.**

6 Holders of Convenience Class Claims will receive cash on the Effective Date in the
 7 amount of their Allowed Convenience Class Claim, but not to exceed \$100.

8 **o. Class 14 – Claims of Certain Tort Claimants.**

9 The SIR Claim Portion of each Allowed General Liability Claim will be paid on the
 10 Effective Date from the Risk Management Internal Service Fund, and will receive the same
 11 percentage payment on the dollar of Allowed Claim as will the holders of Allowed Class 12
 12 Claims. The Insured Portion of each Allowed General Liability Claim is not Impaired, and shall
 13 be paid by the applicable excess risk-sharing pool.

14 **p. Class 15 – Claims of CalPERS with Respect to the CalPERS**
 15 **Pension Plan, as Trustee under the CalPERS Pension Plan for the Benefit of CalPERS**
 16 **Pension Plan Participants.**

17 The City will continue to honor its obligations to fund employee retirement benefits under
 18 the CalPERS Pension Plan, and CalPERS as trustee and the CalPERS Pension Plan Participants
 19 retain all of their rights and remedies under applicable nonbankruptcy law. Thus, CalPERS and
 20 the CalPERS Pension Plan Participants will be entitled to the same rights and benefits to which
 21 they are currently entitled under the CalPERS Pension Plan.¹³ CalPERS, pursuant to the
 22 CalPERS Pension Plan, will continue to be made available to provide pension benefits for
 23 participants in the manner indicated under the provisions of the CalPERS Pension Plan and
 24 remedies under applicable nonbankruptcy law.

25 ¹³ As a result of negotiated labor contracts that changed certain pension provisions, as well as changes in state law,
 26 pension benefits for new hires effective January 2013 have been reduced by 50-70% (including loss of retiree health
 27 benefits) and in some cases higher for some types of new hires; new hires are also required to pay a greater share of
 28 their future pensions; additionally, while the loss of retiree health benefits and the loss of “pension spiking” will
 reduce the postemployment retirement benefits of current employees 30-50%; and lastly, employee compensation
 reductions that occurred in 2011 and 2012, which ranged up to 30% in pensionable compensation in some cases, will
 further reduce their future pension benefit that they otherwise would have received; these concessions are unaffected
 by the Plan.

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1 leaves employment with the City. Only those employees who were employed
2 during some portion of the period July 1, 2010 and July 1, 2012 and who were
3 still current employees upon the effective date of this Agreement shall be entitled
4 to this treatment.

4 (b) The Allowed Claims shall be satisfied under the Plan by the City by
5 crediting SPOA members employed during fiscal year 2010-2011 and/or 2011-
6 2012 eleven (11) additional paid leave hours in the fiscal year of approval of the
7 Plan and eleven (11) additional paid leave hours in the fiscal year after approval
8 of the Plan. This benefit shall only apply to those employees who were employed
9 during some portion of the period July 1, 2010 and July 1, 2012 and who are
10 current employees as of the date the Plan is approved by the Bankruptcy Court.
11 The total additional paid leave per SPOA member under paragraphs 2(a) and 2(b)
12 of this article shall equal forty-four (44) hours. These additional paid leave hours
13 shall have no cash value, and shall be utilized any time prior to the date upon
14 which the SPOA member leaves employment with the City. It is understood that
15 the provision of these hours shall be the sole compensation for the Claims of
16 SPOA and its members. The additional twenty-two (22) hours additional paid
17 leave credit contained in this paragraph 2(b) shall be contingent upon
18 confirmation of the Plan and on the Plan becoming effective.

13 (c) Notwithstanding the foregoing, in the event that the Plan is not
14 confirmed and does not become effective, the Claims shall not be allowed as
15 specified herein, and both SPOA and the City agree that the Claims will be
16 considered unresolved, with each Party reserving the right to assert or contest the
17 Claims; provided, however, that the monetary equivalent of any paid leave hours
18 taken pursuant to this Article shall serve as a credit against the Claims.

17 SPOA MOU at 55-56.

18 **B. Treatment of Executory Contracts and Unexpired Leases.**

19 **1. Generally.**

20 The Bankruptcy Code empowers debtors, subject to the approval of the Bankruptcy Court,
21 to assume or reject their executory contracts and unexpired leases. An “executory contract”
22 generally means a contract under which material performance other than the payment of money is
23 due by the parties. An “unexpired lease” is a lease the term of which has not matured as of the
24 date of the filing of the Chapter 9 Case.

25 A debtor’s assumption of an executory contract or unexpired lease means that it will and
26 must continue to honor its obligations under such agreement. In other words, as to such
27 agreement, it is business as usual. **As described in the next section, the City will assume**
28 **almost all of its executory contracts and unexpired leases except for a number of financing**

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1 **leases, which it will reject.** Rejection of an executory contract or unexpired lease constitutes a
2 prepetition breach of such agreement, excusing the debtor's future performance but creating a
3 claim for the breach.

4 **2. Assumption.**

5 The City is a party to hundreds of executory contracts and unexpired leases. Significant
6 agreements include: (1) its collective bargaining agreements with its nine unions, most of which
7 were reached before or not long after the Petition Date; (2) numerous equipment and vehicle
8 leases; (3) agreements with contractors and other vendors to the City; (4) the City's obligations to
9 CalPERS in its capacity as trustee for the City's pension trust for the City's retired workers and
10 their dependents who are the beneficiaries of this trust (the City has one contract with CalPERS,
11 but there are three contract groups: police, fire, and miscellaneous); and (5) the financing leases.
12 Save for the financing leases, which are discussed separately below, the City has elected to
13 assume virtually all of its executory contracts and unexpired leases, and will do so pursuant to the
14 Assumption Motion. The City will not seek to assign any of the agreements that it assumes and
15 has no current intention to assign such agreements in the future.

16 The City believes that it is current in its payments and other obligations under the
17 executory contracts and unexpired leases that it will assume via the Assumption Motion.
18 However, after the provision of notice and the opportunity for a hearing on the Assumption
19 Motion, the Bankruptcy Court will resolve any disputes regarding whether the City is in default
20 and, if so, both the amount of any cure payment to be made in connection with the assumption of
21 any contract or lease, and any other matter pertaining to such assumption.

22 **3. Rejection.**

23 The City will file the Rejection Motion, pursuant to section 365(a), to seek approval and
24 authorization for the rejection of those executory contracts and unexpired leases that it does not
25 elect to assume. Such agreements are those that the City, in the exercise of its business judgment,
26 deems burdensome. The City anticipates rejecting few executory contracts or unexpired leases.
27 As described above, the City will reject, among other leases, the Office Building Standby
28 Agreement, the Golf Course/Park Lease Out, and the Golf Course/Park Lease Back.

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1 The City will terminate the Office Building Lease Out and the Office Building Lease
2 Back, and the City will assume the Fourth Floor Lease of 400 E. Main (alternatively, it will reject
3 the Office Building Lease Out and the Office Building Lease Back, and it will assume the Fourth
4 Floor Lease of 400 E. Main). [treatment is not finalized]

5 **4. Deadline for the Assertion of Rejection Damage Claims; Treatment of**
6 **Rejection Damage Claims.**

7 All proofs of claim on account of Claims arising from the rejection of executory contracts
8 or unexpired leases must be filed with the Bankruptcy Court and served on the City no later than
9 30 days after the date on which notice of entry of the order approving the Rejection Motion is
10 served on the parties to the executory contracts and expired leases subject to the Rejection
11 Motion. Any Claim for which a proof of claim is not filed and served within such time will be
12 forever barred and shall not be enforceable against the City or its assets, properties, or interests in
13 property. Unless otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed
14 as provided herein shall be classified into Class 12 (General Unsecured Claims) and treated
15 accordingly.

16 **C. Means for Execution and Implementation of the Plan.**

17 Following the Effective Date, the City will continue to operate under its Charter, the
18 California Constitution, and other applicable laws. It will continue to collect real property tax
19 revenues, sales tax revenues, the user utility tax, and other taxes, fees, and revenues following the
20 Effective Date, spending such revenues on municipal services such as providing fire and police
21 protection, paving roads, and facilitating the provision of general municipal services.

22 The Plan provides that the City retains all of its claims, causes of action, rights of
23 recovery, rights of offset, recoupment rights to refunds, and similar rights after the Effective Date.
24 The failure to list in this Disclosure Statement any potential or existing Right of Action retained
25 by the City is not intended to and shall not limit the rights of the City to pursue any such action.
26 Unless a Right of Action is expressly waived, relinquished, released, compromised, or settled in
27 the Plan, the City expressly reserves all Rights of Action for later adjudication and, as a result, no
28 preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion,

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1 claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Rights
2 of Action upon or after the confirmation or consummation of the Plan or the Effective Date. In
3 addition, the City expressly reserves the right to pursue or adopt against any other entity any
4 claims alleged in any lawsuit in which the City is a defendant or an interested party.

5 **D. Distributions.**

6 The City may retain one or more agents (including Rust Consulting/Omni Bankruptcy) to
7 perform or assist it in performing the distributions to be made pursuant to the Plan, which agents
8 may serve without bond. The City may provide reasonable compensation to any such agent(s)
9 without further notice or Bankruptcy Court approval.

10 **1. Delivery of Distributions.**

11 All distributions to any holder of an Allowed Claim shall be made at the address of such
12 holder as set forth in the books and records of the City or its agents, unless the City has been
13 notified by such holder in a writing that contains an address for such holder different from the
14 address reflected in the City's books and records. All such notifications of address changes and
15 all address confirmations should be mailed to: City of Stockton, Attn: [_____], [insert
16 address]. All distributions to the Indenture Trustee shall be made in accordance with the relevant
17 indenture, as applicable.

18 **2. Undeliverable Distributions.**

19 **a. Holding of Undeliverable Distributions.**

20 If any distribution to any holder of a Claim is returned to the City or its agent as
21 undeliverable, no further distributions shall be made to such holder unless and until the City is
22 notified in writing of such holder's then-current address. Unless and until the City is so notified,
23 such distribution shall be deemed to be "Unclaimed Property" and shall be dealt with in
24 accordance with Section IX(C)(2) of the Plan.

25 **b. Unclaimed Property.**

26 If any entity entitled to receive distributions pursuant to the Plan does not present itself on
27 the Effective Date or on such other date on which such entity becomes eligible for distribution,
28 such distributions shall be deemed to be "Unclaimed Property." Unclaimed Property shall be set

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1 aside and held in a segregated account to be maintained by the City pursuant to the terms of the
2 Plan.

3 **3. Notification and Forfeiture of Unclaimed Property.**

4 No later than 60 days after the date of the first distributions under the Plan, the City will
5 file with the Bankruptcy Court a list of Unclaimed Property, together with a schedule that
6 identifies the name and last-known address of holders of the Unclaimed Property; the City
7 otherwise will not be required to attempt to locate any such entity. On the 60th day following the
8 date of the first distributions made under the Plan, all remaining Unclaimed Property and accrued
9 interest or dividends earned thereon will be remitted to and vest in the City for any such use as the
10 City sees fit.

11 **4. Distributions of Cash.**

12 Any payment of Cash to be made by the City or its agent pursuant to the Plan shall be
13 made by check drawn on a domestic bank or by wire transfer, at the sole option of the City.

14 **5. Timeliness of Payments.**

15 Any payments or distributions to be made pursuant to the Plan shall be deemed to be
16 timely made if made within 14 days after the dates specified in the Plan. Whenever any
17 distribution to be made under the Plan shall be due on a day that is a Saturday, Sunday, or legal
18 holiday, such distribution instead shall be made, without interest, on the immediately succeeding
19 day that is not a Saturday, Sunday, or legal holiday, but shall be deemed to have been made on
20 the date due.

21 **6. Compliance with Tax, Withholding, and Reporting Requirements.**

22 The City shall comply with all tax, withholding, reporting, and like requirements imposed
23 on it by any government unit, including without limitation, payments related to CalPERS's
24 required pension obligations, and all distributions pursuant to this Plan shall be subject to such
25 withholding and reporting requirements. In connection with each distribution with respect to
26 which the filing of an information return (such as Internal Revenue Service Forms W-2, 1099, or
27 1042) or withholding is required, the City shall file such information return with the Internal
28 Revenue Service and provide any required statements in connection therewith to the recipients of

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1 such distribution, or effect any such withholding and deposit all moneys so withheld to the extent
2 required by law. With respect to any entity from whom a tax identification number, certified tax
3 identification number, or other tax information which is required by law to avoid withholding has
4 not been received by the City, the City at its sole option may withhold the amount required and
5 distribute the balance to such entity or decline to make such distribution until the information is
6 received.

7 **7. Time Bar to Cash Payments.**

8 Checks issued by the City on account of Allowed Claims will be null and void if not
9 negotiated within 90 days from and after the date of issuance thereof. Requests for reissuance of
10 any check shall be made directly to the City by the holder of the Allowed Claim with respect to
11 which such check originally was issued. Any claim in respect of such a voided check must be
12 made on or before the second anniversary of the Effective Date. After such date, all Claims in
13 respect of voided checks will be discharged and forever barred and the City will retain all moneys
14 related thereto.

15 **8. No De Minimis Distributions.**

16 Notwithstanding any other provision of the Plan, no payment of less than \$10.00 will be
17 made by the City on account of any Allowed Claim.

18 **9. No Distributions on Account of Disputed Claims.**

19 Notwithstanding anything to the contrary in the Plan, no distributions shall be made on
20 account of any part of any Disputed Claim until such Claim becomes Allowed (and then only to
21 the extent so Allowed). Distributions made after the Effective Date in respect of Claims that were
22 not Allowed as of the Effective Date (but which later became Allowed) shall be deemed to have
23 been made as of the Effective Date.

24 **10. No Postpetition Accrual.**

25 Unless otherwise specifically provided in the Plan or Allowed by order of the Bankruptcy
26 Court, the City will not be required to pay to any holder of a Claim any interest, penalty, or late
27 charge accruing with respect to such claim on or after the Petition Date.

28

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1 **E. Disputed Claims.**

2 **1. Claims Objection Deadline; Prosecution of Objections.**

3 The City will have the right to object to the allowance of Claims filed with the Bankruptcy
4 Court with respect to which liability or allowance is disputed in whole or in part. Unless
5 otherwise ordered by the Bankruptcy Court, the City must file and serve any such objections to
6 Claims by not later than 180 days after the Effective Date (or, in the case of Claims lawfully filed
7 after the Effective Date, by not later than 180 days after the date of filing of such Claims).

8 **2. Reserves, Payments, and Distributions with Respect to Disputed
9 Claims.**

10 After the Effective Date has occurred, at such time as a Disputed Claim becomes an
11 Allowed Claim, in whole or in part, the City or its agent will distribute to the holder thereof the
12 distributions, if any, to which such holder is then entitled under the Plan. Such distributions, if
13 any, will be made as soon as practicable after the date that the order or judgment of the
14 Bankruptcy Court allowing such Disputed Claim becomes a Final Order (or such other date as the
15 Claim becomes an Allowed Claim), but in no event more than 60 days thereafter. Unless
16 otherwise specifically provided in the Plan or Allowed by order of the Bankruptcy Court, no
17 interest will be paid on Disputed Claims that later become Allowed Claims.

18 **F. Continuing Jurisdiction of the Bankruptcy Court.**

19 The Plan provides for the Bankruptcy Court to retain jurisdiction over a broad range of
20 matters relating to the Chapter 9 Case, the Plan, and other related items. Readers are encouraged
21 to review the Plan carefully to ascertain the nature of the Bankruptcy Court's continuing post-
22 Effective Date jurisdiction.

23 **VI. CONFIRMATION AND EFFECTIVENESS OF THE PLAN**

24 **Because the law with respect to confirmation of a plan of adjustment is complex,**
25 **creditors concerned with issues regarding confirmation of the Plan should consult with their**
26 **own attorneys and financial advisors.** The following discussion is intended solely for the
27 purpose of providing basic information concerning certain confirmation issues. The City cannot
28

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1 and does not represent that the discussion contained below is a complete summary of the law on
2 this topic.

3 Many requirements must be met before the Bankruptcy Court may confirm the Plan.
4 Some of the requirements discussed in this Disclosure Statement include acceptance of the Plan
5 by the requisite number of creditors, and the determination of whether the Plan is in the “best
6 interests” of creditors. These requirements, however, are not the only requirements for
7 confirmation, and the Bankruptcy Court will not confirm the Plan unless and until it determines
8 that the Plan satisfies all applicable requirements, including requirements not referenced in this
9 Disclosure Statement.

10 **A. Voting and Right to Be Heard at Confirmation.**

11 **1. Who May Support or Object to Confirmation of the Plan?**

12 Any party in interest may support or object to the confirmation of the Plan. Even entities
13 who may not have a right to vote (e.g., entities whose claims are classified into an Unimpaired
14 Class) may still have a right to support or object to confirmation of the Plan. (*See* Section I(C)(2)
15 for information regarding the applicable deadlines for objecting to confirmation of the Plan).

16 **2. Who May Vote to Accept or Reject the Plan?**

17 A creditor generally has a right to vote for or against the Plan if its Claim is both Allowed
18 for purposes of voting and is classified in an Impaired Class. Generally, a Claim is deemed
19 allowed if a proof of claim was timely filed; *provided, however*, that if an objection to a claim has
20 been filed, the claimant cannot vote unless the Bankruptcy Court, after notice and hearing, either
21 overrules the objection or allows the claim for voting purposes. Thus, **the definition of**
22 **“Allowed Claim” used in the Plan for purpose of determining whether creditors are entitled**
23 **to receive distributions is different from that used by the Bankruptcy Court to determine**
24 **whether a particular claim is “allowed” for purposes of voting. Holders of claims are**
25 **advised to review the definitions of “Allowed,” “Claim,” and “Disputed Claim” set forth in**
26 **Section I(A) of the Plan to determine whether they may be entitled to vote on, and/or receive**
27 **distributions under, the Plan.**

28

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1 **3. Who Is Not Entitled to Vote?**

2 The holders of the following types of claims are not entitled to vote on the Plan:

- 3 (a) Claims that have been disallowed; (b) Claims that are subject to a pending objection and
4 which have not been allowed for voting purposes; (c) Claims that are not Impaired; and
5 (d) Administrative Expense Claims, since such Claims are not placed in Classes and are required
6 to receive certain treatment specified by the Bankruptcy Code.

7 **4. Vote Necessary to Confirm the Plan.**

8 The Bankruptcy Court cannot confirm the Plan unless, among other things, (a) at least one
9 Impaired Class has accepted the Plan without counting the votes of any insiders within that Class;
10 and (b) either all Impaired Classes have voted to accept the Plan, or the Plan is eligible to be
11 confirmed by “cram down” with respect to any dissenting Impaired Class.

12 A Class of claims is considered to have accepted the Plan when more than one-half in
13 number **and** at least two-thirds in dollar amount of the claims that actually voted in that Class
14 have voted in favor of the Plan.

15 **B. The “Best Interests” Test.**

16 The Bankruptcy Court also must determine that the Plan is in the “best interests of
17 creditors” pursuant to section 943(b)(7), which in the chapter 9 context means that treatment
18 under the Plan must be better than the only alternative available, which is dismissal of the case.
19 Dismissal permits every creditor to fend for itself in the race to the courthouse, since a
20 municipality such as the City is not eligible under the Bankruptcy Code for a court-supervised
21 liquidation under chapter 7.

22 The City submits that the Plan is in the best interests of all creditors because the payments
23 that will be made to holders of Allowed Claims in all Impaired Classes will be greater than those
24 the creditors would receive were the Chapter 9 Case dismissed.

25 In contrast, in the absence of the financial adjustments made in Plan, the City’s creditors
26 would be left to “fend for themselves.” Individual creditor collection actions likely would
27 aggregate, through lawsuits, attempts at attachments, and writs of mandate, to make continued
28 operation of the City untenable. Massive litigation costs would burden the City, its creditors, and

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1 all parties in interest, although creditors financially equipped to pursue litigation most quickly
 2 (and thus win “the race to the courthouse”) would benefit disproportionately. And even the
 3 swiftest of creditors would likely find its ability to collect on a judgment stymied by the inability
 4 of the City to pay without violating provisions of California law by raiding Restricted Funds. For
 5 example, were retirees to sue collectively for the \$538 million of health benefits the City
 6 promised them for life, the result would be a judgment that could never be paid, even were the
 7 City to lock the doors of each City building, sell the building and any undeveloped real estate. If
 8 the City were to attempt to pay the proceeds to retirees, the City would still be unable to pay its
 9 CalPERS obligations, and the City’s obligations to CalPERS in its capacity as trustee for the
 10 City’s pension trust for the City’s retired workers and their dependents who are the beneficiaries
 11 of such trust would be terminated—resulting in a claim of over \$1 billion that CalPERS contends
 12 would be secured by a lien that primes existing liens pursuant to California Government Code
 13 section 20574. In short, the City cannot afford to pay its creditors absent the debt relief afforded
 14 by the Plan, and dismissal of the Chapter 9 Case likely would result in chaos, with few if any
 15 creditors emerging safely from the blizzard of inevitable litigation.

16 **C. Feasibility.**

17 To satisfy the requirement set forth in section 943(b)(7) that the Plan be feasible, the City
 18 must demonstrate the ability to make the payments required under the Plan and still maintain its
 19 operations at the level that it deems necessary to the continued viability of the City. The City
 20 submits that the Plan is feasible. The financial underpinning of the Plan, the City’s General Fund
 21 Long-Range Financial Plan (the “**Financial Plan**”), attached as **Exhibit B**, constitutes a
 22 sustainable matching of revenues and expenses, including the expenses created by or modified in
 23 the Plan. The Plan Financial Projections make certain assumptions regarding the effect of the
 24 rejection by the City of the financing leases to be rejected as noted therein and also assume that
 25 Measure A will pass.

26 The Financial Plan projects revenues and expenditures over a 20-year period and analyzes,
 27 among other things, the resulting unrestricted General Fund balance at the end of each fiscal year
 28 covered by the Financial Plan. The Financial Plan shows that, assuming confirmation of the Plan

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1 and passage of Measure A, the City will be able to maintain reserves at an average of 9.0% of
 2 General Fund expenses over the first 10 years of the Financial Plan, with such balance achieving
 3 15% of General Fund expenses starting in the fifteenth year of the Financial Plan.¹⁴ The
 4 Government Finance Officers Association recommends that cities maintain “an unrestricted fund
 5 balance in their general fund of no less than two months of regular general fund operating
 6 revenues or regular general fund operating expenditures” (equivalent to 16.67% of total
 7 expenditures).¹⁵ In the event that Measure A does not pass, the Financial Plan will not be valid,
 8 and the City will be required to make significant additional cuts to existing City’s services. (See
 9 “Risk Factors” below).

10 **D. Cram Down.**

11 The Bankruptcy Code provides that the Bankruptcy Court may confirm a plan of
 12 adjustment that is not accepted by all Impaired classes if at least one Impaired Class of claims
 13 accepts the Plan and the so-called “cram down” provisions set forth in sections 1129(b)(1),
 14 (b)(2)(A) and (b)(2)(B) are satisfied. The Plan may be confirmed under the cram down
 15 provisions if, in addition to satisfying the other requirements of section 943(b), it (a) is “fair and
 16 equitable,” and (b) does not discriminate unfairly with respect to each Class of claims that is
 17 Impaired under and has not accepted the Plan.

18 The “fair and equitable” standard, also known as the “absolute priority rule,” requires,
 19 among other things, that unless a dissenting unsecured Class of claims receives payment in full
 20 for its allowed claims, no holder of allowed claims in any Class junior to that Class may receive
 21 or retain any property on account of such claims. The “fair and equitable” standard also has been
 22 interpreted to prohibit any class senior to a dissenting Class from receiving more than 100% of its
 23 allowed claims under a plan. The City believes that the Plan satisfies the “fair and equitable”
 24 standard because, among other things, no classes junior to the classes of unsecured claims are
 25 receiving or retaining any property under the Plan.

26
 27 ¹⁴ Of course, the further out the projections go, the less reliable they will be.

28 ¹⁵ See Government Finance Officers Association, “Best Practice: Appropriate Level of Unrestricted Fund Balance in General Fund (2002, 2009),” available at http://www.gfoa.org/index.php?option=com_content&task=view&id=1450.

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1 The requirement that the plan not “discriminate unfairly” means, among other things, that
2 a dissenting Class must be treated substantially equally with respect to other Classes of equal
3 rank. The City does not believe that the Plan unfairly discriminates against any Class that may
4 not accept or otherwise consent to the Plan.

5 As noted above, the City has reserved the right to request the Bankruptcy Court to
6 confirm the Plan by “cram down” in accordance with sections 1129(b)(1), (b)(2)(a) and
7 (b)(2)(b). The City also has reserved the right to modify the Plan to the extent, if any, that
8 confirmation of the Plan under sections 943 and 1129(b) requires such modifications.

9 **E. Effective Date.**

10 **1. Conditions to the Occurrence of the Effective Date.**

11 The Plan will not become effective and operative unless and until the Effective Date
12 occurs. Section XII of the Plan sets forth certain conditions to the occurrence of the Effective
13 Date. The City may waive in whole or in part the condition regarding agreements and
14 instruments contemplated by, or to be entered into pursuant to, the Plan. Any such waiver of a
15 condition may be effected at any time, without notice or leave or order of the Bankruptcy Court
16 and without any formal action, other than the filing of a notice of such waiver with the
17 Bankruptcy Court.

18 The Effective Date will occur on the first Business Day after which the conditions set
19 forth in Section XII of the Plan are satisfied or waived; *provided* that the Effective Date must
20 occur by no later than six months after the Confirmation Date.

21 **2. Non-Occurrence of Effective Date.**

22 The Plan provides that, if confirmation occurs but the Effective Date does not occur
23 within six months after the Confirmation Date, upon notification submitted by the City to the
24 Bankruptcy Court: (a) the Confirmation Order shall be vacated; (b) no distributions under this
25 Plan shall be made; (c) the City and all holders of Claims shall be restored to the *status quo* as of
26 the day immediately preceding the Confirmation Date as though the Confirmation Date never
27 occurred; and (d) all of the City’s obligations with respect to the Claims shall remain unchanged,
28 and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or

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1 against the City or any other entity or to prejudice in any manner the rights of the City or any
2 entity in any further proceedings involving the City. The failure of the Effective Date to occur,
3 however, will not affect the validity of any order entered in the Chapter 9 Case other than the
4 Confirmation Order.

5 **F. Effect of Confirmation.**

6 Section XI of the Plan provides that confirmation of the Plan and the occurrence of the
7 Effective Date will have a number of important and binding effects, some of which are
8 summarized below. Readers are encouraged to review Section XI of the Plan carefully and in its
9 entirety to assess the various consequences of confirmation of the Plan.

10 **1. Discharge of the City.**

11 Pursuant to section 944, upon the Effective Date, the City will be discharged from all
12 debts (as defined in the Bankruptcy Code) of the City and Claims against the City other than
13 (a) any debt specifically and expressly excepted from discharge by the Plan or the Confirmation
14 Order, or (b) any debt owed to an entity that, before the Confirmation Date, had neither notice nor
15 actual knowledge of the Chapter 9 Case.

16 The rights afforded in the Plan and the treatment of holders of Claims, be they Claims
17 Impaired or Unimpaired under the Plan, will be in exchange for and in complete satisfaction,
18 discharge, and release of all Claims of any nature whatsoever arising on or before the Effective
19 Date, known or unknown, including any interest accrued or expenses incurred thereon from and
20 after the Petition Date, whether against the City or any of its properties, assets, or interests in
21 property. Except as otherwise provided in the Plan, upon the Effective Date all Claims against
22 the City that arose prior to the Confirmation Date (the "**Pre-Confirmation Date Claims**") will be
23 and will be deemed to be satisfied, discharged, and released in full, be they Impaired or
24 Unimpaired under the Plan.

25 **2. Injunction.**

26 The Plan provides that all entities who have held, hold, or may hold Pre-Confirmation
27 Date Claims will be permanently enjoined, from and after the Confirmation Date from
28 (a) commencing or continuing in any manner any action or other proceeding of any kind with

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1 respect to any such Pre-Confirmation Date Claim against the City; (b) enforcing, attaching,
2 collecting, or recovering by any manner or means any judgment, award, decree, or order against
3 the City with respect to such Pre-Confirmation Date Claims; (c) creating, perfecting, or enforcing
4 any lien or encumbrance of any kind against the City or its property or interests in property; and
5 (d) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation
6 due to the City with respect to any such Pre-Confirmation Date Claim, except as otherwise
7 permitted by section 553.

8 **3. Term of Existing Injunctions and Stays.**

9 The Plan provides that all injunctions or stays provided for in the Chapter 9 Case pursuant
10 to sections 105, 362, or 922, or otherwise, and in existence on the Confirmation Date, will remain
11 in full force and effect until the Effective Date.

12 **VII. CERTAIN RISK FACTORS TO BE CONSIDERED**

13 Confirmation of the Plan and the occurrence of the Effective Date are not without risk to
14 the City and its creditors in that the sources of revenue projected over the next 20 years in the
15 General Fund's Long-Range Financial Plan could contract. The reality is that there are economic
16 cycles over time that can negatively affect revenue growth, but the timing of these cycles is very
17 difficult to predict. Thus, while the City devoted considerable time and effort in formulating the
18 Plan Financial Projections, there can be no guaranty that the predicted results will be achieved.
19 For example, few California cities, if any, predicted the length and depth of the economic
20 downturn that saw real property values (and thus real property tax revenues) plummet. Nor did
21 city financial planners predict the high unemployment and underemployment that accompanied
22 the burst of the housing bubble and reduced the amount of sales tax revenues to state and local
23 governments. Conversely, while the General Fund expenditures projected in the Plan Financial
24 Projections are the City's best and most reasoned estimate of costs, the occurrence of higher
25 inflation, state or federal law changes that increase of shift costs to local government, or a natural
26 or human-caused disaster—all of these could and likely would cause costs to rise, if not to spike.
27 These risk factors should not, however, be regarded as constituting the only risks involved in
28 connection with the Plan and its implementation.

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1 Moreover, the Plan Financial Projections and the City's plans for ongoing operational and
2 financial stability after confirmation of the Plan rely on the passage of Measure A, which is
3 estimated to produce approximately \$28 million per year in new revenue. In the event that
4 Measure A fails, not only would the City be unable to fund the Marshall Plan and provide
5 desperately needed additional police services, but it would have to cut even more deeply into
6 existing service levels. The City cannot predict whether it would be able to continue to function
7 under such a scenario, and does not have detailed plans in place at this point to identify the
8 draconian additional cuts that would be required.

9 **The City submits, though, that the risk to creditors and parties in interest is greater
10 if the Plan is not confirmed and consummated than if it is.**

11 **VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

12 The implementation of the Plan may have federal, state, local and foreign tax
13 consequences to the City and its creditors. No tax opinion has been sought or will be obtained
14 with respect to any tax consequences of the Plan. However, because the City is a municipal
15 corporation duly organized and existing under its Charter and the California Constitution, and is
16 treated as a political subdivision of the State of California for federal income tax purposes, the
17 City believes that it will not be subject to any federal income tax liability from implementation of
18 the Plan. The City anticipates that, in conformity with past practice, it will not file any federal
19 corporate income tax returns with respect to the periods in which the Plan is implemented nor
20 report any income for federal income tax purposes as a result of implementing the Plan.

21 Because individual circumstances may differ, and the income tax consequence of a
22 chapter 9 case are complex and uncertain, this summary does not address the federal income tax
23 consequences that may be relevant to the creditors of the City as a result of the Plan.

24 Accordingly, the creditors should consult with their own tax advisors regarding the income tax
25 consequences of the Plan to them, including the effect, if any, the Plan may have on prior
26 outstanding obligations the interest components of which the creditors were treating as excludable
27 from gross income for federal income tax purposes.

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**EXHIBITS TO DISCLOSURE STATEMENT WITH RESPECT TO THE
PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON,
CALIFORNIA, DATED OCTOBER __, 2013**

Exhibit A Plan For The Adjustment Of Debts Of City Of Stockton, California, Dated
October [__], 2013

Exhibit B Long-Range Financial Plan of City of Stockton

DRAFT/City Council Review

EXHIBIT A
TO DISCLOSURE STATEMENT
WITH RESPECT TO
THE PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON,
CALIFORNIA

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16 SACRAMENTO DIVISION

17
18 In re
19 CITY OF STOCKTON, CALIFORNIA,
20 Debtor.

Case No. 2012-32118

D.C. No.

Chapter 9

**PLAN FOR THE ADJUSTMENT
OF DEBTS OF CITY OF
STOCKTON, CALIFORNIA**

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DRAFT/City Council Review

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1 The City of Stockton, California, a debtor under chapter 9 of the Bankruptcy Code
2 in the case styled as *In re City of Stockton, California*, Case No. 2012-32118, currently pending in
3 the United States Bankruptcy Court for the Eastern District of California, hereby proposes the
4 following Plan of Adjustment of Debts pursuant to section 941 of the Bankruptcy Code.¹

5 Please refer to the accompanying Disclosure Statement for a discussion of the
6 City's financial condition, the developments throughout the Chapter 9 Case, a summary and
7 analysis of this Plan, and for other important information. The City encourages you to read this
8 Plan and the Disclosure Statement in their entirety before voting to accept or reject this Plan. No
9 materials other than the Disclosure Statement and the various exhibits and schedules attached to
10 or incorporated therein have been approved for use in soliciting acceptance or rejection of this
11 Plan.

12 **I. DEFINITIONS, INTERPRETATION AND RULES OF CONSTRUCTION**

13 **A. Definitions.**

14 1. **2003 Fire/Police/Library Certificates** has the meaning set forth in the
15 definition of Fire/Police/Library Lease Back Transaction.

16 2. **2003 Fire/Police/Library Certificates Reimbursement Agreement**
17 means the Reimbursement Agreement, dated as of June 1, 2003, by and between the Successor
18 Agency and the City, pursuant to which the Successor Agency has agreed to utilize the Housing
19 Set-Aside Amounts (as defined in the 2003 Fire/Police/Library Certificates Reimbursement
20 Agreement) to reimburse the City for the monies paid by the City under the Fire/Police/Library
21 Lease Back.

22 3. **2003 Fire/Police/Library Certificates Reserve Fund** has the meaning set
23 forth in the definition of Fire/Police/Library Lease Back Transaction.

24 4. **2003 Fire/Police/Library Certificates Supplemental Trust Agreement**
25 means the First Supplemental Trust Agreement, dated as of [•], 2013, by and among Wells Fargo,
26 the Financing Authority, and the City, the form of which is attached as Exhibit B to the

27 _____
28 ¹The definitions of capitalized terms used throughout this Plan are set forth in Section I(A). Unless otherwise noted, all references to a "section" are references to a section of the Bankruptcy Code.

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1 Declaration of Robert Deis in Support of the City Of Stockton's Motion Under Bankruptcy
2 Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed in the
3 Chapter 9 Case on February 26, 2013 [Dkt. No. 725].

4 **5. 2003 Fire/Police/Library Certificates Trust Agreement** is the Trust
5 Agreement, dated as of June 1, 2003, by and among Wells Fargo, the Financing Authority, and
6 the City, relating to the 2003 Fire/Police/Library Certificates.

7 **6. 2003 Fire/Police/Library Certificates Trustee** has the meaning set forth
8 in the definition of Fire/Police/Library Lease Back Transaction.

9 **7. 2003A Fire/Police/Library Certificates** has the meaning set forth in the
10 definition of Fire/Police/Library Lease Back Transaction.

11 **8. 2003B Fire/Police/Library Certificates** has the meaning set forth in the
12 definition of Fire/Police/Library Lease Back Transaction.

13 **9. 2004 Arena Bond Indenture** means the Indenture of Trust, dated as of
14 March 1, 2004, by and between the Redevelopment Agency and the 2004 Arena Bond Trustee,
15 relating to the 2004 Arena Bonds.

16 **10. 2004 Arena Bond Reserve Fund** has the meaning set forth in the
17 definition of Arena Lease Back Transaction.

18 **11. 2004 Arena Bond Trustee** has the meaning set forth in the definition of
19 Arena Lease Back Transaction.

20 **12. 2004 Arena Bonds** has the meaning set forth in the definition of Arena
21 Lease Back Transaction.

22 **13. 2004 Parking Bond Reserve Fund** has the meaning set forth in the
23 definition of Parking Structure Lease Back Transaction.

24 **14. 2004 Parking Bond Trustee** has the meaning set forth in the definition of
25 Parking Structure Lease Back Transaction.

26 **15. 2004 Parking Bonds** has the meaning set forth in the definition of Parking
27 Structure Lease Back Transaction.

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1 **16. 2004 Parking Bonds Indenture** means the Indenture of Trust, dated as of
2 June 1, 2004, by and between the Financing Authority and the 2004 Parking Bond Trustee,
3 relating to the 2004 Parking Bonds.

4 **17. 2006 SEB Bond Reserve Fund** has the meaning set forth in the definition
5 of SEB Lease Back Transaction.

6 **18. 2006 SEB Bond Trustee** has the meaning set forth in the definition of
7 SEB Lease Back Transaction.

8 **19. 2006 SEB Bonds** has the meaning set forth in the definition of SEB Lease
9 Back Transaction.

10 **20. 2006 SEB Indenture** means the Indenture of Trust, dated as of March 1,
11 2006, by and between the Financing Authority and the 2006 SEB Bond Trustee, relating to the
12 2006 SEB Bonds.

13 **21. 2007 Office Building Bond Reserve Fund** has the meaning set forth in the
14 definition of Office Building Lease Back Transaction.

15 **22. 2007 Office Building Bond Trustee** has the meaning set forth in the
16 definition of Office Building Lease Back Transaction.

17 **23. 2007 Office Building Bonds** has the meaning set forth in the definition of
18 Office Building Lease Back Transaction.

19 **24. 2009 Golf Course/Park Bond Indenture** means the Indenture of Trust,
20 dated as of September 1, 2009, by and between the Financing Authority and the 2009 Golf
21 Course/Park Bond Trustee, relating to the 2009 Golf Course/Park Bonds.

22 **25. 2009 Golf Course/Park Bond Reserve Fund** has the meaning set forth in
23 the definition of Golf Course/Park Lease Back Transaction.

24 **26. 2009 Golf Course/Park Bond Trustee** has the meaning set forth in the
25 definition of Golf Course/Park Lease Back Transaction.

26 **27. 2009 Golf Course/Park Bonds** has the meaning set forth in the definition
27 of Golf Course/Park Lease Back Transaction.

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1 **28. 400 E. Main Office Building Property** has the meaning set forth in the
2 definition of Office Building Lease Back Transaction.

3 **29. AB 506** means Assembly Bill 506, codified at California Government
4 Code 53760 *et seq.*, which provides that a local public entity in California may file a petition for
5 bankruptcy if it has participated in a neutral evaluation process or has declared a fiscal emergency
6 and adopted a resolution by a majority vote of the governing board.

7 **30. Administrative Claim** means any Claim, not already paid by the City, for
8 an administrative expense of the kind allowed under section 503(b) and entitled to priority under
9 section 507(a)(2), after giving effect to sections 901 and 904: (i) which the City agrees is an
10 Allowed administrative expense claim; or (ii) which the Bankruptcy Court determines is an
11 Allowed administrative expense claim. The City’s consent to the Bankruptcy Court adjudicating
12 Administrative Claim status is given without the City in any way consenting or agreeing that
13 other Claims for postpetition obligations of the City would be entitled to status as Administrative
14 Claims as “the actual necessary costs and expenses of preserving the estate” under section 503(b),
15 and the City reserves its right to maintain that such Claims would instead constitute Other
16 Postpetition Claims as defined herein.

17 **31. Allowed** means a Claim that:

18 (a) Has been listed on the list of creditors filed by the City, as such list
19 may be amended from time to time pursuant to Bankruptcy Rule 1009; is not listed as
20 unliquidated, contingent or disputed; and for which no contrary proof of claim has been filed
21 (subject to objection as set forth in the next subsection);

22 (b) Is asserted in a proof of claim filed in compliance with section 501
23 and any applicable orders of the Bankruptcy Court or listed in the list of creditors filed by the
24 City and as to which: (i) no objection has been, or subsequently is, filed within the deadline
25 established pursuant to Section X(A) of the Plan (as such deadline may be extended by the
26 Bankruptcy Court upon application of the City from time to time); (ii) the Bankruptcy Court has
27 entered a Final Order allowing all or a portion of such Claim (but only in the amount so allowed);

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1 or (iii) the Bankruptcy Court has entered a Final Order under section 502(c) estimating the
2 amount of the Claim for purposes of allowance;

3 (c) Is subject to a stipulation between the City and the holder of such
4 Claim providing for the allowance of such Claim;

5 (d) Is deemed “Allowed” pursuant to this Plan;

6 (e) Is designated as “Allowed” in a pleading entitled “Designation Of
7 Allowed Claims” (or a similar title of the same import) filed with the Bankruptcy Court by the
8 City on or after the Effective Date; or

9 (f) Is an Administrative Claim or Other Postpetition Claim as to which
10 the Bankruptcy Court has entered a Final Order allowing all or a portion of such Claim (but only
11 in the amount so allowed).

12 **32. Ambac** means Ambac Assurance Corporation, a Wisconsin stock
13 insurance corporation.

14 **33. Ambac Effective Date** means the first business day following the day on
15 which all the conditions contained in section 5.1 of the Ambac Settlement Agreement have either
16 occurred or been expressly waived by the parties thereto.

17 **34. Ambac Insurance Policy** means the financial guaranty policy issued by
18 Ambac in connection with the Fire/Police/Library Lease Back Transaction, which insures the
19 2003 Fire/Police/Library Certificates executed and delivered by the 2003 Fire/Police/Library
20 Certificates Trustee to fund affordable housing projects in the City.

21 **35. Ambac Settlement Agreement** means the Stipulation and Settlement
22 Agreement, dated as of February 26, 2013, by and among the City, the Financing Authority, the
23 2003 Fire/Police/Library Certificates Trustee, and Ambac, which is attached as Exhibit A to the
24 Declaration of Robert Deis in Support of the City of Stockton’s Motion Under Bankruptcy
25 Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed in the
26 Chapter 9 Case on February 26, 2013 [Dkt. No. 725].

27 **36. Ambac Settlement Agreement Motion** means the motion filed in the
28 Chapter 9 Case on February 26, 2013 [Dkt. No. 723].

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1 **37. Arena** has the meaning set forth in the definition of Arena Lease Back
2 Transaction.

3 **38. Arena Claims of the 2004 Arena Bond Trustee/NPFG** means the Claims
4 arising in connection with the Arena Lease Back Transaction (which claims were held by the
5 Redevelopment Agency, but are now controlled and asserted by the 2004 Arena Bond Trustee at
6 the direction of NPFG (as the insurer of the 2004 Arena Bonds) as a result of the assignment by
7 the Redevelopment Agency of all of its rights under the Arena Lease Out and the Arena Lease
8 Back to the 2004 Arena Bond Trustee), as modified by the NPFG Settlement. The Arena Claims
9 of the 2004 Arena Bond Trustee/NPFG do not include any claims arising out of non-payment of
10 the 2004 Arena Bonds as all such claims are claims against the Redevelopment Agency and are
11 not obligations of the City (except to the extent specifically provided under the terms of the
12 NPFG Settlement).

13 **39. Arena Lease Back** has the meaning set forth in the definition of Arena
14 Lease Back Transaction.

15 **40. Arena Lease Back Rental Payments** has the meaning set forth in the
16 definition of Arena Lease Back Transaction.

17 **41. Arena Lease Back Transaction** means the transaction described as
18 follows:

19 ***Financial Instruments Involved.*** The financial instruments
20 involved in this transaction are the Redevelopment Agency of the City of Stockton
21 Revenue Bonds, Series 2004, (Stockton Events Center – Arena Project) issued on
22 March 16, 2004, in the aggregate principal amount of \$47,000,000 (the “**2004**
23 **Arena Bonds**”). Wells Fargo is the indenture trustee under the 2004 Arena Bonds
24 Indenture (together with any successor trustee, the “**2004 Arena Bond Trustee**”).
25 A reserve fund exists for the 2004 Arena Bonds with a balance as of September 1,
26 2013, of \$3,511,392.02 (the “**2004 Arena Bond Reserve Fund**”). The funds in
27 the 2004 Arena Bond Reserve Fund are pledged to support repayment of the 2004
28 Arena Bonds. The 2004 Arena Bonds are insured by NPFG.

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1 Redevelopment Agency as pledgee dated as of March 1, 2004 (the “**Arena Pledge**
2 **Agreement**”), the City pledged certain incremental tax revenues (the “**Pledged**
3 **Tax Increment**”) expected to be collected from the West End Urban Renewal
4 Project No. 1, a former development project area consisting of 642 acres
5 surrounding and including the Arena, located in the heart of downtown Stockton,
6 just north of the City’s Crosstown Freeway and east of Interstate 5, containing a
7 mix of commercial, industrial, and residential uses (the “**West End Project**
8 **Area**”). No other revenues or assets are pledged to support the repayment of the
9 2004 Arena Bonds, the repayment obligation is non-recourse to the
10 Redevelopment Agency, and the 2004 Arena Bonds are payable solely from the
11 2004 Arena Bond Reserve Fund, the Arena Lease Back Rental Payments, and the
12 Pledged Tax Increment.

13 The subject property is the land described as Parcel 4, as shown on
14 the Parcel Map filed for record in the office of the Recorder of the County of San
15 Joaquin, State of California, on March 4, 2003, in Book 23 of Maps, page 15, and
16 the Arena located thereon, an indoor facility capable of hosting events such as ice
17 hockey, indoor football, indoor soccer, concerts, boxing events, rodeos, and other
18 such indoor events, and located at 248 West Fremont Street in downtown
19 Stockton. The Arena includes officials’ facilities, media facilities, food services
20 facilities, 24 luxury suites for approximately 288 patrons, the Record Press Club
21 Level with 344 Club Seats, 5,000 square feet of conference space, and ample
22 backstage amenities. The Arena can be configured for 8,600 to 12,000 seats,
23 based upon the nature of the event. The Arena sports an 85 by 200 foot NHL
24 regulation ice sheet and is home to the Stockton Thunder ice hockey team.

25 The Arena is part of the Stockton Events Center project (the
26 “**Events Center Project**”), which also includes a baseball stadium with a seating
27 capacity of approximately 5,000 people, the University Plaza Waterfront Hotel and
28 University Lofts, the Stockton Events Center Parking Structure, and approximately

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1 60,000 square feet of retail/commercial space. The Events Center Project,
2 including the Arena, is located in downtown Stockton on approximately 24 acres
3 immediately north of and adjacent to the Stockton Channel and within the West
4 End Project Area.

5 The Arena currently operates at a net loss before debt service and
6 requires a significant General Fund subsidy just to remain in operation.

7 **42. Arena Lease Out** has the meaning set forth in the definition of Arena
8 Lease Back Transaction.

9 **43. Arena Pledge Agreement** has the meaning set forth in the definition of
10 Arena Lease Back Transaction.

11 **44. Assumption Motion** means the motion to be filed by the City pursuant to
12 section 365(a) pursuant to which the City shall seek approval and authorization for its assumption
13 of such executory contracts and unexpired leases as shall be identified in the Assumption Motion.

14 **45. Assured Guaranty** means, together, Assured Guaranty Corp. and Assured
15 Guaranty Municipal Corp.

16 **46. Assured Guaranty Settlement** means that certain settlement among the
17 City, the 2007 Office Building Bond Trustee, the Pension Obligation Bonds Trustee and Assured
18 Guaranty, regarding the treatment under this Plan of the Claims arising out of the Office Building
19 Lease Back Transaction and the Pension Obligation Bonds, as set forth in that certain “Settlement
20 Term Sheet, Assured Guaranty Corporation and City of Stockton” dated as of September [__],
21 2013, and attached hereto as **Exhibit A** [to be attached when finalized] and incorporated by
22 reference (the “**Assured Guaranty Settlement Term Sheet**”) and as more particularly set forth
23 in that certain “Settlement Agreement, Assured Guaranty Corporation and City of Stockton”
24 dated as of October [__], 2013, and attached hereto as **Exhibit B** [to be attached when finalized]
25 and incorporated by reference (the “**Assured Guaranty Settlement Agreement**”). Any conflict
26 between the terms of the Assured Guaranty Settlement Term Sheet and the Assured Guaranty
27 Settlement Agreement shall be resolved as set forth in the Assured Guaranty Settlement
28 Agreement. While the Assured Guaranty Settlement Term Sheet and Assured Guaranty

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1 Settlement Agreement should be consulted for the precise terms of the Assured Guaranty
2 Settlement, a summary of the Assured Guaranty Settlement is as follows: [to be inserted when
3 finalized].

4 **47. Assured Guaranty Settlement Agreement** has the meaning set forth in
5 the definition of Assured Guaranty Settlement.

6 **48. Assured Guaranty Term Sheet** has the meaning set forth in the definition
7 of Assured Guaranty Settlement.

8 **49. Ballot** means the ballot(s), in the form(s) approved by the Bankruptcy
9 Court in the Plan Solicitation Order accompanying the Disclosure Statement and provided to each
10 holder of a Claim entitled to vote to accept or reject this Plan.

11 **50. Bankruptcy Code** means title 11 of the United States Code, as amended
12 from time to time, as applicable to the Chapter 9 Case.

13 **51. Bankruptcy Court** means the United States Bankruptcy Court for the
14 Eastern District of California, Sacramento Division, or such other court that lawfully exercises
15 jurisdiction over the Chapter 9 Case.

16 **52. Bankruptcy Rules** means the Federal Rules of Bankruptcy Procedure, as
17 amended from time to time, as applicable to the Chapter 9 Case, together with the local rules of
18 the Bankruptcy Court applicable to the Chapter 9 Case. Unless otherwise indicated, references in
19 this Plan to “Bankruptcy Rule _____” are to the specifically identified rule of the Federal Rules
20 of Bankruptcy Procedure.

21 **53. Bar Date** means the applicable date by which a particular proof of claim
22 must be filed, as established by the Bankruptcy Court.

23 **54. Business Day** means a day other than a Saturday, a Sunday, or any other
24 day on which banking institutions in New York, New York, are required or authorized to close by
25 law or executive order.

26 **55. CalPERS** means the California Public Employees’ Retirement System.

27 **56. CalPERS Pension Plan** means the pension plan contract between
28 CalPERS and the City, dated as of September 1, 1944, as amended (CalPERS ID 6373973665).

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1 **57. CalPERS Pension Plan Participants** means those current and former City
2 employees and their survivors and other dependents who are the beneficiaries of the CalPERS
3 Pension Plan.

4 **58. Cash** means cash and cash equivalents, including withdrawable bank
5 deposits, wire transfers, checks, and other similar items.

6 **59. Chapter 9 Case** means the case under chapter 9 of the Bankruptcy Code
7 commenced by the City, styled as *In re City of Stockton, California*, Case No. 2012-32118,
8 currently pending in the Bankruptcy Court.

9 **60. City** means the City of Stockton, California, the debtor in the Chapter 9
10 Case.

11 **61. City Council** means the duly elected legislative body of the City.

12 **62. CJPRMA** means California Joint Powers Risk Management Authority.

13 **63. Claim** means a claim against the City or the property of the City within the
14 meaning of section 101(5).

15 **64. Class** means any group of Claims classified herein pursuant to
16 section 1123(a).

17 **65. Confirmation Date** means the date on which the Clerk of the Bankruptcy
18 Court enters the Confirmation Order on the docket of the Bankruptcy Court.

19 **66. Confirmation Hearing** means the hearing to be conducted by the
20 Bankruptcy Court regarding confirmation of this Plan, as such hearing may be adjourned,
21 reconvened or continued from time to time.

22 **67. Confirmation Order** means the order of the Bankruptcy Court confirming
23 this Plan pursuant to section 943.

24 **68. Controller** means the California State Controller's Office.

25 **69. Convenience Class Claim** means any Allowed Claim that is greater than
26 \$0 in Allowed amount and less than or equal to \$100 in Allowed amount or irrevocably reduced
27 to \$100 in Allowed amount at the election of the holder of the Allowed Claim as evidenced by the
28 Ballot submitted by such holder; *provided, however*, that an Allowed Claim may not be

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1 subdivided into multiple Claims of \$100 or less for purposes of receiving treatment as a
2 Convenience Class Claim.

3 **70. DBW** means the California Department of Boating and Waterways, now
4 the Boating and Waterways division of the Department of Parks and Recreation.

5 **71. DBW Construction Loan Claim** means the Claim of DBW under the
6 Marina Construction Loan Agreement, secured by a pledge of gross revenues under the terms of a
7 Collateral Assignment of Rents and Leases for the Project Area, which pledge is converted to a
8 pledge of net revenues by virtue of section 928(b). The “**Marina Project**” (as defined and
9 described in the Marina Construction Loan Agreement) has generated no net operating revenues
10 since its official opening on October 30, 2009. The City General Fund subsidy for the Marina
11 Project totals \$1,905,299 from fiscal year 2010-11 through the adopted budget for fiscal year
12 2013-14. The Marina Construction Loan Agreement provides that DBW, upon default, may take
13 over the operations of the Marina Project and charge the costs of operations to the City; however,
14 under the Debt Limit, the City is not liable for such payments in future fiscal years because the
15 Marina Construction Loan was not approved by a 2/3 vote of the voters of the City. Pursuant to
16 the terms of the Marina Construction Loan Agreement, any obligation to repay the Marina
17 Construction Loan from the General Fund is subject to the Debt Limit. Because the Marina
18 Construction Loan was not submitted to and approved by 2/3 of the voters of the City, any
19 obligation of the City’s General Fund to make payments under the Marina Construction Loan is
20 *void ab initio*, and the unsecured portion of this Claim is not an Allowed Claim.²

21 **72. DBW Marina Planning Report Loan Claim** means the Claim of DBW
22 under the Marina Planning Report Loan. This Claim is an unsecured Claim against the
23 Redevelopment Agency, is not a claim against the City, and is included herein for information
24 only.

25
26
27 ² The obligation to pay the Marina Construction Loan from revenues of the Marina Project—as opposed to the
28 General Fund—does not violate the Debt Limit because the Marina Project operates as an enterprise fund. *See City of Oxnard v. Dale*, 45 Cal. 2d 729, 737, 290 P.2d 859, 863 (1955).

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1 **73. DBW Transaction** means two loans made by DBW: the first an
2 unsecured loan to the Redevelopment Agency in the amount of \$280,000, bearing interest at 4.5%
3 per year with a repayment term of ten years, with equal annual installment payments due on
4 August 1 of each year commencing on August 1, 2003, as evidenced by that certain Stockton
5 Waterfront Marina \$180,000 Planning Loan Contract (also titled the Planning Study Contract,
6 Stockton Waterfront Marina Study Loan) dated as of September 13, 1996, as the same has been
7 amended from time to time (the “**Marina Planning Report Loan**”); and the second a loan to the
8 City in the amount of \$13,300,000 for the stated purpose of construction of the Marina Project,
9 bearing interest at 4.5% per year with interest and principal payments due annually on August 1
10 of each year for 30 years commencing on the August 1 after the final disbursement of loan
11 proceeds, secured by a Collateral Assignment of Rents and Leases for the Project Area as
12 evidenced by that certain Stockton Waterfront Marina \$13,300,000 Loan Contract dated as of
13 June 21, 2004 (the “**Marina Construction Loan**” and, as amended, the “**Marina Construction**
14 **Loan Agreement**” respectively).

15 **74. Debt Limit** means the debt limit imposed by article XVI, section 18 of the
16 California Constitution. *See In re County of Orange v. Fuji Securities Inc.*, 31 F. Supp. 2d 768
17 (C.D. Cal. 1998).

18 **75. Dexia** means Dexia Crédit Local, a banking corporation duly organized
19 and existing under the laws of the Republic of France, acting through its New York branch.

20 **76. Disallowed** means a Claim or portion thereof that: (i) has been disallowed
21 by a Final Order of the Bankruptcy Court; (ii) has been listed by the City in its list of creditors, as
22 it may be amended from time to time in accordance with Bankruptcy Rule 1009, as in the amount
23 of \$0, contingent, disputed, or unliquidated, and as to which no proof of claim has been filed by
24 the applicable deadline or deemed timely filed pursuant to any Final Order of the Bankruptcy
25 Court; (iii) as to which the holder thereof has agreed to be equal to \$0 or to be withdrawn,
26 disallowed or expunged; or (iv) has not been listed in the list of creditors and as to which no proof
27 of claim has been filed by the applicable deadline or deemed timely filed pursuant to a Final
28 Order of the Bankruptcy Court.

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1 **77. Disclosure Statement** means the disclosure statement, and all exhibits and
2 schedules incorporated therein, that relates to this Plan and that is approved by the Bankruptcy
3 Court pursuant to section 1125, as the same may be amended, modified, or supplemented in
4 accordance with the Bankruptcy Code.

5 **78. Disputed Claim** means any Claim or portion thereof that has not become
6 Allowed and that is not Disallowed. In the event that any part of a Claim is a Disputed Claim,
7 except as otherwise provided in this Plan, such Claim shall be deemed a Disputed Claim in its
8 entirety for purposes of distribution under this Plan unless the City otherwise agrees in writing in
9 its sole discretion. Without limiting the foregoing, a Claim that is the subject of a pending
10 application, motion, complaint, objection, or any other legal proceeding seeking to disallow,
11 limit, reduce, subordinate, or estimate such Claim shall be deemed to be a Disputed Claim.

12 **79. Effective Date** means a Business Day after the Confirmation Date
13 specified by the City on which the conditions specified in Section XIII of the Plan have been
14 satisfied or waived. For purposes of calculating various payments, the Effective Date was
15 assumed to be [_____]. However, because the Confirmation Hearing will not occur until
16 [_____], the City estimates that the Effective Date will occur in [_____], so the
17 calculations will be slightly altered.

18 **80. Events Center Project** has the meaning set forth in the definition of Arena
19 Lease Back Transaction.

20 **81. Final Order** means a judgment, order, ruling, or other decree issued and
21 entered by the Bankruptcy Court or by any state or other federal court or other tribunal having
22 jurisdiction over the subject matter thereof which judgment, order, ruling, or other decree has not
23 been reversed, stayed, modified, or amended and as to which: (a) the time to appeal or petition
24 for review, rehearing, or certiorari has expired and no appeal or petition for review, rehearing, or
25 certiorari is then pending; or (b) any appeal or petition for review, rehearing, or certiorari has
26 been finally decided and no further appeal or petition for review, rehearing, or certiorari can be
27 taken or granted.

28

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1 Lease Out evidenced and represented by the 2003 Fire/Police/Library Certificates.
2 The 2003 Fire/Police/Library Certificates are insured by Ambac.

3 *Properties Involved/Leases.* As described in more detail below, the
4 properties that are involved in this transaction are three fire stations, the City's
5 Main Police Facility, and the Maya Angelou Southeast Branch Library
6 (collectively, the "**Fire/Police/Library Properties**"). In order to facilitate the
7 financing to be provided by the 2003 Fire/Police/Library Certificates, the City, as
8 owner of the Fire/Police/Library Properties, leased the properties to the Financing
9 Authority pursuant to that certain Site and Facility Lease dated as of June 1, 2003,
10 for a term ending on June 1, 2033, with a possible extension of the term to the date
11 upon which the 2003 Fire/Police/Library Certificates are paid in full (the
12 "**Fire/Police/Library Lease Out**"). Pursuant to section 510 of the City Charter,
13 the term of the Fire/Police/Library Lease Out cannot extend for more than 55 years
14 or to May 31, 2058. The City contemporaneously leased the Fire/Police/Library
15 Properties back from the Financing Authority for the same number of years
16 pursuant to the terms of a Lease Agreement dated as of June 1, 2003 (the
17 "**Fire/Police/Library Lease Back**"). Thus, the City is the lessor and the
18 Financing Authority is the tenant under the Fire/Police/Library Lease Out, and the
19 Financing Authority is the lessor and the City is the tenant in the
20 Fire/Police/Library Lease Back.

21 As tenant under the Fire/Police/Library Lease Out, the Financing
22 Authority paid rent for the entire lease term in a lump sum payment in the amount
23 of \$11,838,678.30, being the net proceeds of the 2003 Fire/Police/Library Bonds.
24 As tenant under the Fire/Police/Library Lease Back, the City agreed to make semi-
25 annual rental payments in varying amounts (the "**Fire/Police/Library Lease Back**
26 **Rental Payments**"). The Financing Authority assigned to the 2003
27 Fire/Police/Library Certificates Trustee its rights under the Fire/Police/Library
28 Lease Back, including the rights to enforce the lease after default by the City, and

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1 including the stream of Fire/Police/Library Lease Back Rental Payments from the
2 City, to support the repayment of the 2003 Fire/Police/Library Certificates. No
3 other revenues or assets are pledged to support the repayment of the 2003
4 Fire/Police/Library Certificates, the repayment obligation is non-recourse to the
5 Financing Authority, and the 2003 Fire/Police/Library Certificates are payable
6 solely from the 2003 Fire/Police/Library Certificates Reserve Fund and the
7 Fire/Police/Library Lease Back Rental Payments.

8 **Leased Properties.** The subject properties are the
9 Fire/Police/Library Properties, which consist of City's Main Police Facility,
10 located at 22 E. Market Street; the Maya Angelou Southeast Branch Library,
11 located at 2324 Pock Lane; Fire Station No. 1, located at 1818 Fresno Avenue;
12 Fire Station No. 5, located at 3499 Manthey Road; and Fire Station No. 14, located
13 at 3019 McNabb Street.

14 **Fire Stations.** The City owns 13 fire stations, of which 12
15 are operating. Fire Stations No. 1, 5, and 14 were built in 1995-96. Each
16 station primarily serves the neighborhood in which it is located and
17 occupies a half-acre site with a building of approximately 5,000 square
18 feet. Station No. 1 is located in the south area of the City in the South
19 Stockton Redevelopment Project Area; it was closed as a result of budget
20 cuts. Station No. 5 is located in the south area off Interstate 5 in the
21 Weston Ranch Subdivision. Station No. 14 is located in the north area in a
22 newer residential community commonly referred to as Spanos Park located
23 off Interstate 5 and Eight Mile Road.

24 **Main Police Facility.** The Main Police Facility is located
25 in the downtown area of the City. It was built in 1970 on a two-acre site
26 and includes approximately 44,000 square feet of building space with 140
27 parking spaces.

28 **Library.** The Maya Angelou Southeast Branch Library is

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1 located in the south area of the City. It was built in 1996 on a 1.8-acre site
2 and includes approximately 20,000 square feet of building space. The
3 library serves the residents of both the City and San Joaquin County in
4 multiple South Stockton neighborhoods and is one of 10 libraries that
5 comprise the Stockton-San Joaquin County Library System.

6 **86. Fire/Police/Library Lease Out** has the meaning set forth in the definition
7 of Fire/Police/Library Lease Back Transaction.

8 **87. Fire/Police/Library Lease Out Assignment Agreement** means the
9 Assignment Agreement by and between the Financing Authority and the 2003 Fire/Police/Library
10 Certificates Trustee, pursuant to which the Financing Authority has agreed to assign all rights and
11 interests in the Fire/Police/Library Lease Back to the 2003 Fire/Police/Library Certificates
12 Trustee in substantially the form annexed to the Ambac Settlement Agreement as Exhibit A (and
13 referred to in the Ambac Settlement Agreement as the “Site Lease Assignment Agreement”),
14 which such Ambac Settlement Agreement is attached as Exhibit A to the Declaration of Robert
15 Deis in Support of the City of Stockton’s Motion Under Bankruptcy Rule 9019 for Approval of
16 Its Settlement with Ambac Assurance Corporation, filed in the Chapter 9 Case on February 26,
17 2013 [Dkt. No. 725].

18 **88. Fire/Police/Library Properties** has the meaning set forth in the definition
19 of Fire/Police/Library Lease Back Transaction.

20 **89. Fourth Floor Lease of 400 E. Main** has the meaning set forth in the
21 definition of Office Building Lease Back Transaction.

22 **90. Franklin** means, together, Franklin Advisers, Inc., Franklin High Yield
23 Tax Free Income Fund, and Franklin California High Yield Municipal Fund.

24 **91. General Fund** means the City’s chief operating fund, which is used to
25 account for all financial resources except those required to be accounted for in another fund (such
26 as the Restricted Funds).

27 **92. General Liability Claim** means a tort or contract Claim filed against the
28 City pursuant to the Government Claims Act, California Government Code section 810 *et seq.*

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1 **93. General Unsecured Claim** means any unsecured Claim *that is not* (1) an
2 Administrative Claim; (2) a General Liability Claim; or (3) a Workers Compensation Claim.

3 **94. Golf Course/Park Claims of the 2009 Golf Course/Park Bond**
4 **Trustee/Franklin** means the Claims arising from the rejection by the City of the Golf
5 Course/Park Lease Back (as limited under section 502(b)(6)) and the Claims, if any (given the
6 option of possession and quiet enjoyment of the Golf Course/Park Properties under
7 section 365(h)), arising from the rejection by the City of the Golf Course/Park Lease Out, which
8 claims were held by the Financing Authority, but are now controlled and asserted by the 2009
9 Golf Course/Park Bond Trustee at the direction of Franklin, or its authorized successor in interest,
10 as the sole holder of the 2009 Golf Course/Park Bonds as a result of the assignment by the
11 Financing Authority of all of its rights under the Golf Course/Park Lease Out and the Golf
12 Course/Park Lease Back to the 2009 Golf Course/Park Bond Trustee. The Golf Course/Park
13 Claims of the 2009 Golf Course/Park Bond Trustee/Franklin do not include any claims arising out
14 of non-payment of the 2009 Golf Course/Park Bonds as all such claims are non-recourse claims
15 against the Financing Authority secured only by the assignment by the Financing Authority of the
16 Golf Lease Back Rental Payments and all of its rights under the Golf Course/Park Lease Out and
17 the Golf Course/Park Lease Back, and are not obligations of the City.

18 **95. Golf Course/Park Lease Back** has the meaning set forth in the definition
19 of Golf Course/Park Lease Back Transaction.

20 **96. Golf Course/Park Lease Back Rental Payments** has the meaning set
21 forth in the definition of Golf Course/Park Lease Back Transaction.

22 **97. Golf Course/Park Lease Back Transaction** means the transaction
23 described as follows:

24 ***Financial Instruments Involved.*** The financial instruments
25 involved in the Golf Course/Park Lease Back Transaction are the Stockton Public
26 Financing Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement
27 Projects), issued on September 9, 2009, in the aggregate principal amount of
28 \$35,080,000 (the "**2009 Golf Course/Park Bonds**"). Wells Fargo is the indenture

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1 trustee under the 2009 Golf Course/Park Bonds Indenture (together with any
2 successor trustee, the “**2009 Golf Course/Park Bond Trustee**”). A reserve fund
3 exists for the 2009 Golf Course/Park Bonds with a balance as of September 1,
4 2013, of \$904,380.81 (the “**2009 Golf Course/Park Bond Reserve Fund**”). The
5 funds in the 2009 Golf Course/Park Bond Reserve Fund are pledged to support
6 repayment of the 2009 Golf Course/Park Bonds. The 2009 Golf Course/Park
7 Bonds are not insured; however, Franklin is the sole holder of the bonds.

8 *Properties Involved/Leases.* As described in more detail below, the
9 properties that are involved in this transaction are Oak Park, the Van Buskirk Golf
10 Course, and the Swenson Golf Course (as defined below, the “**Golf Course/Park**
11 **Properties**”). In order to facilitate the financing to be provided by the 2009 Golf
12 Course/Park Bonds, the City, as owner of the Golf Course/Park Properties, leased
13 the properties to the Financing Authority, pursuant to a Site and Facility Lease
14 dated as of September 1, 2009, for a term ending on September 1, 2038, with a
15 possible extension of the term to the date upon which the 2009 Golf Course/Park
16 Bonds are paid in full. Pursuant to section 510 of the City Charter, the term of the
17 lease cannot extend for more than 55 years or to August 31, 2064. (the “**Golf**
18 **Course/Park Lease Out**”). The City contemporaneously leased the properties
19 back from the Financing Authority for the same number of years pursuant to the
20 terms of the Lease Agreement dated as of September 1, 2009 (the “**Golf**
21 **Course/Park Lease Back**”). Thus, the City is the lessor and the Financing
22 Authority is the tenant under the Golf Course/Park Lease Out, and the Financing
23 Authority is the lessor and the City is the tenant in the Golf Course/Park Lease
24 Back.

25 As tenant under the Golf Course/Park Lease Out, the Financing
26 Authority paid rent for the entire lease term in a lump sum payment in the amount
27 of \$1.00. Pursuant to the terms of the Golf Course/Park Lease Back, the Financing
28 Authority agreed to provide the net proceeds of the 2009 Golf Course/Park Bonds

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1 (with gross proceeds equal to \$35,080,000) to the City for the purpose of financing
2 various capital projects. As tenant under the Golf Course/Park Lease Back, the
3 City agreed to make semi-annual rental payments in varying amounts (\$2,415,838
4 for fiscal year 2012-13, \$2,923,119 for fiscal year 2013-14, \$2,926,332 for fiscal
5 year 2014-15, etc.) (the “**Golf Course/Park Lease Back Rental Payments**”).
6 The Financing Authority assigned to the 2009 Golf Course/Park Bond Trustee its
7 rights under the Golf Course/Park Lease Back, including the rights to enforce the
8 lease after default by the City, and including the stream of Golf Lease Back Rental
9 Payments from the City, to support the repayment of the 2009 Golf Course/Park
10 Bonds. No other revenues or assets are pledged to support the repayment of the
11 2009 Golf Course/Park Bonds, the repayment obligation is non-recourse to the
12 Financing Authority, and the 2009 Golf Course/Park Bonds are payable solely
13 from the Golf Lease Back Rental Payments. A default occurred on March 1, 2012
14 in the payment by the City of amounts due under the Golf Course/Park Lease
15 Back.

16 The subject properties consist of three separate properties, each of
17 which continues to be owned by the City (subject to the Golf Course/Park Lease
18 Out to the Financing Authority and the Golf Course/Park Lease Back from the
19 Financing Authority) (as described below, the “**Golf Course/Park Properties**”).

20 **Oak Park.** This property is a public park of approximately
21 61.2 acres, bounded on the east by Union Pacific railroad tracks, on the
22 north by East Fulton Street, on the south by East Alpine Street, and on the
23 west by North Sutter and Alvarado Streets. Oak Park features group picnic
24 areas, 20 picnic tables, two tot lots, 15 barbecue pits, and four restrooms.
25 In addition, Oak Park features 11 tennis courts; two regulation softball
26 fields; the Billy Hebert Field, a 6,000-seat, regulation professional minor
27 league baseball field (renovated in 2002); a multi-use field; a community
28 swimming pool complex with changing facilities; and an approximately

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1 13,875-square-foot ice-rink facility with seating for 350. A one-story
2 senior center of approximately 5,000 square feet, which is available for
3 rental to the public, is also located at Oak Park.

4 **Swenson Golf Course.** This property was opened in 1952
5 and is located on approximately 219 acres at 6803 Alexandria Place.
6 Swenson Golf Course features a classic championship 18-hole, par 72
7 course; a nine-hole executive, par three course; a 15-station driving range;
8 two putting greens and a practice bunker; and paved cart paths. Also
9 located on this property is a clubhouse, an approximately 2,000-square-foot
10 pro shop, an approximately 5,000-square-foot maintenance and storage
11 facility, and an approximately 2,500-square-foot café with seating.

12 **Van Buskirk Golf Course.** This property was opened in
13 1962 and is located on approximately 214.0 acres at 1740 Houston Avenue.
14 Van Buskirk Golf Course features a classically designed par 72, 18-hole
15 course, an all-grass driving range with 15 stations, two practice greens, and
16 partially paved cart paths. Also located on this property is a clubhouse, an
17 approximately 2,000-square-foot pro shop, an approximately 5,000-square-
18 foot maintenance and storage facility, and an approximately 2,500-square-
19 foot cafe with seating. The Van Buskirk Golf Course real property is
20 subject to a senior reversionary interest, and if it were to be converted from
21 a public recreational use it may revert to private parties.

22 **98. Golf Course/Park Lease Out** has the meaning set forth in the definition of
23 Golf Course/Park Lease Back Transaction.

24 **99. Golf Course/Park Properties** has the meaning set forth in the definition of
25 Golf Course/Park Lease Back Transaction.

26 **100. Impaired** means a Claim or interest that is impaired within the meaning of
27 section 1124.
28

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1 **101. Indenture Trustee** means Wells Fargo, together with any successor
2 trustee, in its role as the 2003 Fire/Police/Library Certificates Trustee, the 2004 Arena Bond
3 Trustee, the 2004 Parking Bond Trustee, the 2006 SEB Bond Trustee, the 2007 Office Building
4 Bond Trustee, and/or the 2009 Golf Course/Park Bond Trustee, as the context requires.

5 **102. Insured Portion** means that portion of an Allowed Workers Compensation
6 Claim or an Allowed General Liability Claim that is covered by one or more of the excess risk-
7 sharing pools of which the City is a member, up to the amount of the policy limits, including any
8 excess coverage policies.

9 **103. Leave Buyout Claim** means a Claim of a former City employee on
10 account of unpaid sick leave or other compensation or reimbursement due upon such employee's
11 retirement or other separation from City service.

12 **104. Marina Construction Loan** has the meaning set forth in the definition of
13 DBW Transaction.

14 **105. Marina Construction Loan Agreement** has the meaning set forth in the
15 definition of DBW Transaction.

16 **106. Marina Planning Report Loan** has the meaning set forth in the definition
17 of DBW Transaction.

18 **107. Marina Project** has the meaning set forth in the definition of DBW
19 Construction Loan Claim.

20 **108. Marshall Plan** means the plan titled "Marshall Plan: Violence Reduction
21 Strategy, Stockton, California," written by David M. Bennett and Donna D. Lattin and adopted by
22 the City Council. The Marshall Plan aims to reduce homicides and gun violence in the City
23 through, among other measures, additional hires of police and other safety officers. The Marshall
24 Plan is publicly available at [http://www.stocktongov.com/files/CouncilAgenda_2013_4_02_](http://www.stocktongov.com/files/CouncilAgenda_2013_4_02_item_15_01_MarshallPlan.pdf)
25 [item_15_01_MarshallPlan.pdf](http://www.stocktongov.com/files/CouncilAgenda_2013_4_02_item_15_01_MarshallPlan.pdf).

26 **109. Measure A** means the City measure on the November 5, 2013 ballot,
27 which, if passed by the electorate, will raise sales tax in the City by 3/4 cent.

28

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1 **110. Notice of the Effective Date** shall have the meaning ascribed to such
2 phrase in Section XIV(E) of the Plan.

3 **111. NPFG** means National Public Finance Guarantee Corporation, a New York
4 stock insurance corporation.

5 **112. NPFG Settlement** means that certain settlement among the City, the 2004
6 Arena Bond Trustee, the 2004 Parking Bond Trustee, the 2006 SEB Bond Trustee, and NPFG,
7 regarding the treatment under this Plan of the Claims arising out of the Arena Lease Back
8 Transaction, the Parking Structure Lease Back Transaction, and the SEB Lease Back Transaction,
9 as set forth in that certain “Settlement Term Sheet, City of Stockton and National Public Finance
10 Guaranty” dated as of September [___], 2013, and attached hereto as **Exhibit C** and incorporated
11 by reference (the “**NPFG Settlement Term Sheet**”) and as more particularly set forth in that
12 certain “Settlement Agreement, City of Stockton and National Public Finance Guaranty” dated as
13 of September [___], 2013, and attached hereto as **Exhibit D** and incorporated by reference (the
14 “**NPFG Settlement Agreement**”). Any conflict between the terms of the NPFG Settlement
15 Term Sheet and the NPFG Settlement Agreement shall be resolved as set forth in the NPFG
16 Settlement Agreement. While the NPFG Settlement Term Sheet and NPFG Settlement
17 Agreement should be consulted for the precise terms of the NPFG Settlement, a summary of the
18 NPFG Settlement is as follows:

- 19 • The City will assume the SEB Lease Back, and as a result, the City
20 will continue to remain in possession, custody and control of the
21 SEB Properties.
- 22 • After modification of the payment terms of the Arena Lease Back
23 that will reduce the exposure of the General Fund on account of
24 Arena Lease Back Rental Payments, the City will assume the Arena
25 Lease Back, and as a result, the City will continue to remain in
26 possession, custody and control of the Arena.
- 27 • The City will create a new parking authority for the City that will
28 be comprised of the Parking Structure Properties, other downtown

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1 parking structures and lots, and downtown parking meters, as well
2 as parking enforcement revenues.

3 • Revenues from the newly-created parking authority will be pledged
4 to the 2004 Parking Bond Trustee in support of a modified schedule
5 of payments on the Parking Structure Lease Back, and the General
6 Fund will have no liability for such modified payment schedule. As
7 a result, the City will regain possession, custody and control of the
8 Parking Structure Properties.

9 • All parties to the NPFPG Settlement shall bear their own
10 professional fees.

11 • All parties to the NPFPG Settlement will exchange limited mutual
12 releases except for obligations created under the NPFPG Settlement
13 and this Plan.

14 **113. NPFPG Settlement Agreement** has the meaning set forth in the definition
15 of NPFPG Settlement.

16 **114. NPFPG Settlement Term Sheet** has the meaning set forth in the definition
17 of NPFPG Settlement.

18 **115. Office Building Claims of the 2007 Office Building Bond**
19 **Trustee/Assured Guaranty** means the Claims arising in connection with the Office Building
20 Lease Back Transaction (which claims were held by the Financing Authority, but are now
21 controlled and asserted by the 2007 Office Building Bond Trustee at the direction of Assured
22 Guaranty (as the insurer of the 2007 Office Building Bonds) as a result of the assignment by the
23 Financing Authority of all of its rights under the Office Building Lease Out and the Office
24 Building Lease Back to the 2007 Office Building Bond Trustee. The Office Building Claims of
25 the 2007 Office Building Bond Trustee/Assured Guaranty do not include any claims arising out
26 of non-payment of the 2007 Office Building Bonds as all such claims are non-recourse claims
27 against the Financing Authority secured only by the assignment by the Financing Authority of the
28 Office Building Lease Back Rental Payments and are not obligations of the City.

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1 **116. Office Building Lease Back** has the meaning set forth in the definition of
2 Office Building Lease Back Transaction.

3 **117. Office Building Lease Back Rental Payments** has the meaning set forth
4 in the definition of Office Building Lease Back Transaction.

5 **118. Office Building Lease Back Transaction** means the transaction described
6 as follows:

7 ***Financial Instruments Involved.*** The financial instruments
8 involved in this transaction are the Stockton Public Financing Authority Variable
9 Rate Demand Lease Revenue Bonds, 2007 Series A (Building Acquisition
10 Financing Project), issued on November 29, 2007, in the aggregate principal
11 amount of \$36,500,000 (the “**2007 Series A Bonds**”) and the Stockton Public
12 Financing Authority Variable Rate Demand Lease Revenue Bonds, 2007 Series B
13 (Building Acquisition Financing Project), issued on November 29, 2007, in the
14 aggregate principal amount of \$4,270,000 (the “**2007 Series B Bonds**” and
15 together with the 2007 Series A Bonds, the “**2007 Office Building Bonds**”).
16 Wells Fargo is the indenture trustee under the 2007 Office Building Bonds
17 Indenture (together with any successor trustee, the “**2007 Office Building Bond**
18 **Trustee**”). A reserve fund exists for the 2007 Office Building Bonds in an amount
19 equal to the initial reserve requirement funded by a surety policy for the reserve
20 fund issued by Assured Guaranty, which such initial reserve requirement equals
21 \$2,973,431.75 (the “**2007 Office Building Bond Reserve Fund**”). The funds in
22 the 2007 Office Building Bond Reserve Fund are pledged to support repayment of
23 the 2007 Office Building Bonds. The 2007 Office Building Bonds are insured by
24 Assured Guaranty.

25 ***Property Involved/Lease.*** As described in more detail below, the
26 property that is involved in this transaction is an office building that was purchased
27 with the net proceeds of the 2007 Office Building Bonds and located at 400 E.
28 Main Street in Stockton (the “**400 E. Main Office Building Property**”). In order

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1 to facilitate the financing to be provided by the 2007 Office Building Bonds, the
2 City, as prospective owner of the 400 E. Main Office Building Property, leased the
3 property to the Financing Authority pursuant to that certain Site and Facility Lease
4 dated as of November 1, 2007, for a term ending on September 1, 2048, with a
5 possible extension of the term to the date upon which the 2007 Office Building
6 Bonds are paid in full, but in any event no later than September 1, 2058 (the
7 **“Office Building Lease Out”**). The City contemporaneously leased the
8 400 E. Main Office Building Property back from the Financing Authority for the
9 same number of years pursuant to the terms of the Lease Agreement dated as of
10 November 1, 2007 (the **“Office Building Lease Back”**). Thus, the City is the
11 lessor and the Financing Authority is the tenant under the Office Building Lease
12 Out, and the Financing Authority is the lessor and the City is the tenant under the
13 Office Building Lease Back.

14 As tenant under the Office Building Lease Out, the Financing
15 Authority paid rent for the entire lease term in the amount of \$1.00. Pursuant to
16 the Office Building Lease Back, the Financing Authority agreed to provide to the
17 City the net proceeds of the 2007 Office Building Bonds (with gross proceeds
18 equal to \$40,355,000), which the City then used to acquire the 400 E. Main Office
19 Building Property. As tenant under the Office Building Lease Back, the City
20 agreed to make annual rental payments in the amount of interest accruing on the
21 2007 Office Building Bonds plus principal amortization specified in the Office
22 Building Lease Back (such principal amortization is scheduled as \$155,000 due on
23 September 1, 2012, \$165,000 due on September 1, 2013, and \$175,000 due on
24 September 1, 2014) (the **“Office Building Lease Back Rental Payments”**). The
25 Financing Authority assigned its rights under the Office Building Lease Back,
26 including the rights to enforce the lease after default by the City, and including the
27 stream of Office Building Lease Back Rental Payments from the City, to support
28 the repayment of the 2007 Office Building Bonds. No other revenues or assets are

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1 pledged to support the repayment of the 2007 Office Building Bonds, the
2 repayment obligation is non-recourse to the Financing Authority, and the 2007
3 Office Building Bonds are payable solely from the Office Building Lease Back
4 Rental Payments.

5 Even before filing the Chapter 9 Case, due to a lack of revenues
6 generated by the 400 E. Main Office Building Property, and as a result of the
7 deteriorating finances of the City, the City defaulted in the payment of the Office
8 Building Lease Back Rental Payments. As a result, the 2007 Office Building
9 Bond Trustee filed suit to enforce the Office Building Lease Back, with the result
10 that the Superior Court of the State of California for the County of San Joaquin
11 entered an order authorizing the 2007 Office Building Bond Trustee to take over
12 the management of the 400 E. Main Office Building Property, which was
13 accomplished by tasking the existing property management company to manage
14 the property for the benefit of and at the direction of the 2007 Office Building
15 Bond Trustee. See "Judgment of Possession," *Wells Fargo Bank, National*
16 *Association v. City of Stockton*, Superior Court of California, County of San
17 Joaquin, case no. 39-2012-00280741-CU-UD-STK. The Judgment of Possession
18 found the City to be in unlawful detainer of the 400 E. Main Office Building
19 Property and awarded possession of the 400 E. Main Office Building Property to
20 the 2007 Office Building Bond Trustee. Under the Judgment of Possession, the
21 2007 Office Building Bond Trustee can operate and re-let the 400 E. Main Office
22 Building Property for the account of the City, but cannot cause the fee interest or
23 the leasehold interest of the City in the 400 E. Main Office Building Property to be
24 sold. The Judgment of Possession also entitles the 2007 Office Building Bond
25 Trustee to reimbursement of its costs for the unlawful detainer proceeding, as well
26 as reimbursement of its attorney fees and expenses under the Office Building
27 Lease Back.

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1 purchased the 2007 Office Building Bonds and is now the sole holder thereof. As
2 Bank Bonds, the 2007 Office Building Bonds now bear interest at the Default Rate
3 under the Office Building Standby Agreement, which is equal to the Base Rate
4 plus 3% (currently, 6.25%).³ In addition, the Bank Bonds are subject to mandatory
5 early redemption over a seven-year period.

6 ***Leased Property.*** The 400 E. Main Office Building Property is
7 located at 400 East Main Street, Stockton. It consists of a Class A, eight-story,
8 steel-framed office building with approximately 246,541 square feet. The office
9 building is situated on a 2.07-acre site, which is a square block fronting on East
10 Main Street, Market Street, South California Street, and South Sutter Street. The
11 building has an “H”-shaped floor plate with office wings flanking a central lobby
12 on the first floor. The lower three floors step back successively to form terraces
13 extending around the building at Floors 2, 3, and 4, while the tower above Floor 4
14 has planar walls. The building's exterior consists of polished granite walls with
15 tinted single-pane glass window and painted bronze aluminum sections. It was
16 constructed in 1988 and is supported by a foundation of cast-in-place concrete pile
17 in the form of a two-floor subterranean parking garage, which offers a parking
18 ratio of approximately 2.1 per 1,000 square feet, for a total of approximately 518
19 stalls. The 400 E. Main Office Building Property continues to be owned by the
20 City (subject to the Office Building Lease Out to the Financing Authority and the
21 Office Building Lease Back from the Financing Authority).

22 **119. Office Building Lease Out** has the meaning set forth in the definition of
23 Office Building Lease Back Transaction.

24
25 ³ As defined in the Office Building Standby Agreement, Default Rate “means a rate per annum equal to the Base
26 Rate plus an amount equal to three hundred basis points (3.00%).” Base Rate “means the higher of (a) the fluctuating
27 rate per annum equal to the ‘prime rate’ listed daily in the ‘Money Rate’ section of The Wall Street Journal, or if The
28 Wall Street Journal is not published on a particular Business Day, then, the ‘prime rate’ published in any other
national financial journal or newspaper selected by Dexia, and if more than one such rate is listed in the applicable
publication, the highest such rate shall be used or (b) the Fed Funds Rate plus fifty basis points (0.5%). Any change
in the Base Rate shall take effect on the date specified in the announcement of such change.”

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1 **120. Office Building Standby Agreement** has the meaning set forth in the
2 definition of Office Building Lease Back Transaction.

3 **121. Omitted Agreements** shall have the meaning ascribed to such phrase in
4 Section VI(E).

5 **122. Other Postpetition Claims** means Claims asserted against the City for
6 services rendered to, or goods delivered to, or obligations incurred by, the City after the Petition
7 Date that do not constitute Administrative Claims.

8 **123. Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG**
9 means the Claims arising in connection with the Parking Structure Lease Back Transaction
10 (which claims were held by the Financing Authority, but are now controlled and asserted by the
11 2004 Parking Bond Trustee at the direction of NPFG (as the insurer of the 2004 Parking Structure
12 Bonds) as a result of the assignment by the Financing Authority of all of its rights under the
13 Parking Structure Lease Out and the Parking Structure Lease Back to the 2004 Parking Bond
14 Trustee), as modified by the NPFG Settlement. The Parking Structure Claims of the 2004
15 Parking Bond Trustee/NPFG do not include any claims arising out of non-payment of the 2004
16 Parking Bonds as all such claims are non-recourse claims against the Financing Authority secured
17 only by the assignment by the Financing Authority of the Parking Structure Lease Back Rental
18 Payments and are not obligations of the City (except to the extent specifically provided under the
19 terms of the NPFG Settlement).

20 **124. Parking Structure Lease Back** has the meaning set forth in the definition
21 of Parking Structure Lease Back Transaction.

22 **125. Parking Structure Lease Back Rental Payments** has the meaning set
23 forth in the definition of Parking Structure Lease Back Transaction.

24 **126. Parking Structure Lease Back Transaction** means the transaction
25 described as follows:

26 ***Financial Instruments Involved.*** The financial instruments
27 involved in this transaction are the Stockton Public Financing Authority Lease
28 Revenue Bonds, Series 2004, (Parking and Capital Projects) issued on June 25,

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1 2004, in the aggregate principal amount of \$32,785,000 (the “**2004 Parking**
2 **Bonds**”). Wells Fargo is the indenture trustee under the 2004 Parking Bonds
3 Indenture (together with any successor trustee, the “**2004 Parking Bond**
4 **Trustee**”). A reserve fund exists for the 2004 Parking Bonds with a balance as of
5 September 1, 2013, of \$78,693.23 (the “**2004 Parking Bond Reserve Fund**”).
6 The funds in the 2004 Parking Bond Reserve Fund are pledged to support
7 repayment of the 2004 Parking Bonds. The 2004 Parking Bonds are insured by
8 NPFPG.

9 *Properties Involved/Leases.* As described in more detail below, the
10 properties and facilities involved in this transaction are the Edmund S. Coy
11 Parking Structure, the Stockton Events Center Parking Structure, and the Market
12 Street Garage (as more particularly defined below, the “**Parking Structure**
13 **Properties**”). In order to facilitate the financing provided by the 2004 Parking
14 Bonds, the City, as owner of the Parking Structure Properties, leased the properties
15 to the Financing Authority, pursuant to a Site and Facility Lease dated as of
16 June 1, 2004, for a term ending on September 1, 2034, with a possible extension of
17 the term to the date upon which the 2004 Parking Bonds are paid in full (the
18 “**Parking Structure Lease Out**”). Pursuant to section 510 of the City Charter, the
19 term of the Parking Structure Lease Out cannot extend for more than 55 years or to
20 May 31, 2059. The City contemporaneously leased the properties back from the
21 Financing Authority for the same number of years pursuant to the terms of the
22 Lease Agreement dated as of September 1, 2004 (the “**Parking Structure Lease**
23 **Back**”). Thus, the City is the lessor and the Financing Authority is the tenant
24 under the Parking Structure Lease Out, and the Financing Authority is the lessor
25 and the City is the tenant in the Parking Structure Lease Back.

26 As tenant under the Parking Structure Lease Out, the Financing
27 Authority paid rent for the entire lease term in the amount of \$1.00. Pursuant to
28 the Parking Structure Lease Back, the Financing Authority agreed to provide to the

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1 City the net proceeds of the 2004 Parking Bonds (with gross proceeds equal to
2 \$32,785,000), which were used by the City to fund the construction of the Edmund
3 S. Coy Parking Structure (described below) and other capital improvements. As
4 tenant under the Parking Structure Lease Back, the City agreed to make semi-
5 annual rental payments in varying amounts (\$1,960,916 for fiscal year 2012-13)
6 (the “**Parking Structure Lease Back Rental Payments**”). The Financing
7 Authority assigned its rights under the Parking Structure Lease Back, including the
8 rights to enforce the lease after default by the City, and including the stream of
9 Parking Structure Lease Back Rental Payments from the City, to support the
10 repayment of the 2004 Parking Bonds. No other revenues or assets are pledged to
11 support the repayment of the 2004 Parking Bonds, the repayment obligation is
12 non-recourse to the Financing Authority, and the 2004 Parking Bonds are payable
13 solely from the Parking Structure Lease Back Rental Payments.

14 Even before filing the Chapter 9 Case, due to a lack of revenues
15 generated by the Parking Structure Properties, and as a result of the deteriorating
16 finances of the City, the City defaulted in the payment of the Parking Structure
17 Lease Back Rental Payments. As a result of these circumstances, the 2004 Parking
18 Bond Trustee filed suit to enforce the Parking Structure Lease Back, with the
19 result that the Superior Court of the State of California for the County of San
20 Joaquin issued two decisions on April 19, 2012, one granting the 2004 Parking
21 Bond Trustee “Judgment of Possession After Unlawful Detainer” and the other
22 appointing a receiver for the Parking Structure Properties under an “Order
23 Appointing Receiver.” See *Wells Fargo Bank, National Association v. City of*
24 *Stockton*, Superior Court of the State of California, County of San Joaquin, case
25 no. 39-2012-002777622-CU-UD-STK.

26 **Leased Properties.** The subject properties consist of three parking
27 structures that continue to be owned by the City (subject to the Parking Structure
28

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1 Lease Out to the Financing Authority and the Parking Structure Lease Back from
2 the Financing Authority) (the “**Parking Structure Properties**”).

3 **Edmund S. Coy Parking Structure.** This structure is
4 located in the vicinity of Harbor and Channel Streets in downtown
5 Stockton. The six-story parking structure provides approximately 575
6 parking spaces to the Central Business District to accommodate parking for
7 existing retail, commercial, and office development. The structure has
8 approximately 7,500 square feet of ground-level commercial/retail fronting
9 Harbor Street and was constructed using a single-threaded helix design.
10 The total cost of construction was originally estimated at \$9,540,000, with
11 all such amounts provided by proceeds of the 2004 Parking Bonds.

12 **Stockton Events Center Parking Structure.** This
13 structure is located in the vicinity of Fremont and Van Buren streets in
14 downtown Stockton. The seven-story parking structure provides
15 approximately 600 parking spaces on the north shore of the Stockton
16 Channel to accommodate sports fans, concert goers, and event attendees.
17 The structure has approximately 7,500 square feet of ground-level
18 commercial/retail fronting Fremont Street and was constructed using a
19 single-threaded helix design. The total cost of construction was originally
20 estimated at \$9,595,000, with all such amounts provided by proceeds of the
21 2004 Parking Bonds.

22 **Market Street Garage.** This structure is located within the
23 City's Central Parking District on Market Street between Sutter and
24 California Streets and was constructed in 1989. The four-story parking
25 structure provides approximately 780 parking spaces and provides both
26 monthly parking for employees of downtown businesses and hourly
27 parking for patrons of downtown businesses. The structure also houses the
28 Central Parking District management offices.

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1 **127. Parking Structure Lease Out** has the meaning set forth in the definition
2 of Parking Structure Lease Back Transaction.

3 **128. Parking Structure Properties** has the meaning set forth in the definition
4 of Parking Structure Lease Back Transaction.

5 **129. Pendency Plan** means the budget adopted by the City Council on June 26,
6 2012, and its subsequent versions, under which the City has operated during the Chapter 9 Case.

7 **130. Pension Obligation Bonds** means the City of Stockton 2007 Taxable
8 Pension Obligation Bonds issued on April 5, 2007 in the aggregate principal amount of
9 \$125,310,000 pursuant to articles 10 and 11 (commencing with section 53570) of chapter 3 of
10 part 1 of division 2 of title 5 of the Government Code of the State of California and an Indenture
11 of Trust, dated as of April 1, 2007, by and between the City and Wells Fargo, as trustee (together
12 with any successor trustee, the "**Pension Obligation Bonds Trustee**"), to refinance the obligation
13 of the City to make payments to CalPERS for retirement benefits accruing to the City's
14 employees and retirees. The Pension Obligation Bonds are not secured by any pledge of revenues
15 or other collateral support. They are insured by Assured Guaranty.

16 **131. Pension Obligation Bonds Claims** means the Claims of Assured Guaranty
17 in connection with the Pension Obligation Bonds, as insurer of the Pension Obligation Bonds.

18 **132. Pension Obligation Bonds Trustee** has the meaning set forth in the
19 definition of Pension Obligation Bonds.

20 **133. Petition Date** means June 28, 2012.

21 **134. Plan** means this Plan of Adjustment of Debts, together with any exhibits,
22 each in their present form or as they may be altered, amended or modified from time to time in
23 accordance with the provisions of this Plan, the Confirmation Order, the Bankruptcy Code, and
24 the Bankruptcy Rules.

25 **135. Plan Document** means any agreement or instrument contemplated by, or
26 to be entered into pursuant to, this Plan, that is in form and substance acceptable to the City, has
27 been duly and validly executed and delivered, or deemed executed by the parties thereto, and for
28 which all conditions to its effectiveness have been satisfied or waived.

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1 **136. Plan Financial Projections** mean the financial projections set forth in the
2 Long-Range Financial Plan of City of Stockton, attached as Exhibit B to the Disclosure
3 Statement.

4 **137. Plan Solicitation Order** means the Order Approving (1) Adequacy of
5 Information in Disclosure Statement with Respect to the City’s Plan of Adjustment; (2) Form,
6 Scope and Nature of Solicitation, Balloting, Tabulation and Notices with Respect Thereto; and
7 (3) Related Confirmation Procedures, Deadlines and Notices, by which the Bankruptcy Court on
8 [_____] approved the Disclosure Statement as containing adequate information for the
9 purpose of dissemination and solicitation of votes on and confirmation of this Plan and
10 established certain rules, deadlines, and procedures for the solicitation of votes with respect to
11 and the balloting on this Plan.

12 **138. Pledged Tax Increment** has the meaning set forth in the definition of
13 Arena Lease Back Transaction.

14 **139. Ports License Agreement** means that certain “Events Center Ball Park
15 License Agreement” dated as of March 2, 2004, between the City and 7th Inning Stretch, LLC
16 regarding the terms and conditions upon which the Stockton Ports baseball team may use the
17 Banner Island Ballpark located next to the Arena in downtown Stockton.

18 **140. Pre-Confirmation Date Claims** shall have the meaning ascribed to such
19 phrase in Section XI(A).

20 **141. Price Claims** mean the Claims of the Price Judgment Creditors, who filed
21 a proof of claim in the Chapter 9 Case in the amount of \$1,423,164.

22 **142. Price Judgment Creditors** mean Richard Price and five other low-income
23 individuals who were displaced from single-room-occupancy housing units in downtown
24 Stockton in connection with the City’s code-enforcement activities, and the Interfaith Council of
25 San Joaquin (formerly Stockton Metro Ministry Inc.), who collectively filed an action against the
26 City, the Redevelopment Agency, and other parties on May 2, 2002, captioned as *Price, et al. v.*
27 *City of Stockton, et al.*, US District Court for the Eastern District of California, case no. 2:02-cv-
28 00065-LKK-KJM. In their complaint, the Price Judgment Creditors alleged that the defendants

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1 had violated certain state and federal redevelopment, relocation assistance, and fair housing laws.
2 The parties settled the action pursuant to a settlement agreement, dated as of January 9, 2006. *See*
3 Exhibit B to Declaration of Hilton S. Williams in Support of Motion for Relief from Stay, filed in
4 the Chapter 9 Case on November 29, 2012 [Dkt. No. 628]. On January 12, 2006, the District
5 Court entered judgment against the defendants pursuant to this settlement agreement. *See*
6 Exhibit C to Declaration of Hilton S. Williams in Support of Motion for Relief from Stay, filed
7 on November 29, 2012 in the Chapter 9 Case [Dkt. No. 628]. Among other things, the judgment
8 obligated the City to construct low-income housing and to establish a restricted fund in the
9 amount of approximately \$1.45 million for distribution by a special master over a five-year period
10 to persons displaced by the City's activities.

11 **143. Professional Claim** means a Claim required to be filed pursuant to
12 Section II(B) of the Plan for approval of amounts, if any, to be paid after the Effective Date for
13 services or expenses in the Chapter 9 Case or incident to this Plan.

14 **144. Redevelopment Agency** means the Redevelopment Agency of the City of
15 Stockton, and as the context requires, the City acting solely in its role as the successor agency
16 after the dissolution of the Redevelopment Agency of the City of Stockton.

17 **145. Rejection Motion** means one or more motion to be filed by the City
18 pursuant to section 365(a) by which the City shall seek approval and authorization for the
19 rejection of such executory contracts and unexpired leases as shall be identified in the Rejection
20 Motion.

21 **146. Restricted Funds** means the approximately 200 special purpose and
22 enterprise funds administered by the City, the use of which is restricted by, among other things,
23 grants, federal law, the California Constitution, or other California law, such that the assets of the
24 Restricted Funds may not lawfully be used to pay obligations of the General Fund. Among the
25 uses of the assets in the Restricted Funds is payment of the Restricted Revenue Bond and Note
26 Payable Obligations.

27 **147. Restricted Revenue Bond and Note Payable Obligations** means,
28 collectively, (i) City of Stockton Revenue Certificates of Participation 1998 Series A (Wastewater

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1 System Project); City of Stockton Certificates of Participation 2003 Series A (Wastewater System
2 Project); Stockton Public Financing Authority 2005 Water Revenue Bonds, Series A (Water
3 System Capital Improvement Project); Stockton Public Financing Authority Water Revenue
4 Bonds, Series 2009A (Tax Exempt) (Delta Water Supply Project) & Series 2009 B (Taxable
5 Build America Bonds); Stockton Public Financing Authority Variable Rate Demand Water
6 Revenue Bonds, Series 2010A (Delta Water Supply Project); and (ii) Special Assessment and
7 Special Tax Obligations.

8 **148. Retiree Health Benefit Claim** means a Claim by a former City employee
9 on account of or in any way related to the City's postpetition reduction of its contribution to
10 health benefit payments to former City employees.

11 **149. Retiree Health Benefit Claimant** means a former City employee who was
12 eligible for retiree health benefits based on his or her collective bargaining agreement at the time
13 of retirement and: (a) who was receiving City retiree health benefits as of June 30, 2012 (which
14 includes any retiree who had waived coverage prior to that date but was otherwise eligible, or any
15 retiree who had exceeded the 15-year cap for under-65 retiree health benefits, but who was
16 eligible for a City retiree benefit for an over-65 retiree); or (b) who retired prior to July 1, 2012
17 with his or her last day on payroll having occurred before June 30, 2012; or (c) who was a
18 surviving spouse of a deceased retiree who was receiving retiree benefits on June 30, 2012.

19 **150. Retirees Committee** means the Official Committee of Retirees, appointed
20 in the Chapter 9 Case on April 1, 2013 [Dkt. No. 846], by the Office of the United States Trustee
21 pursuant to sections 1102(a)(1) and 1102(b)(1), as the membership thereof may have been
22 reconstituted from time to time by the Office of the United States Trustee.

23 **151. Retirees Settlement** means the agreement between the City and the
24 Retirees Committee by which the City agrees to propose a plan of adjustment containing the
25 provisions set forth in the Retirees Settlement.

26 **152. Rights of Action** means any rights, claims, or causes of action owned by,
27 accruing to, or assigned to the City pursuant to the Bankruptcy Code or pursuant to any contract,
28

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1 statute, or legal theory, including without limitation any rights to, claims, or causes of action for
2 recovery under any policies of insurance issued to or on behalf of the City.

3 **153. Risk Management Internal Service Fund** means the fund established by
4 the City to accumulate resources for interdepartmental charges expended on self insurance for
5 General Liability Claims. The City also has other internal service funds.

6 **154. Rust Omni** means Rust Consulting/Omni Bankruptcy, the Ballot Tabulator
7 in the Chapter 9 Case.

8 **155. SCC 16** means Stockton City Center 16, LLC, a California limited liability
9 company.

10 **156. SCC 16 Secured Claims** means any Claim of SCC 16 arising out of that
11 certain “Agreement Regarding Construction Costs” dated as of April 29, 2008, among SCC 16,
12 the City, and the Redevelopment Agency, relating to the City’s obligation to reimburse SCC 16
13 for construction costs paid by SCC 16 that the City was otherwise liable to pay, for the
14 construction of improvements to certain premises located in the Edmund S. Coy Parking
15 Structure to be leased by SCC 16, to the extent that any such Claim is secured by the right to
16 offset rent and any other monies owing from SCC 16 to the City.

17 **157. SCC 16 Settlement** means that certain settlement between the City, the
18 2004 Parking Structure Bond Trustee, and SCC 16, regarding the SCC Secured Claims and
19 certain other matters, as set forth in that certain “Settlement Agreement and Mutual Release”
20 dated as of September [__], 2013, and attached hereto as **Exhibit E [if finalized]** and incorporated
21 by reference (the “**SCC 16 Settlement Agreement**”). While the SCC 16 Settlement Agreement
22 should be consulted for the precise terms of the SCC 16 Settlement, in general the SCC 16
23 Settlement provides for **[to be inserted if and when settlement is finalized]**.

24 **158. SCC 16 Settlement Agreement** has the meaning set forth in the definition
25 of SCC 16 Settlement.

26 **159. SEB Claims of the 2006 SEB Bond Trustee/NPFG** means any Claims
27 arising under the SEB Lease Back or the SEB Lease Out, if any. The City believes that no such
28

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1 Claims will exist after assumption of the SEB Lease Back and SEB Lease Out pursuant to an
2 appropriate assumption motion.

3 **160. SEB Lease Back** has the meaning set forth in the definition of SEB Lease
4 Back Transaction.

5 **161. SEB Lease Back Rental Payments** has the meaning set forth in the
6 definition of SEB Lease Back Transaction.

7 **162. SEB Lease Back Transaction** means the transaction described as follows:

8 *Financial Instruments Involved.* The financial instruments
9 involved in this transaction are the Stockton Public Financing Authority 2006
10 Lease Revenue Refunding Bonds, Series A, issued on April 6, 2006, in the
11 aggregate principal amount of \$13,965,000 (the "**2006 SEB Bonds**"). Wells Fargo
12 is the indenture trustee under the 2006 SEB Bonds Indenture (together with any
13 successor trustee, the "**2006 SEB Bond Trustee**"). A reserve fund exists for the
14 2006 SEB Bonds in the amount of the initial reserve requirement, funded by a
15 surety policy provided by the insurer, in the amount of \$919,093.75 (the "**2006**
16 **SEB Bond Reserve Fund**"). The funds in the 2006 SEB Bond Reserve Fund are
17 pledged to support repayment of the 2006 SEB Bonds. The 2006 SEB Bonds are
18 insured by NPMG.

19 *Properties Involved/Leases.* As described in more detail below, the
20 properties that are involved in this transaction are the Stewart/Eberhardt Building
21 and the adjacent parking facility (the "**SEB Properties**"). In order to facilitate the
22 financing to be provided by the 2006 SEB Bonds, the City, as owner of the SEB
23 Properties, leased the properties to the Financing Authority pursuant to that certain
24 Ground Lease dated as of March 1, 2006, for a term ending on August 1, 2031,
25 with a possible extension of the term to the date upon which the 2006 SEB Bonds
26 are paid in full, but in any event no later than August 1, 2041 (the "**SEB Lease**
27 **Out**"). The City contemporaneously leased the SEB Properties back from the
28 Financing Authority for the same number of years pursuant to the terms of the

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1 Lease Agreement dated as of March 1, 2006 (the “**SEB Lease Back**”). Thus, the
2 City is the lessor and the Financing Authority is the tenant under the SEB Lease
3 Out, and the Financing Authority is the lessor and the City is the tenant in the SEB
4 Lease Back.

5 As tenant under the SEB Lease Out, the Financing Authority paid
6 rent for the entire lease term in the amount of \$1.00. As tenant under the SEB
7 Lease Back, the City agreed to make semi-annual rental payments in varying
8 amounts (\$907,494 for fiscal year 2012-13, \$906,194 for fiscal year 2013-14,
9 \$909,194 for fiscal year 2014-15, etc.) (the “**SEB Lease Back Rental**
10 **Payments**”). The Financing Authority assigned to the 2006 SEB Bond Trustee its
11 rights under the SEB Lease Back, including the rights to enforce the lease after
12 default by the City, and including the stream of SEB Lease Back Rental Payments
13 from the City, to support the repayment of the 2006 SEB Bonds. No other
14 revenues or assets are pledged to support the repayment of the 2006 SEB Bonds,
15 the repayment obligation is non-recourse to the Financing Authority, and the 2006
16 SEB Bonds are payable solely from the 2006 SEB Bond Reserve Fund and the
17 SEB Lease Back Rental Payments. The City is not in default under the SEB Lease
18 Back, and to date all amounts due on the 2006 SEB Bonds have been paid in full
19 and on time.

20 **Leased Properties.** The subject properties consist of the
21 Stewart/Eberhardt Building (the “**Eberhardt Building**”) located at 22 East Weber
22 Avenue and the adjacent public parking facility located at 15 North El Dorado
23 Street in downtown Stockton, both of which continue to be owned by the City
24 (subject to the SEB Lease Out to the Financing Authority and the SEB Lease Back
25 from the Financing Authority) (as described below, the “**SEB Properties**”).

26 **Stewart/Eberhardt Building.** The Eberhardt Building is a
27 four-story, 99,792 square foot, steel and precast concrete-clad office
28 building constructed in 2001. It was designed to meet the standards for,

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1 and is certified as, an Essential Services Building, as defined in the
2 Essential Services Buildings Seismic Safety Act of 1986, commencing
3 with section 16000 of the California Health and Safety Code. It currently
4 houses several city departments including Human Resources, Police
5 Investigations, Public Works, and the Police Crime Lab.

6 **SEB Public Parking Facility.** The SEB public parking
7 facility is a 284,420-square-foot, eight-level, reinforced masonry and cast-
8 in-place concrete structure with approximately 780 parking spaces.
9 Constructed in 2001, it also includes approximately 7,000 square feet for
10 Police Department property storage and a “sally port” exclusively for
11 Police Department functions on the ground floor.

12 **163. SEB Lease Out** has the meaning set forth in the definition of SEB Lease
13 Back Transaction.

14 **164. SEB Properties** has the meaning set forth in the definition of SEB Lease
15 Back Transaction.

16 **165. Secured Claim** means a Claim that is secured, in whole or in part, (a) by a
17 lien that is not subject to avoidance or subordination under the Bankruptcy Code or applicable
18 non-bankruptcy law; or (b) as a result of rights of setoff under section 553; but in any event only
19 to the extent of the value, determined in accordance with section 506(a), of the holder’s interest in
20 the City’s interest in property or to the extent of the amount subject to such setoff, as the case
21 may be.

22 **166. SIR Claim Portion** means the portion of a Workers Compensation Claim
23 or General Liability Claim subject to the City’s self insurance retention. For any resolved
24 Workers Compensation Claim, the SIR Claim Portion is the first \$500,000. For any resolved
25 General Liability Claim, the SIR Claim Portion is the first \$1,000,000. The SIR Claim Portion is
26 an obligation of the City rather than an obligation of any excess risk-sharing pool of which the
27 City is a member.

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1 **167. Special Assessment and Special Tax Obligations** means, collectively:
2 Stockton Public Financing Authority Reassessment Revenue Bonds (Arch Road and Stockton
3 Business Park Assessment Districts) Series 1998; City of Stockton Camera Estates Community
4 Facilities District No. 2003-1 Special Tax Bonds, Series 2003; City of Stockton Limited
5 Obligation Improvement Bonds March Lane/Holman Assessment District 2003-1; City of
6 Stockton Limited Obligation Improvement Bonds Mosher Assessment District 2003-02; City of
7 Stockton Limited Obligation Improvement Bonds Waterford Estates East Phase II Assessment
8 District 2003-03; Stockton Public Financing Authority Refunding Revenue Bonds (West Eighth
9 Street Reassessment District); City of Stockton South Stockton Community Facilities District No.
10 90-1 2005 Special Tax Refunding Bonds; Stockton Public Financing Authority Refunding
11 Revenue Bonds (2005 Assessment Districts Refinancing) Series A Senior Lien Bonds and
12 Series B Subordinate Lien Bonds; City of Stockton Community Facilities District No. 90-2
13 (Brookside Estates) 2005 Special Tax Refunding Bonds; City of Stockton Community Facilities
14 District No. 1 (Weston Ranch) Special Tax Refunding Bonds, Series 2006; City of Stockton
15 Spanos Park West Community Facilities District No. 2001-1 Special Tax Refunding Bonds,
16 Series 2006; City of Stockton Community Facilities District No. 2006-1 (Riverbend) Special Tax
17 Bonds, Series 2006; City of Stockton Community Facilities District No. 2006-3 (Northbrook)
18 Woodside Improvement Area 1 Special Tax Bonds, Series 2007.

19 **168. SPOA** means the Stockton Police Officers' Association.

20 **169. SPOA Claims** means the Claims of members of the SPOA in the
21 approximate amount of \$13 million included in and resolved under the SPOA MOU by, in
22 general, allowing such members a total of 44 additional hours of paid leave time through fiscal
23 year 2014-15.

24 **170. SPOA MOU** means the Memorandum of Understanding between the City
25 and the SPOA effective July 1, 2012, through June 30, 2014, as approved by the City.

26 **171. Successor Agency** means the City, in its capacity as Successor Agency to
27 the Redevelopment Agency of the City.
28

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1 **172. Thunder Claims** means the Claims arising in connection with the Thunder
2 License Agreement, as modified by the Thunder Settlement.

3 **173. Thunder License Agreement** means that certain agreement dated as of
4 March 2, 2004, titled “Team Lease for Stockton Events Center (Ice Hockey Team)” between the
5 City and IFG-Stockton Franchise Group, Inc. as the same may have been amended from time to
6 time, relating to the rights of the Stockton Thunder ice hockey team to use the facilities of the
7 Arena.

8 **174. Thunder Settlement** means that certain settlement between the City and
9 SC Hockey Franchise Corporation, as successor to IFG-Stockton Franchise Group, Inc., regarding
10 the treatment under this Plan of the claims arising out of the Thunder License Agreement as set
11 forth in that certain “Term Sheet - Proposed, Amendments to Team Lease For Stockton Events
12 Center” dated as of September 17, 2013, and attached hereto as **Exhibit F [to be attached]** and
13 incorporated by reference (the “**Thunder Settlement Term Sheet**”). The Thunder Settlement is
14 summarized as follows (the Thunder Settlement Term Sheet needs to be consulted for the precise
15 terms of the Thunder Settlement): **[summary to be provided]**.

16 **175. Thunder Settlement Term Sheet** has the meaning set forth in the
17 definition of Thunder Settlement.

18 **176. Unclaimed Property** shall have the meaning ascribed to such phrase in
19 Section IX(C)(2).

20 **177. Unimpaired** means a Claim that is not Impaired within the meaning of
21 section 1124.

22 **178. Uninsured Portion Claim** means the amount in excess of the Insured
23 Portion of an Allowed Workers Compensation Claim or an Allowed General Liability Claim that
24 is covered by one or more of the excess risk-sharing pools of which the City is a member.

25 **179. Unsecured Claim Payout Percentage** means the percentage of the
26 Allowed Amount of General Unsecured Claims that will be paid to holders of Class 12 Claims,
27 equal to the percentage paid on account of the Retiree Health Benefit Claims (unless the amount
28 of the Retiree Health Benefit Claims changes, that percentage will be $\$5,100,000/\$538,000,000 =$

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1 0.94796%), or such other amount as is determined by the Bankruptcy Court before confirmation
2 of this Plan to constitute a pro-rata payment on such other General Unsecured Claims; *provided*,
3 *however*, the dollar amount to be paid shall not exceed in the aggregate \$_____; and *provided*
4 *further*, if such amount is in excess of \$_____, the City retains the right to and intends to
5 modify this Plan to provide alternative treatment to such General Unsecured Claims, which
6 alternative treatment may involve payment over a number of years on account of such General
7 Unsecured Claims.

8 **180. Wells Fargo** means Wells Fargo Bank, National Association, acting solely
9 in its role as bond trustee under the bond indenture agreements referenced herein.

10 **181. West End Project Area** has the meaning set forth in the definition of
11 Arena Lease Back Transaction.

12 **182. Workers Compensation Claims** means those Claims pursuant to
13 California workers compensation law (California Labor Code section 3200 *et seq.*) of current and
14 former City employees who have suffered an eligible injury while employed by the City

15 **183. Workers Compensation Internal Service Fund** means the fund
16 established by the City to accumulate resources for interdepartmental charges expended on self
17 insurance for Workers Compensation Claims.

18 **B. Rules of Construction.**

19 The following rules of construction apply to this Plan: (a) unless otherwise
20 specified, all references in this Plan to “sections” (lowercased) are references to a section of the
21 Bankruptcy Code; (b) unless otherwise specified, all references in this Plan to “Sections” and
22 “Exhibits” (uppercased) are to the respective Section in or Exhibit to this Plan, as the same may
23 be amended or modified from time to time; (c) the headings in this Plan are for convenience of
24 reference only and do not limit or otherwise affect the provisions of this Plan; (d) words denoting
25 the singular number include the plural number and vice versa; (e) the rules of construction set
26 forth in section 102 apply; (f) in computing any period of time prescribed or allowed by this Plan,
27 the provisions of Bankruptcy Rule 9006(a) apply; and (g) the words “herein,” “hereof,” “hereto,”
28

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1 “hereunder,” and others of similar import refer to this Plan as a whole and not to any particular
2 section, subsection, or clause contained in this Plan.

3 **II. TREATMENT AND DEADLINE FOR THE ASSERTION OF ADMINISTRATIVE**
4 **CLAIMS AND PROFESSIONAL CLAIMS**

5 **A. Treatment of Administrative Claims.**

6 Except to the extent that the holder of an Allowed Administrative Claim agrees to
7 a different treatment, the City or its agent shall pay to each holder of an Allowed Administrative
8 Claim, in full satisfaction, release, and discharge of such Claim, Cash in an amount equal to such
9 Allowed Administrative Claim on the later of (i) the Effective Date or (ii) the date on which such
10 Claim becomes an Allowed Administrative Claim, or as soon thereafter as is practicable.

11 **B. Treatment of Professional Claims.**

12 Pursuant to section 943(a)(3), all amounts paid following the Effective Date or to
13 be paid following the Effective Date for services or expenses in the Chapter 9 Case or incident to
14 this Plan must be disclosed to the Bankruptcy Court and must be reasonable. There shall be paid
15 to each holder of a Professional Claim, in full satisfaction, release, and discharge of such Claim,
16 Cash in an amount equal to that portion of such Claim that the Bankruptcy Court approves as
17 reasonable, on or as soon as reasonably practicable following the date on which the Bankruptcy
18 Court enters a Final Order determining such reasonableness. The City, in the ordinary course of
19 its business, and without the requirement for Bankruptcy Court approval, may pay for
20 professional services rendered and costs incurred following the Effective Date.

21 **C. Priority Claims in Chapter 9.**

22 The only priority claims incorporated into chapter 9 through section 901 are
23 Administrative Claims allowed under section 503(b) and entitled to priority under
24 section 507(a)(2). The treatment of all such Administrative Claims is set forth immediately above
25 in Sections II(A) and II(B). No other kinds of priority claims set forth in section 507 are
26 recognized in chapter 9 cases, and Claims that are not Administrative Claims herein and that
27 would constitute administrative claims in a case under another chapter of the Bankruptcy Code
28 are treated in chapter 9 and in this Plan as General Unsecured Claims.

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1 **D. Deadline for the Filing and Assertion of Other Postpetition Claims,**
2 **Administrative Claims and Professional Claims.**

3 **All proofs of claim for Other Postpetition Claims arising on or after**
4 **August 16, 2013,⁴ and requests for payment or any other means of preserving and obtaining**
5 **payment of Administrative Claims that have not been paid, released, or otherwise settled,**
6 **and all requests for approval of Professional Claims, must be filed with the Bankruptcy**
7 **Court and served upon the City no later than 30 days after the date on which the Notice of**
8 **Effective Date is mailed.** Any proof of claim for Other Postpetition Claims, or request for
9 payment of an Administrative Claim or a Professional Claim, that is not timely filed by such date
10 will be forever barred, and holders of such Claims shall be barred from asserting such Claims in
11 any manner against the City.

12 **III. DESIGNATION OF CLASSES OF CLAIMS**

13 Pursuant to sections 1122 and 1123(a)(1), all Claims other than Administrative
14 Claims and Professional Claims are classified for all purposes, including voting, confirmation,
15 and distribution pursuant to this Plan, as follows:

16 Class 1A – Claims of Ambac – 2003 Fire/Police/Library Certificates;

17 Class 1B – Claims of Holders of 2003 Fire/Police/Library Certificates;

18 Class 2 – SEB Claims of the 2006 SEB Bond Trustee/NPFG;

19 Class 3 – Arena Claims of the 2004 Arena Bond Trustee/NPFG;

20 Class 4 – Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG –
21 2004 Parking Structure Bonds;

22 Class 5 – Office Building Claims of the 2007 Office Building Bond
23 Trustee/Assured Guaranty – 2007 Office Building Bonds; [separate classification
24 necessary only if Assured Settlement is finalized]

25 _____
26 ⁴ Proofs of claim for Other Post-Petition Claims that arose before August 16, 2013 must have been filed by
27 August 16, 2013 in order to be considered timely. See Order (1) Fixing August 16, 2013 Bar Date For All Claims
28 Other Than Claims Based On Retiree Health Benefits And The Rejection Of Executory Contracts Or Unexpired
Leases; (2) Fixing September 30, 2013 Bar Date For Claims Of Governmental Units; (3) Approving Form Of Notice
Of Bar Dates; And (4) Requiring City To Publish And Transmit Notice Of Bar Date To Creditors And Parties In
Interest By No Later Than June 28, 2013 [Dkt. No. 960].

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Class 6 – Pension Obligation Bonds Claims of Assured Guaranty; [separate classification necessary only if Assured Settlement is finalized]

Class 7 – Claims of DBW;

Class 8 – SCC 16 Secured Claims;

Class 9 – Thunder Claims;

Class 10 – Claims of Holders of Restricted Revenue Bond and Note Payable

Obligations;

Class 11 – Claims of the Holders of Special Assessment and Special Tax

Obligations;

Class 12 – General Unsecured Claims.

This class includes:

- General Unsecured Claims;
- the Claims of Dexia under the Office Building Standby Agreement;
- the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin;
- the Retiree Health Benefit Claims;
- the Leave Buyout Claims;
- the Price Claims; and
- Other Postpetition Claims.

Class 13 – Convenience Class Claims;

Class 14 – Claims of Certain Tort Claimants;

Class 15 – Claims of CalPERS with Respect to the CalPERS Pension Plan, as Trustee under the CalPERS Pension Plan for the Benefit of CalPERS Pension Plan Participants;

Class 16 – Claims of Equipment Lessors;

Class 17 – Workers Compensation Claims; and

Class 18 – SPOA Claims.

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1 **IV. TREATMENT OF CLAIMS**

2 **A. Class 1A – Claims of Ambac – 2003 Fire/Police/Library Certificates.**

3 **1. Impairment and Voting.**

4 Class 1A is Impaired by this Plan since the treatment of this Class will affect the
5 legal, equitable, or contractual rights of Ambac, the holder of the Claims. Accordingly, this Class
6 is entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

7 **2. Treatment.**

8 On February 26, 2013, the City filed a motion with the Bankruptcy Court in which
9 it requested the Bankruptcy Court to enter an order approving the Ambac Settlement Agreement
10 [Dkt. No. 723]. A copy of the Ambac Settlement Agreement is attached as Exhibit A to the
11 Declaration of Robert Deis in Support of the City of Stockton's Motion Under Bankruptcy
12 Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed on
13 February 26, 2013 [Dkt. No. 725]. On April 24, 2013, the Bankruptcy Court entered its order
14 granting the Ambac Settlement Agreement Motion in its entirety and approving the Ambac
15 Settlement Agreement in its entirety [Dkt. No. 888].

16 Among other things, the Ambac Settlement Agreement restructures the City's
17 obligations under the 2003 Fire/Police/Library Certificates and provides additional liquidity for
18 the City. The salient terms of the Ambac Settlement Agreement are summarized below.⁵

19 a. Forbearance. Subject to the express provisions of the Ambac
20 Settlement Agreement, Ambac and the 2003 Fire/Police/Library Certificates Trustee agree to
21 forbear from exercising their rights and remedies under the Fire/Police/Library Lease Back and
22 the 2003 Fire/Police/Library Certificates Trust Agreement. The agreement to forbear is
23 conditioned upon and subject to the following conditions of forbearance:
24

25
26 _____
27 ⁵ This summary is presented for convenient reference by the Court and parties in interest, but is not intended as a
28 complete or exhaustive description of all terms of the Ambac Settlement Agreement, which is the definitive and
controlling document. To the extent that there is any discrepancy between the terms as stated in this Plan and the
terms as stated in the Ambac Settlement Agreement, the terms of the Ambac Settlement Agreement prevail.

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1 (1) General Fund Payments. The City shall make General Fund
2 Payments (as defined in the Ambac Settlement Agreement) in an amount equal to the lesser of
3 (A) the amounts set forth in the General Fund Payment Schedule (as defined in the Ambac
4 Settlement Agreement), or (B) the amount equal to the difference between the stated principal and
5 interest payments on the 2003 Fire/Police/Library Certificates due on each Payment Date (as
6 defined in the Ambac Settlement Agreement) and the amount available to the City pursuant to
7 section 5.04, clauses 1 and 2(d)(ii) of the 2003 Fire/Police/Library Certificates Supplemental
8 Trust Agreement and section 2.7 of the Ambac Settlement Agreement to be applied to the
9 payment of the 2003 Fire/Police/Library Certificates.

10 The General Fund Payments shall be paid by the City directly to the 2003
11 Fire/Police/Library Certificates Trustee; provided that from and after the date on which the 2003
12 Fire/Police/Library Certificates holders (other than Ambac) are paid in full, the General Fund
13 Payments shall be paid by the City directly to Ambac for its own account as reimbursement for
14 amounts owing to Ambac on account of the Ambac Payments (as defined in the Ambac
15 Settlement Agreement) and the payment of legal fees pursuant to section 6.8 of the Ambac
16 Settlement Agreement, together with interest thereon, pursuant to section 2.8 of the Ambac
17 Settlement Agreement. At such time as all 2003 Fire/Police/Library Certificates and Ambac
18 Payments have been paid in full, no further General Fund Payments shall be payable.

19 (2) Assignment of 2003 Fire/Police/Library Certificates
20 Reimbursement Agreement. As additional security for the payments by Ambac pursuant to the
21 Ambac Insurance Policy, as of the Ambac Effective Date, all of the City's rights, title and interest
22 under the 2003 Fire/Police/Library Certificates Reimbursement Agreement, including the right to
23 the Housing Set-Aside Amounts (as defined in the 2003 Fire/Police/Library Certificates
24 Reimbursement Agreement) shall be automatically pledged and collaterally assigned to the 2003
25 Fire/Police/Library Certificates Trustee which Housing Set-Aside Amounts shall later be assigned
26 to the 2003 Fire/Police/Library Certificates Trustee in accordance with the terms of the 2003
27 Fire/Police/Library Certificates Supplemental Trust Agreement.

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1 amounts owing to the 2003 Fire/Police/Library Certificates holders and Ambac under the Ambac
2 Settlement Agreement have been paid in full.

3 b. Debt Service Reserve Fund. The 2003 Fire/Police/Library
4 Certificates Trustee agrees to apply monies in the 2003 Fire/Police/Library Certificates Reserve
5 Fund as exists as of the Ambac Effective Date to pay principal of and interest on the 2003
6 Fire/Police/Library Certificates commencing with the payment due on September 1, 2013 in the
7 amount necessary to pay debt service on the 2003 Fire/Police/Library Certificates minus amounts
8 available from Housing Set-Aside Subaccount of the Lease Payment Fund (as defined in the 2003
9 Fire/Police/Library Certificates Trust Agreement) established pursuant to the 2003
10 Fire/Police/Library Certificates Supplemental Trust Agreement until the 2003 Fire/Police/Library
11 Certificates Reserve Fund is exhausted. Amounts so applied from the 2003 Fire/Police/Library
12 Certificates Reserve Fund shall be a credit against the General Fund Payments due from the City
13 under the Ambac Settlement Agreement. Replenishment of the 2003 Fire/Police/Library
14 Certificates Reserve Fund to the Reserve Requirement will take place with excess Housing Set-
15 Aside Amounts paid pursuant to the 2003 Fire/Police/Library Certificates Reimbursement
16 Agreement as set forth in the 2003 Fire/Police/Library Certificates Supplemental Trust
17 Agreement.

18 c. Successor Agency Sale Proceeds. The City shall cause the
19 Successor Agency to work with Ambac to agree upon a list of all properties (i) which will be sold
20 by the Successor Agency, or (ii) to be transferred to the Community Redevelopment Property
21 Trust Fund of the Successor Agency and sold pursuant to the long-range property management
22 plan developed and authorized in accordance with the applicable sections of the Health and
23 Safety Code. The City and Ambac will, and the City shall cause the Successor Agency to, use
24 their best efforts to obtain written approval of the long-range property management plan
25 developed by the Successor Agency and approved by Ambac prior to submission which will
26 provide, among other things, that all of the proceeds from the sale of the properties be used to
27 satisfy outstanding obligations under the bonds of the Successor Agency and 2003
28 Fire/Police/Library Certificates Reimbursement Agreement in accordance with the existing

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1 priorities under applicable law prior to any distribution of such proceeds to taxing agencies under
2 the Health and Safety Code. The City shall, and the City shall cause the Successor Agency to,
3 diligently pursue the sales of the properties in accordance with applicable law and shall provide
4 Ambac and the 2003 Fire/Police/Library Certificates Trustee with a written monthly report of all
5 progress and activity taken in connection with such sales.

6 d. Plan Support Commitment. From and after the entry into the
7 Ambac Settlement Agreement, and provided that (i) the Bankruptcy Court has entered the
8 Approval Order, and (ii) the City has complied with its covenants and obligations under the
9 Ambac Settlement Agreement, Ambac will support the Plan and take such action as is reasonably
10 necessary to support confirmation and consummation of the Plan which provides for separate
11 classification of the Claims of Ambac and the 2003 Fire/Police/Library Certificates holders with
12 respect to the 2003 Fire/Police/Library Certificates into two classes; each class shall provide for
13 all Claims of Ambac and the 2003 Fire/Police/Library Certificates holders to be satisfied through
14 the City's recognition and performance of its obligations under the Ambac Settlement Agreement.
15 Ambac in its capacity as insurer and sole owner of all 2003 Fire/Police/Library Certificates
16 pursuant to the 2003 Fire/Police/Library Trust Agreement agrees to vote for such Plan. Subject to
17 the terms and conditions of the Ambac Settlement Agreement, the Plan will affirm that the
18 Fire/Police/Library Lease Back, 2003 Fire/Police/Library Certificates Trust Agreement,
19 Fire/Police/Library Lease Out and 2003 Fire/Police/Library Certificates Reimbursement
20 Agreement shall be assumed and remain in full force and effect.

21 e. Reimbursement of Attorneys' Fees. The City shall reimburse
22 Ambac and the 2003 Fire/Police/Library Certificates Trustee for the fees and expenses of Ambac
23 and 2003 Fire/Police/Library Certificates Trustee, including attorney's fees and expenses incurred
24 in connection with the 2003 Fire/Police/Library Certificates and the Chapter 9 Case (i) in relation
25 to Ambac, accrued through the date of execution and delivery of the Ambac Settlement
26 Agreement in the amount of \$240,000, and (ii) in relation to Ambac and 2003 Fire/Police/Library
27 Certificates Trustee accrued from the date of the execution and delivery of the Ambac Settlement
28 Agreement through the effective date of the Plan (the "Outstanding Fees and Expenses")

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1 through application of Housing Set-Aside Amounts paid pursuant to the 2003 Fire/Police/Library
2 Certificates Reimbursement Agreement as set forth in section 5.04 of the 2003
3 Fire/Police/Library Certificates Trust Agreement. The 2003 Fire/Police/Library Certificates
4 Trustee and Ambac shall submit invoices to the City relating to the Outstanding Fees and
5 Expenses specified in (ii) herein on a monthly basis. Interest will accrue on the Outstanding Fees
6 and Expenses at an interest rate of 8% compounded annually. The City and the Financing
7 Authority will be obligated to pay ongoing 2003 Fire/Police/Library Certificates Trustee fees and
8 expenses as required under the 2003 Fire/Police/Library Certificates Trust Agreement and
9 Fire/Police/Library Lease Back.

10 f. Approval and Authorization to enter into the Ancillary Documents.

11 (1) 2003 Fire/Police/Library Certificates Supplemental Trust
12 Agreement. On the Ambac Effective Date, the City, the Financing Authority and the 2003
13 Fire/Police/Library Certificates Trustee shall be authorized to and shall enter into the 2003
14 Fire/Police/Library Certificates Supplemental Trust Agreement.

15 (2) Fire/Police/Library Lease Out Assignment Agreement. On
16 the Ambac Effective Date, the Financing Authority and the 2003 Fire/Police/Library Certificates
17 Trustee shall be authorized to and shall enter into Fire/Police/Library Lease Out Assignment
18 Agreement and the City shall be authorized to and shall acknowledge and consent thereto.

19 **B. Class 1B – Claims of Holders of 2003 Fire/Police/Library Certificates.**

20 **1. Impairment and Voting.**

21 Class 1B is Impaired by this Plan since the treatment of this Class will affect the
22 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
23 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
24 Plan Solicitation Order.

25 **2. Treatment.**

26 The treatment of the Class 1B claimants, the 2003 Fire/Police/Library Certificates
27 holders, is identical to the treatment of Ambac, the Class 1A claimant.

28

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1 **C. Class 2 – SEB Claims of the 2006 SEB Bond Trustee/NPFG – 2006 SEB**
2 **Bonds.**

3 **1. Impairment and Voting.**

4 Class 2 is Impaired by this Plan since the treatment of this Class will affect the
5 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
6 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
7 Plan Solicitation Order.

8 **2. Treatment.**

9 The City will assume the SEB Lease Back and the SEB Lease Out under
10 section 365(a) pursuant to the Assumption Motion. No later than 60 days after the Effective Date
11 or 60 days after approval of the Lease Assumption Motion, whichever is later, the City will make
12 the payments to the 2006 SEB Bond Trustee necessary to cure past defaults under the SEB Lease
13 Back and the SEB Lease Out, if any, as well as any actual pecuniary loss suffered by the 2006
14 SEB Bond Trustee as a result of the City’s default of the SEB Lease Back and the SEB Lease
15 Out, if any, but, pursuant to the terms of the NPFG Settlement, not any attorneys’ fees or other
16 professional expenses incurred by the 2006 SEB Bond Trustee. Further, the finding by the
17 Bankruptcy Court that the Plan is feasible shall constitute adequate assurance of future
18 performance of the SEB Lease Back and the SEB Lease Out.

19 **D. Class 3 – Arena Claims of the 2004 Arena Bond Trustee/NPFG – 2004 Arena**
20 **Bonds.**

21 **1. Impairment and Voting.**

22 Class 3 is Impaired by this Plan since the treatment of this Class will affect the
23 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
24 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
25 Plan Solicitation Order.

26 **2. Treatment.**

27 The treatment of the Class 3 Claims will be as set forth in the NPFG Settlement.
28

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1 **E. Class 4 – Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG**
2 **– 2004 Parking Bonds.**

3 **1. Impairment and Voting.**

4 Class 4 is Impaired by this Plan since the treatment of this Class will affect the
5 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
6 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
7 Plan Solicitation Order.

8 **2. Treatment.**

9 The treatment of the Class 4 Claims will be as set forth in the NPFG Settlement.

10 **F. Class 5 – Office Building Claims of the 2007 Office Building Bond**
11 **Trustee/Assured Guaranty – 2007 Office Building Bonds.**

12 **1. Impairment and Voting**

13 Class 5 is Impaired by this Plan since the treatment of this Class will affect the
14 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
15 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
16 Plan Solicitation Order.

17 **2. Treatment.**

18 The treatment of the Class 5 Claims will be as set forth in the Assured Guaranty
19 Settlement.

20 **G. Class 6 – Pension Obligation Bonds Claims of Assured Guaranty.**

21 **1. Impairment and Voting.**

22 Class 6 is Impaired by this Plan since the treatment of this Class will affect the
23 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
24 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
25 Plan Solicitation Order.

26 **2. Treatment.**

27 The treatment of the Class 6 Claims will be as set forth in the Assured Guaranty
28 Settlement.

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1 **H. Class 7 – Claims of DBW.**

2 **1. Impairment and Voting.**

3 Class 7 is Impaired by this Plan since the treatment of this Class will affect the
4 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
5 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
6 Plan Solicitation Order.

7 **2. Treatment.**

8 The General Fund will have no obligation to pay debt service on this obligation, or
9 to reimburse operating expenses to DBW should DBW take over operations of the Marina
10 Project. DBW will retain its pledge of rents and leases generated from the Marina Project.
11 However, the pledge of gross revenues will be converted to a pledge of revenues net of all
12 reasonable and direct operating expense of the Marina Project, calculated on a fiscal year basis
13 ending June 30 of each year. Should DBW decide to take over operations of the Marina Project,
14 DBW will be responsible for payment of all operating expenses of the Marina Project and the
15 City will have the right to ensure that the Marina Project is operated in a responsible and safe
16 manner, including providing adequate security, and the City shall have the right to compel DBW
17 to alter its manner of operations if such operations pose a threat to the public welfare or if such
18 operations abet a public nuisance. The General Fund shall have no liability, directly or indirectly,
19 for the Claims of DBW, and the City may decide at any time to cease subsidizing the operating
20 deficits of the operation of the Marina Project. DBW has stated to the City an interest in
21 exercising its remedy of taking possession of the Marina Project.

22 **I. Class 8 - SCC 16 Secured Claims.**

23 **1. Impairment and Voting.**

24 Class 8 is Impaired by this Plan since the treatment of this Class will affect the
25 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
26 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
27 Plan Solicitation Order.

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2. Treatment.

The treatment of the Class 8 Claims will be as set forth in the SCC 16 Settlement.

J. Class 9 – Thunder Claims.

1. Impairment and Voting.

Class 9 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The treatment of the Class 9 Claims will be as set forth in the Thunder Settlement.

K. Class 10 – Claims of Holders of Restricted Revenue Bond and Note Payable Obligations.

1. Impairment and Voting.

Class 10 is not Impaired by this Plan since the treatment of this Class will not affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are not entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

Class 10 consists of Claims of the holders of Restricted Revenue Bond and Note Payable Obligations that are secured by special and restricted sources of revenues and are not payable from the General Fund.

Restricted Revenue Bond and Notes Payable Obligations. The City’s Restricted Revenue Bond and Notes Payable Obligations are secured by a pledge of and lien on revenues of various of the City’s systems and enterprises, which are restricted revenues pursuant to the California Constitution, and are “special revenues” as defined in section 902(2). These revenues are not a part of or available to the General Fund, and the General Fund is not obligated to make any payment on the Restricted Revenue Bond and Notes Payable Obligations. The City may transfer amounts from the restricted revenues to the General Fund only to pay costs which are

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1 incurred by the General Fund to provide the facility or enterprise-related services and which are
2 allocated to the enterprises on a reasonable basis in accordance with the City's accounting and
3 allocation policies. Such transfers are treated by the facility or enterprise as operation and
4 maintenance expenses. The City will continue to apply restricted revenues to pay the Restricted
5 Revenue Bond and Notes Payable Obligations as required by the terms of such obligations.

6 **L. Class 11 – Claims of Holders of Special Assessment and Special Tax**
7 **Obligations.**

8 **1. Impairment and Voting.**

9 Class 11 is not Impaired by this Plan since the treatment of this Class will not
10 affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the
11 holders of the Claims in this Class are not entitled to vote to accept or reject this Plan in
12 accordance with the Plan Solicitation Order.

13 **2. Treatment.**

14 Class 11 consists of Claims of the holders of Special Assessment and Special Tax
15 Obligations that are secured by special and restricted sources of revenues and are not payable
16 from the General Fund.

17 Special Assessment and Special Tax Obligations. The Special Assessment and
18 Special Tax Obligations are secured by certain special assessments and special taxes levied on
19 specific real property within the respective districts for which these obligations were issued.
20 These special assessment and special tax revenues are legally restricted to the payment of debt
21 service on the Special Assessment and Special Tax Obligations under California statutes and the
22 California Constitution, are "special revenues" as defined in section 902(2), and cannot be used
23 for any other purpose or be transferred to the General Fund. The General Fund is not obligated to
24 pay debt service on the Special Assessment and Special Tax Obligations. The City will continue
25 to apply revenues from the applicable special assessments and special taxes to pay the Special
26 Assessment and Special Tax Obligations as required by the terms of such obligations.
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1 **M. Class 12 – General Unsecured Claims.**

2 **1. Impairment and Voting.**

3 Class 12 is Impaired by this Plan since the treatment of this Class will affect the
4 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
5 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
6 Plan Solicitation Order.

7 **2. Treatment.**

8 The major claims in this Class include without limitation: (1) the Retiree Health
9 Benefit Claims; (2) the Claims of Dexia under the Office Building Standby Agreement; (3) the
10 Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (4) the Leave
11 Buyout Claims; (5) the Price Claims; and (6) Other Postpetition Claims.

12 The Retiree Health Benefit Claims are held by approximately 1,100 of the City's
13 former employees plus their dependents, and the Retirees Committee maintains that the aggregate
14 amount of the Retiree Health Benefit Claims is approximately \$538,000,000.⁶ Pursuant to the
15 Retirees Settlement, on the Effective Date, the City will pay the Retirees an aggregate amount of
16 \$5,100,000 in full satisfaction of Allowed Retiree Health Benefit Claims, and no other retiree
17 health benefits will be provided by the City. If required by state or federal law, the City will
18 withhold from the aggregate \$5,100,000 payment any taxes or other deductions to be withheld
19 from the individual payment to each Retiree Health Benefit Claimant. The individual recipient is
20 responsible for any tax liability for this payment, and the City will not provide any advice to any
21 recipient as to the taxable impact of this payment.

22 All other General Unsecured Claims shall receive cash payment on the Effective
23 Date in the amount equal to a percentage of the Allowed Amount of such Claims, which such
24 percentage equals the Unsecured Claim Payout Percentage, or such other amount as is determined
25 by the Bankruptcy Court before confirmation of this Plan to constitute a pro-rata payment on such

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27 ⁶ This does not include the retiree health benefit claims of employees employed as of July 1, 2012, who waived their
28 claims of approximately \$1 billion of previously earned benefits for no additional compensation, as part of
memoranda of understanding negotiated in 2012.

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1 other General Unsecured Claims; *provided, however*, the dollar amount to be paid shall not
2 exceed in the aggregate \$[_____]; and *provided further*, if such amount is in excess of
3 \$[_____], the City retains the right to and intends to modify this Plan to provide alternative
4 treatment to such General Unsecured Claims, which alternative treatment may involve payment
5 over a number of years on account of such General Unsecured Claims.

6 **N. Class 13 – Convenience Class Claims.**

7 **1. Impairment and Voting.**

8 Class 13 is not Impaired by this Plan since the treatment of this Class will not
9 affect the legal, equitable, or contractual rights of the holders of the Convenience Class Claims,
10 and, accordingly, the holders of the Claims in this Class are not entitled to vote to accept or reject
11 this Plan in accordance with the Plan Solicitation Order.

12 **2. Treatment.**

13 Holders of Convenience Class Claims will receive cash on the Effective Date in
14 the amount of their Allowed Convenience Class Claim, but not to exceed \$100.

15 **O. Class 14 – Claims of Certain Tort Claimants.**

16 **1. Impairment and Voting.**

17 Class 14 is Impaired by this Plan since the treatment of this Class will affect the
18 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
19 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
20 Plan Solicitation Order.

21 **2. Treatment.**

22 The SIR Claim Portion of each Allowed General Liability Claim will be paid on
23 the Effective Date from the Risk Management Internal Service Fund, and will receive the same
24 percentage payment on the dollar of Allowed Claim as will the holders of Allowed Class 12
25 Claims. The Insured Portion of each Allowed General Liability Claim is not Impaired, and shall
26 be paid by the applicable excess risk-sharing pool.

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1 **2. Treatment.**

2 Any equipment leases not specifically rejected by the Rejection Motion will be
3 assumed under this Plan. The City believes that it is current on all such equipment leases and
4 therefore no cure payments are required.

5 **R. Class 17 – Workers Compensation Claims.**

6 **1. Impairment and Voting.**

7 Class 17 is not Impaired by this Plan since the treatment of this Class will not
8 affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the
9 holders of the Claims in this Class are not entitled to vote to accept or reject this Plan in
10 accordance with the Plan Solicitation Order.

11 **2. Treatment.**

12 The City must pay Allowed SIR Claim Portions related to Workers Compensation
13 Claims in full. If not, the City will lose its State workers compensation insurance for those claims
14 in excess of the SIR Claim Portions, exposing the City's current and former workers to grave risk.
15 The City will pay the SIR Claim Portions related to Worker Compensation Claims from the
16 Workers Compensation Internal Service Fund.

17 **S. Class 18 – SPOA Claims.**

18 **1. Impairment and Voting.**

19 Class 18 is Impaired by this Plan since the treatment of this Class will affect the
20 legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of
21 the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the
22 Plan Solicitation Order.

23 **2. Treatment.**

24 The City will honor the SPOA Claims held by SPOA members on the terms and
25 conditions set forth in the SPOA MOU, which in general provides each SPOA member with
26 44 hours of additional paid leave time through fiscal year 2014-15.

27 Specifically, the SPOA MOU provides as follows:
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1 2. SPOA's Claims. SPOA alleges that its members have claims in the
2 bankruptcy case against the City relating to the City's modification of its 2009
3 Memorandum of Understanding ("2009 MOU"), pursuant to Declarations of
4 Fiscal Emergency beginning on or about May 26, 2010 and continuing in effect
5 thereafter, and in connection with the treatment of the claims of SPOA and its
6 members under the Pendency Plan (collectively, the "Claims"), and that, in the
7 aggregate, the Claims exceed thirteen million dollars (\$13,000,000). The City
8 disputes the Claims and contends that the Claims would not be allowed in the
9 chapter 9 case. It further asserts that, if the Claims were allowed, they would be
10 allowed in an amount aggregating less than thirteen million dollars (\$13,000,000).

11 In consideration of resolving the above differences and agreement on the MOU,
12 the City agrees that the Claims shall be provided for in the Plan as follows:

13 (a) The Claims will be deemed allowed in the chapter 9
14 case in the aggregate amount of eight million, five hundred thousand
15 dollars (\$8,500,000) (the "Allowed Claims"). In consideration for the
16 reduction in the amount of the Claims SPOA members employed during
17 fiscal year 2010-2011 and/or 2011-2012 shall be credited, upon final
18 approval of the MOU by the Parties and, if necessary, by the Bankruptcy
19 Court, twenty-two (22) additional hours of paid leave in fiscal year 2012-
20 2013. These additional hours of paid leave shall have no cash value and
21 shall be utilized any time prior to the date upon which the SPOA member
22 leaves employment with the City. Only those employees who were
23 employed during some portion of the period July 1, 2010 and July 1, 2012
24 and who were still current employees upon the effective date of this
25 Agreement shall be entitled to this treatment.

26 (b) The Allowed Claims shall be satisfied under the Plan
27 by the City by crediting SPOA members employed during fiscal year
28 2010-2011 and/or 2011-2012 eleven (11) additional paid leave hours in
the fiscal year of approval of the Plan and eleven (11) additional paid
leave hours in the fiscal year after approval of the Plan. This benefit shall
only apply to those employees who were employed during some portion of
the period July 1, 2010 and July 1, 2012 and who are current employees as
of the date the Plan is approved by the Bankruptcy Court. The total
additional paid leave per SPOA member under paragraphs 2(a) and 2(b) of
this article shall equal forty-four (44) hours. These additional paid leave
hours shall have no cash value, and shall be utilized any time prior to the
date upon which the SPOA member leaves employment with the City. It
is understood that the provision of these hours shall be the sole
compensation for the Claims of SPOA and its members. The additional
twenty-two (22) hours additional paid leave credit contained in this
paragraph 2(b) shall be contingent upon confirmation of the Plan and on
the Plan becoming effective.

(c) Notwithstanding the foregoing, in the event that the
Plan is not confirmed and does not become effective, the Claims shall not

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1 be allowed as specified herein, and both SPOA and the City agree that the
2 Claims will be considered unresolved, with each Party reserving the right
3 to assert or contest the Claims; provided, however, that the monetary
4 equivalent of any paid leave hours taken pursuant to this Article shall
5 serve as a credit against the Claims.

SPOA MOU at 55-56

6 **V. ACCEPTANCE OR REJECTION; CRAM DOWN**

7 **A. Voting of Claims.**

8 Each holder of an Allowed Claim classified into Classes 1A, 1B, 2, 3, 4, 5, 6, 7, 8,
9 9, 12, 13, 14, and 18 shall be entitled to vote each such Claim to accept or reject this Plan.

10 With respect to any Class of Impaired Claims that fails to accept this Plan, the
11 City, as proponent of this Plan, intends to request that the Bankruptcy Court nonetheless confirm
12 this Plan pursuant to the so-called “cram down” powers set forth in section 1129(b).

13 **VI. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

14 **A. Assumption of Executory Contracts and Unexpired Leases.**

15 Except as otherwise provided in this Plan, as to any executory contract or
16 unexpired lease that the City elects to assume, the City shall make the Assumption Motion,
17 which, if granted, shall cause the City to assume such contracts and leases pursuant to order of the
18 Bankruptcy Court.

19 **B. Cure Payments.**

20 After the provision of notice and the opportunity for a hearing on the Assumption
21 Motion, in accord with the Bankruptcy Rules, the Bankruptcy Court shall resolve all disputes
22 regarding: (a) the amount of any cure payment to be made in connection with the assumption of
23 any contract or lease; (b) the ability of the City to provide “adequate assurance of future
24 performance” within the meaning of section 365 under the contract or lease to be assumed; and
25 (c) any other matter pertaining to such assumption and assignment. Any party to an executory
26 contract or unexpired lease that is included in the Assumption Motion that asserts that any
27 payment or other performance is due as a condition to the proposed assumption shall file with the
28 Bankruptcy Court and serve upon the City a written statement and accompanying declaration in

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1 support thereof, specifying the basis for its Claim within such deadline and in the manner
2 established for filing objections as shall be set forth in the Assumption Motion. The failure to
3 timely file and serve such a statement in accordance with the instructions set forth in the
4 Assumption Motion shall be deemed to be a waiver of any and all objections to the proposed
5 assumption and any claim for cure amounts of the agreement at issue.

6 **C. Rejection of Executory Contracts and Unexpired Leases.**

7 The Rejection Motion shall seek authority to reject all executory contracts and
8 unexpired leases that that the City in the exercise of its business judgment deems warranted. The
9 City anticipates rejecting any executory contract and unexpired lease that is not needed for it to
10 continue operating as a city.

11 **D. Claims Arising From Rejection.**

12 Proofs of claim arising from the rejection of executory contracts or unexpired
13 leases must be filed with the Bankruptcy Court and served on the City no later than 30 days after
14 the date on which notice of entry of the order approving the Rejection Motion is served on the
15 parties to the executory contracts and expired leases subject to the Rejection Motion. Any Claim
16 for which a proof of claim is not filed and served within such time will be forever barred and shall
17 not be enforceable against the City or its assets, properties, or interests in property. Unless
18 otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed as provided
19 herein shall be classified into Class 12 (General Unsecured Claims) and treated accordingly.

20 **E. Executory Contracts and Unexpired Leases Not Included in Motion.**

21 The City is a party to hundreds of executory contracts and unexpired leases. It is
22 reasonable to expect that due to accident or inadvertence, one or more will be omitted from the
23 schedules that will be attached to the Assumption Motion and the Rejection Motion (collectively,
24 "**Omitted Agreements**"). The Omitted Agreements, if any, shall be deemed assumed as of the
25 Effective Date, *provided, however*, that any non-debtor party may, within 60 days of receiving
26 notice from the City that such agreement is being assumed, file a motion in the Bankruptcy Court
27 seeking an order reconsidering the assumption of the agreement.

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1 **VII. IMPLEMENTATION AND MEANS FOR IMPLEMENTATION OF THIS PLAN**

2 This Plan is predicated upon passage of Measure A. If Measure A fails to pass, the
3 City will be compelled to implement a plan of adjustment that further slashes staffing and
4 services provided by the City to its residents.

5 Following the Effective Date, the City will continue to operate pursuant to the City
6 Charter, the California Constitution, and other applicable laws. While the City Council adopted
7 fiscal policies and projections to govern the allocation of the City's unrestricted resources, the
8 City acknowledges and understands that financial plans and budgets are not fixed in stone, and
9 that ongoing adjustments will have to be made in order to enable the City to adjust to changing
10 economic and operational needs. However, this Plan represents the City's commitment to the
11 binding treatment of the holders of Claims in the various Classes as enumerated in this Plan.

12 By the Rejection Motion, the City will reject, among other leases, the Office
13 Building Standby Agreement, the Golf Course/Park Lease Out, and the Golf Course/Park Lease
14 Back. Rejection of these leases will provide the City with relief from the operating and financing
15 shortfalls associated with these leases that historically have been subsidized by the General Fund.
16 As part of the Rejection Motion, the City intends to request the Bankruptcy Court to impose
17 reasonable terms and conditions on the right to possess and to attend to all issues necessary to
18 ensure a smooth transition to the new possessors that will expose the residents of the City to the
19 lease possible disruption.

20 After rejection, the counterparties to the lease out transactions above may have the
21 option, under section 365(h), to possess the leased properties. Alternatively, such counterparties
22 may decide not to possess, with the result that, notwithstanding the rejection of the leases, the
23 City may continue to operate the properties under such terms and conditions as the City and such
24 parties negotiate or subject to the order of the Bankruptcy Court or other court with jurisdiction.
25 As to each of the leased properties, the City is party to executory contracts with vendors,
26 managers and operators of services and facilities located on such properties (e.g., the Golf
27 Courses are managed by a management company). Should the City not continue to operate a
28 given property, the City will likely reject the executory contracts related to that property, but if

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1 the City remains in possession and control of that property, the City will likely re-negotiate such
2 contracts or may assume such executory contracts. At this time the City does not know whether
3 the counterparties to the lease out transactions will elect to remain in possession (which the City
4 may contest or attempt to impose conditions upon). When the City is in a position to make such
5 decisions, the City will decide to reject, assume or renegotiate executory contracts with such
6 vendors.

7 Pursuant to the Rejection Motion, the City also intends to reject certain executory
8 contracts including the Ports License Agreement.

9 By the Assumption Motion, the City will assume, among other leases, the SEB
10 Lease Out and the SEB Lease Back; the Arena Lease Out and the Arena Lease Back as modified
11 by the NPMG Settlement; and the Parking Structure Lease Out and the Parking Structure Lease
12 Back as modified by the NPMG Settlement (alternatively, these leases will be terminated).

13 The City will terminate the Office Building Lease Out and the Office Building
14 Lease Back, and the City will assume the Fourth Floor Lease of 400 E. Main (alternatively, it will
15 reject the Office Building Lease Out and the Office Building Lease Back, and it will assume the
16 Fourth Floor Lease of 400 E. Main). [treatment is not finalized].

17 Passage of Measure A is necessary to implement the Plan. If passed, Measure A
18 will generate approximately \$30 million per year in new revenue from a 3/4 of one percent
19 increase in sales taxes (from 8.25% to 9%). The Plan Financial Projections assume that
20 Measure A will pass. The City expects that approximately two-thirds of the new revenue will be
21 used over time to enhance depleted police services under the Marshall Plan, and the remainder
22 will be used to fund the City's ongoing expenses including the cost of implementing the Plan.
23 Conversely, as demonstrated in graphs included with the Plan Financial Projections, failure of
24 Measure A means that the City will continue to incur a substantial operating deficit even if the
25 additional hires of police and other safety officers contemplated by the Marshall Plan do not take
26 place. Moreover, the City will be incapable of fulfilling its obligations under the Plan, and the
27 City will be required to make additional significant cuts to existing City's services. The City
28 cannot predict whether it would be able to continue to function under such a scenario, and it does

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1 not have detailed plans in place at this point to deal with such further across-the-board staffing
2 and service reductions.

3 In addition, at the time of preparation of this Plan, the City is still involved in
4 intense negotiations with the Indenture Trustee, Assured Guaranty, and other creditors, and is
5 hopeful that those negotiations will culminate in agreements with such creditors on the terms of a
6 consensual plan of adjustment that would retain City control of its assets. However, no such plan
7 will be possible unless additional funds flow to the General Fund through Measure A.

8 **VIII. RESERVATION OF THE CITY'S RIGHTS OF ACTION**

9 All of the City's claims, causes of action, rights of recovery, rights of offset,
10 recoupment rights to refunds, and similar rights shall be retained by the City. The failure to list in
11 the Disclosure Statement any potential or existing Right of Action retained by the City is not
12 intended to and shall not limit the rights of the City to pursue any such action. Unless a Right of
13 Action is expressly waived, relinquished, released, compromised, or settled in this Plan, the City
14 expressly reserves all Rights of Action for later adjudication and, as a result, no preclusion
15 doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim
16 preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Rights of
17 Action upon or after the confirmation or consummation of this Plan or the Effective Date. In
18 addition, the City expressly reserves the right to pursue or adopt against any other entity any
19 claims alleged in any lawsuit in which the City is a defendant or an interested party.

20 **IX. DISTRIBUTIONS**

21 **A. Distribution Agent.**

22 On or after the Effective Date, the City may retain one or more agents (including
23 Rust Omni) to perform or assist it in performing the distributions to be made pursuant to this
24 Plan, which agents may serve without bond. The City may provide reasonable compensation to
25 any such agent(s) without further notice or Bankruptcy Court approval.

26 **B. Delivery of Distributions.**

27 All distributions to any holder of an Allowed Claim shall be made at the address of
28 such holder as set forth in the books and records of the City or its agents, unless the City has been

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1 notified by such holder in a writing that contains an address for such holder different from the
2 address reflected in the City's books and records. All such notifications of address changes and
3 all address confirmations should be mailed to: City of Stockton, Attn: [_____], [insert
4 address]. All distributions to the Indenture Trustee shall be made in accordance with the relevant
5 indenture, as applicable.

6 **C. Undeliverable Distributions.**

7 **1. Holding of Undeliverable Distributions.**

8 If any distribution to any holder of a Claim is returned to the City or its agent as
9 undeliverable, no further distributions shall be made to such holder unless and until the City is
10 notified in writing of such holder's then-current address. Unless and until the City is so notified,
11 such distribution shall be deemed to be "Unclaimed Property" and shall be dealt with in
12 accordance with Section IX(C)(2).

13 **2. Unclaimed Property.**

14 If any entity entitled to receive distributions pursuant to this Plan does not present
15 itself on the Effective Date or on such other date on which such entity becomes eligible for
16 distribution, such distributions shall be deemed to be "Unclaimed Property." Unclaimed Property
17 shall be set aside and held in a segregated account to be maintained by the City pursuant to the
18 terms of this Plan.

19 **3. Notification and Forfeiture of Unclaimed Property.**

20 No later than 60 days after the date of the first distributions under the Plan, the
21 City will file with the Bankruptcy Court a list of Unclaimed Property, together with a schedule
22 that identifies the name and last-known address of holders of the Unclaimed Property; the City
23 otherwise will not be required to attempt to locate any such entity. On the 60th day following the
24 date of the first distributions made under the Plan, all remaining Unclaimed Property and accrued
25 interest or dividends earned thereon will be remitted to and vest in the City for any such use as the
26 City sees fit.

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1 **D. Distributions of Cash.**

2 Any payment of Cash to be made by the City or its agent pursuant to this Plan
3 shall be made by check drawn on a domestic bank or by wire transfer, at the sole option of the
4 City.

5 **E. Timeliness of Payments.**

6 Any payments or distributions to be made pursuant to this Plan shall be deemed to
7 be timely made if made within 14 days after the dates specified in this Plan. Whenever any
8 distribution to be made under this Plan shall be due on a day that is a Saturday, Sunday, or legal
9 holiday, such distribution instead shall be made, without interest, on the immediately succeeding
10 day that is not a Saturday, Sunday, or legal holiday, but shall be deemed to have been timely
11 made on the date due.

12 **F. Compliance with Tax, Withholding, and Reporting Requirements.**

13 The City shall comply with all tax, withholding, reporting, and like requirements
14 imposed on it by any government unit, including without limitation, any payments related to
15 CalPERS's required pension obligations, and all distributions pursuant to this Plan shall be
16 subject to such withholding and reporting requirements. In connection with each distribution
17 with respect to which the filing of an information return (such as Internal Revenue Service Forms
18 W-2, 1099, or 1042) or withholding is required, the City shall file such information return with
19 the Internal Revenue Service and provide any required statements in connection therewith to the
20 recipients of such distribution, or effect any such withholding and deposit all moneys so withheld
21 to the extent required by law. With respect to any entity from whom a tax identification number,
22 certified tax identification number, or other tax information which is required by law to avoid
23 withholding has not been received by the City, the City at its sole option may withhold the
24 amount required and distribute the balance to such entity or decline to make such distribution
25 until the information is received.

26 **G. Time Bar to Cash Payments.**

27 Checks issued by the City on account of Allowed Claims shall be null and void if
28 not negotiated within 90 days from and after the date of issuance thereof. Requests for reissuance

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1 of any check shall be made directly to the City by the holder of the Allowed Claim with respect to
2 which such check originally was issued. Any claim in respect of such a voided check must be
3 made on or before the second anniversary of the Effective Date. After such date, all Claims in
4 respect of voided checks will be discharged and forever barred and the City will retain all moneys
5 related thereto.

6 **H. No De Minimis Distributions.**

7 Notwithstanding any other provision of this Plan, no Cash payment of less than
8 \$10.00 will be made by the City on account of any Allowed Claim.

9 **I. No Distributions on Account of Disputed Claims.**

10 Notwithstanding anything to the contrary in this Plan, no distributions shall be
11 made on account of any part of any Disputed Claim until such Claim becomes Allowed (and then
12 only to the extent so Allowed). Distributions made after the Effective Date in respect of Claims
13 that were not Allowed as of the Effective Date (but which later became Allowed) shall be deemed
14 to have been made as of the Effective Date.

15 **J. No Postpetition Accrual.**

16 Unless otherwise specifically provided in this Plan or Allowed by order of the
17 Bankruptcy Court, the City will not be required to pay to any holder of a Claim any interest,
18 penalty, or late charge accruing with respect to such Claim on or after the Petition Date.

19 **X. DISPUTED CLAIMS; OBJECTIONS TO CLAIMS; PROSECUTION OF**
20 **OBJECTIONS TO DISPUTED CLAIMS**

21 **A. Claims Objection Deadline; Prosecution of Objections.**

22 The City will have the right to object to the allowance of Claims filed with the
23 Bankruptcy Court with respect to which liability or allowance is disputed in whole or in part.
24 Unless otherwise ordered by the Bankruptcy Court, the City must file and serve any such
25 objections to Claims by not later than 180 days after the Effective Date (or, in the case of Claims
26 lawfully filed after the Effective Date, by not later than 180 days after the date of filing of such
27 Claims).

28

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1 **B. Reserves, Payments, and Distributions with Respect to Disputed Claims.**

2 After the Effective Date has occurred, at such time as a Disputed Claim becomes
3 an Allowed Claim, in whole or in part, the City or its agent will distribute to the holder thereof the
4 distributions, if any, to which such holder is then entitled under this Plan. Such distributions, if
5 any, will be made as soon as practicable after the date that the order or judgment of the
6 Bankruptcy Court allowing such Disputed Claim becomes a Final Order (or such other date as the
7 Claim becomes an Allowed Claim), but in no event more than 60 days thereafter. Unless
8 otherwise specifically provided in this Plan or Allowed by order of the Bankruptcy Court, no
9 interest will be paid on Disputed Claims that later become Allowed Claims.

10 **XI. EFFECT OF CONFIRMATION**

11 **A. Discharge of the City.**

12 Pursuant to section 944, upon the Effective Date, the City will be discharged from
13 all debts (as defined in the Bankruptcy Code) of the City and Claims against the City other than
14 (a) any debt specifically and expressly excepted from discharge by this Plan or the Confirmation
15 Order, or (b) any debt owed to an entity that, before the Confirmation Date, had neither notice nor
16 actual knowledge of the Chapter 9 Case.

17 The rights afforded in this Plan and the treatment of all holders of Claims, be they
18 Claims Impaired or Unimpaired under this Plan, will be in exchange for and in complete
19 satisfaction, discharge, and release of all Claims of any nature whatsoever arising on or before the
20 Effective Date, known or unknown, including any interest accrued or expenses incurred thereon
21 from and after the Petition Date, whether against the City or any of its properties, assets, or
22 interests in property. Except as otherwise provided herein, upon the Effective Date all Claims
23 against the City that arose prior to the Confirmation Date (the "**Pre-Confirmation Date Claims**")
24 will be and shall be deemed to be satisfied, discharged, and released in full, be they Impaired or
25 Unimpaired under this Plan.

26 **B. Injunction.**

27 Except as otherwise expressly provided in this Plan, all entities who have held,
28 hold, or may hold Pre-Confirmation Date Claims shall be permanently enjoined from and after

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1 the Confirmation Date from: (a) commencing or continuing in any manner any action or other
2 proceeding of any kind with respect to any such Pre-Confirmation Date Claim against the City or
3 its property; (b) enforcing, attaching, collecting, or recovering by any manner or means any
4 judgment, award, decree, or order against the City or its property with respect to such Pre-
5 Confirmation Date Claims; (c) creating, perfecting, or enforcing any lien or encumbrance of any
6 kind against the City or its property; and (d) asserting any right of setoff, subrogation, or
7 recoupment of any kind against any obligation due to the City with respect to any such Pre-
8 Confirmation Date Claim, except as otherwise permitted by section 553.

9 **C. Term of Existing Injunctions or Stays.**

10 Unless otherwise provided, all injunctions or stays provided for in the Chapter 9
11 Case pursuant to sections 105, 362, or 922, or otherwise, and in existence on the Confirmation
12 Date, will remain in full force and effect until the Effective Date.

13 **XII. RETENTION OF AND CONSENT TO JURISDICTION**

14 Following the Effective Date, the Bankruptcy Court shall retain and have
15 exclusive jurisdiction over any matter (1) arising under the Bankruptcy Code and relating to the
16 City, (2) arising in or related to the Chapter 9 Case or this Plan, and (3) otherwise for the
17 following:

18 1. to resolve any matters related to the assumption, assumption and assignment, or
19 rejection of any executory contract or unexpired lease to which the City is a party or with respect
20 to which the City may be liable, and to hear, determine and, if necessary, liquidate any Claims
21 arising therefrom, including those matters related to the amendment after the Effective Date of
22 this Plan, and to add any executory contracts or unexpired leases to the Rejection Motion, as
23 necessary;

24 2. to enter such orders as may be necessary or appropriate to implement or
25 consummate the provisions of this Plan, and all other contracts, instruments, releases, and other
26 agreements or documents related to this Plan;

27 3. to determine any and all motions, adversary proceedings, applications, and
28 contested or litigated matters that may be pending on the Effective Date or that, pursuant to this

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1 Plan, may be instituted by the City after the Effective Date or that are instituted by any holder of a
2 Claim before or after the Effective Date concerning any matter based upon, arising out of, or
3 relating to the Chapter 9 Case, whether or not such action initially is filed in the Bankruptcy
4 Court or any other court;

5 4. to ensure that distributions to holders of Allowed Claims are accomplished as
6 provided herein;

7 5. to hear and determine any objections to Claims or to proofs of Claim filed, both
8 before and after the Effective Date, including any objections to the classification of any Claim,
9 and to allow, disallow, determine, liquidate, classify, estimate, or establish the priority of or
10 secured or unsecured status of any Claim, in whole or in part;

11 6. to enter and implement such orders as may be appropriate in the event the
12 Confirmation Order is for any reason stayed, revoked, modified, reversed, or vacated;

13 7. to issue such orders in aid of execution of this Plan, to the extent authorized by
14 section 1142(b);

15 8. to consider any modifications of this Plan, to cure any defect or omission, or to
16 reconcile any inconsistency in any order of the Bankruptcy Court, including the Confirmation
17 Order;

18 9. to the extent that the City elects to bring such matters before the Bankruptcy Court,
19 to hear and determine all applications for awards of compensation for services rendered and
20 reimbursement of expenses incurred prior to the Effective Date;

21 10. to hear and determine all disputes or controversies arising in connection with or
22 relating to this Plan or the Confirmation Order or the interpretation, implementation, or
23 enforcement of this Plan or the Confirmation Order or the extent of any entity's obligations
24 incurred in connection with or released under this Plan or the Confirmation Order;

25 11. to issue injunctions, enter and implement other orders, or take such other actions as
26 may be necessary or appropriate to restrain interference by any entity with consummation or
27 enforcement of this Plan;

28 12. to determine any other matters that may arise in connection with or are related to

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1 this Plan, the Disclosure Statement, the Confirmation Order, or any contract, instrument, release
2 or other agreement or document related to this Plan or the Disclosure Statement;

3 13. to hear any other matter for any purpose specified in the Confirmation Order that
4 is not inconsistent with the Bankruptcy Code;

5 14. to hear and determine all disputes or controversies arising in connection with or
6 relating to the terms or enforcement of any relevant agreements; and

7 15. to enter a final decree closing the Chapter 9 Case.

8 **XIII. CONDITIONS PRECEDENT**

9 **A. Condition Precedent to Confirmation.**

10 The entry of the Confirmation Order that is in form and substance satisfactory to
11 the City, and that is reasonably satisfactory to _____, is a condition precedent to
12 confirmation of this Plan. The approval of the State of California Department of Finance of the
13 NPMG Settlement is also a condition precedent to confirmation of this Plan.

14 **B. Conditions Precedent to Effective Date.**

15 The “effective date of the plan,” as used in section 1129, shall not occur, and this
16 Plan shall be of no force and effect, until the Effective Date. The occurrence of the Effective
17 Date is subject to the satisfaction (or waiver as set forth in Section XIII(C)) of the following
18 conditions precedent:

19 1. **Confirmation Order.** The Confirmation Order shall have been entered,
20 shall be in full force and effect, and shall be a Final Order (but the requirement that the
21 Confirmation Order be a Final Order may be waived by the City at any time).

22 2. **Plan Documents.** All agreements and instruments contemplated by, or to
23 be entered into pursuant to, this Plan shall be in form and substance acceptable to the City, shall
24 have been duly and validly executed and delivered, or deemed executed by the parties thereto,
25 and all conditions to their effectiveness shall have been satisfied or waived.

26 3. **Authorizations, Consents, Etc.** The City shall have received any and all
27 authorizations, consents, regulatory approvals, rulings, no-action letters, opinions, and documents
28 that are necessary to implement the Plan and that are required by law, regulation or order.

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1 **4. Timing.** The Effective Date shall occur on a Business Day specified by
2 the City on which the conditions set forth in Section XIII(B)(1) and (B)(2) are satisfied or
3 waived; *provided* that, unless otherwise ordered by the Bankruptcy Court, the Effective Date must
4 occur by no later than six months after the Confirmation Date.

5 **C. Waiver of Conditions to Effective Date.**

6 The City may waive in whole or in part any condition to effectiveness of this Plan.
7 Any such waiver of a condition may be effected at any time, without notice or leave or order of
8 the Bankruptcy Court and without any formal action, other than the filing of a notice of such
9 waiver with the Bankruptcy Court.

10 **D. Effect of Failure of Conditions.**

11 In the event that the conditions to effectiveness of this Plan have not been timely
12 satisfied or waived, and upon notification submitted by the City to the Bankruptcy Court, (a) the
13 Confirmation Order shall be vacated, (b) no distributions under this Plan shall be made, (c) the
14 City and all holders of Claims shall be restored to the status quo as of the day immediately
15 preceding the Confirmation Date as though the Confirmation Date never occurred, and (d) all of
16 the City's obligations with respect to the Claims shall remain unchanged and nothing contained
17 herein shall be deemed to constitute a waiver or release of any claims by or against the City or
18 any other entity or to prejudice in any manner the rights of the City or any entity in any further
19 proceedings involving the City.

20 **XIV. MISCELLANEOUS PROVISIONS**

21 **A. Dissolution of the Retirees Committee.**

22 On the Effective Date, the Retirees Committee shall be released and discharged of
23 and from all further authority, duties, responsibilities, and obligations relating to and arising from
24 and in connection with the Chapter 9 Case, and the Retirees Committee shall be deemed
25 dissolved and its appointment terminated.

26 **B. Severability.**

27 If, prior to the Confirmation Date, any term or provision of this Plan is held by the
28 Bankruptcy Court or any other court having jurisdiction, including on appeal, if applicable, to be

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1 invalid, void, or unenforceable, the Bankruptcy Court, in each such case at the election of and
2 with the consent of the City, shall have the power to alter and interpret such term or provision to
3 make it valid or enforceable to the maximum extent practicable, consistent with the original
4 purpose of the term or provision held to be invalid, void, or unenforceable, and such term or
5 provision shall then be applicable as altered or interpreted. Notwithstanding any such holding,
6 alteration, or interpretation, the remainder of the terms and provisions of this Plan shall remain in
7 full force and effect and shall in no way be affected, impaired, or invalidated by such holding,
8 alteration, or interpretation. The Confirmation Order shall constitute a judicial determination and
9 shall provide that each term and provision of this Plan, as it may have been altered or interpreted
10 in accordance with the foregoing, is valid and enforceable pursuant to its terms.

11 **C. Governing Law.**

12 Except to the extent that the Bankruptcy Code or other federal law is applicable, or
13 to the extent that an exhibit hereto or Plan Document provides otherwise, the rights, duties, and
14 obligations arising under this Plan shall be governed by, and construed and enforced in
15 accordance with, the laws of the State of California, without giving effect to principles of
16 conflicts of laws.

17 **D. Effectuating Documents and Further Transactions.**

18 Each of the officials and employees of the City is authorized to execute, deliver,
19 file, or record such contracts, instruments, releases, indentures, and other agreements or
20 documents and take such actions as may be necessary or appropriate to effectuate and further
21 evidence the terms and provisions of this Plan.

22 **E. Notice of Effective Date.**

23 On or before 14 days after occurrence of the Effective Date, the City or its agent
24 shall mail or cause to be mailed to all holders of Claims the Notice of the Effective Date, which
25 will inform such holders of: (a) entry of the Confirmation Order; (b) the occurrence of the
26 Effective Date; (c) the assumption and rejection of the City's executory contracts and unexpired
27 leases pursuant to this Plan, as well as the deadline for the filing of Claims arising from such
28 rejection; (d) the deadline established under this Plan for the filing of Administrative Claims;

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1 (e) the procedures for changing an address of record pursuant to Section IX; and (f) such other
2 matters as the City deems to be appropriate.

3
4 DATED: October [__], 2013

CITY OF STOCKTON, CALIFORNIA

5 By: /s/
6 Robert Deis
7 City Manager

8 Submitted By:

9 ORRICK, HERRINGTON & SUTCLIFFE
10 LLP

11 /s/ Marc A. Levinson
12 Marc A. Levinson
13 Jeffery D. Hermann
14 Norman C. Hile
15 Patrick B. Bocash
16 John A. Farmer
17 Attorneys for the City of Stockton

DRAFT/City Council Review

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EXHIBITS TO THE PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA, DATED OCTOBER __, 2013

- Exhibit A Assured Guaranty Settlement Term Sheet [to be attached when finalized]
- Exhibit B Assured Guaranty Settlement Agreement [to be attached when finalized]
- Exhibit C NPMG Settlement Term Sheet
- Exhibit D NPMG Settlement Agreement [to be attached when finalized]
- Exhibit E SCC 16 Settlement Term Sheet [to be attached when and if finalized]
- Exhibit F Thunder Settlement Term Sheet [to be attached]

DRAFT/City Council Review

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EXHIBIT C
TO
THE PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON,
CALIFORNIA

SETTLEMENT TERM SHEET

CITY OF STOCKTON
and
NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

September 27, 2013

Background

This Settlement Term Sheet (the “*Term Sheet*”) is intended to summarize the results of negotiations by and between the City of Stockton (the “*City*”) and National Public Finance Guarantee Corporation (“*NPFG*”) which have been undertaken over the course of the past several months in mediation presided over by The Hon. Elizabeth Perris, as mediator. This Term Sheet is only intended to cover the major economic points and some key business terms of the settlement (the “*Settlement*”). It contemplates that complete documentation of the proposed Settlement will be prepared which will supersede this Term Sheet and control for purposes of the Settlement and further that such complete documentation will be included in the City’s Plan of Adjustment (the “*Plan*”) presented to the United States Bankruptcy Court for the Eastern District of California (the “*Bankruptcy Court*”) for confirmation. Due to time constraints, the Plan initially filed may only contain a description of the Settlement and refer to documentation to be approved by the parties prior to the effectiveness of the Plan, but the intent of the parties will be to complete such documentation and to file an amended Plan containing such documentation prior to confirmation.

This Term Sheet deals with the disposition of three bond issues which represent obligations of the City, as follows:

Stockton Public Financing Authority Lease Revenue Bonds, Series 2004 (Parking and Capital Projects) (the “*2004 Parking Bonds*”)

Redevelopment Agency of the City of Stockton Revenue Bonds, Series 2004 (Stockton Events Center—Arena Project) (the “*2004 Arena Bonds*”)

Stockton Public Financing Authority 2006 Lease Revenue Refunding Bonds, Series A (the “*2006 SEB Bonds*”) and, collectively with the 2004 Parking Bonds and the 2004 Arena Bonds, the “*NPFG Bonds*”)

All of the NPFG Bonds are covered by financial guaranty insurance policies pursuant to which NPFG is obligated to make full and timely payment of scheduled debt service to the holders thereof in the event that the revenues pledged to such bonds under the NPFG Bond documents are insufficient therefor. All of the NPFG Bonds are secured by leases pursuant to which the City is obligated to pay certain rental payments from its general fund. In addition, the 2004 Arena Bonds are secured by a Pledge Agreement, dated as of March 1, 2004 (the “*Arena Pledge Agreement*”), by and between the City and the Successor Agency to the Redevelopment Agency of the City of Stockton (the “*Redevelopment Agency*”), as successor in interest, pledging certain

SUBJECT TO MEDIATION PRIVILEGE AND FRE 408

tax increment revenues of the Redevelopment Agency (the “**Pledged Tax Increment**”) to secure the 2004 Arena Bonds. Pursuant to this Settlement, all of the NPMG Bonds will remain outstanding and there will be no amendments to the documents securing the NPMG Bonds other than as described below

The 2006 SEB Bonds

The City will assume the lease relating to the 2006 SEB Bonds and continue to comply with its obligations thereunder, which, in turn, will allow Wells Fargo Bank, as trustee (the “**2006 SEB Bond Trustee**”) under the indenture relating to the 2006 SEB Bonds to continue to make full and timely payment on them in accordance with the 2006 SEB Bond documents.

The 2004 Arena Bonds

The City, Wells Fargo Bank, as trustee under the indenture with respect to the 2004 Arena Bonds (the “**2004 Arena Bond Trustee**”), and NPMG will enter into a Forbearance Agreement (the “**Arena Forbearance Agreement**”) pursuant to which NPMG and the 2004 Arena Bond Trustee will agree not to take any action to enforce remedies under the 2004 Arena Bond documents against the City so long as the terms of the Arena Forbearance Agreement are complied with. The Arena Forbearance Agreement will provide for a restructured payment schedule for Pledged Tax Increment as shown in Schedule 1. The 2004 Arena Bond Trustee and the Redevelopment Agency will enter into an Amended and Restated Pledge Agreement (the “**Amended Pledge Agreement**”) to effect such restructuring of the Redevelopment Agency’s obligations pursuant to the provisions of California Health & Safety Code Section 34177.5. The Amended Pledge Agreement will provide for the new, reduced payment schedule as well as a revision to the pledge of the Pledged Tax Increment to reflect the effect of the dissolution of the former Redevelopment Agency of the City of Stockton and the change to tax increment cashflows effected by California Health & Safety Code Section 34183. The Amended Pledge Agreement will be subject to approval by the Agency’s Oversight Board as well as the State Department of Finance (the “**DOF**”). Such approvals will be conditions precedent to the effectiveness of this Settlement. The Redevelopment Agency will commence the approval process as soon as possible, beginning with an informal meeting with DOF followed by the formal approval process at the time definitive documents are prepared.

In addition to the restructured Pledged Tax Increment payment schedule, the Arena Forbearance Agreement will provide a new schedule of payment obligations from the City’s general fund pursuant to the Lease Agreement, dated as of March 1, 2004 (the “**Arena Lease Back**”), by and between the City and the Redevelopment Agency, as successor in interest. This schedule, attached hereto as Schedule 2, reflects slightly lower payments than the payments under Schedule 1. To the extent that the available Pledged Tax Increment is insufficient to make the payments in Schedule 1, but is in excess of the amounts payable under Schedule 2, the City will have no obligation to make up such shortfall. However, any such delinquent payments will be included on subsequent Recognized Obligation Payments Schedule filed by the Redevelopment Agency and recoverable to the extent that Pledged Tax Increment in future years is sufficient to meet the Redevelopment Agency’s current debt service obligations and make up the shortfall. To the extent that the available Pledged Tax Increment in any year is less than the amounts payable by the City pursuant to Schedule 2, the City will be obligated to make up the shortfall

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from its general fund, subject only to the provisions of the Arena Lease Back that excuse payment in the event of abatement.

The City will agree to continue to occupy and maintain the Arena and will be responsible for any operating subsidy; *provided, however*, that in the event of a default under the Arena Forbearance Agreement by the City, NPFPG or the 2004 Arena Bond Trustee shall be entitled to exercise remedies as provided in the Arena Forbearance Agreement. Such rights and remedies shall include, but are not limited to, the right to relet the Arena. The Arena Forbearance Agreement shall provide that the City has assigned its rights in any leases, licenses or contracts relating to the Arena, which assignment shall become operative from and after the occurrence of an event of default by the City under the Arena Forbearance Agreement, in each instance, at the option of NPFPG or the 2004 Arena Bond Trustee.

The 2004 Parking Bonds

The City Council will determine that there is a need for the Parking Authority of the City of Stockton to function and exercise its powers pursuant to California Government Code Section 32650 et seq. in connection with the Settlement, and will transfer to the Parking Authority the City's fee simple title to the three parking garages and any other property that is currently subject to the (i) Site and Facility Lease dated as of June 1, 2004 by and between the Stockton Public Financing Authority (the "**Authority**") and the City (the "**Parking Structure Lease Out**") and the (ii) Lease Agreement, dated as of June 1, 2004, by and between the Authority, as lessor, and the City, as lessee (the "**Parking Structure Lease Back**" and collectively, with the Parking Structure Lease Out, the "**2004 Parking Bonds Leases**") (such property and garages, collectively, the "**Garages**").

The Parking Authority will accept fee simple title to the Garages, subject to the 2004 Parking Bonds Leases and any other applicable documents or agreements relating to the 2004 Parking Bonds (such document the "**2004 Parking Bond Documents**"). In connection therewith, so long as the City and NPFPG do not pursue an alternate transaction if the SCC 16 Settlement (as hereinafter defined) is not effectuated, (i) the City shall assign to the Parking Authority all of the City's rights, title and interest as lessor under the Parking Structure Lease Out, subject to the Parking Structure Lease Back, and the Parking Authority shall assume all of the City's obligations under the Parking Structure Lease Out, (ii) the City shall assign to the Parking Authority all of the City's rights, title and interest as lessee under the Parking Structure Lease Back, subject to (A) the Master Lease, dated as of February 26, 2008 (as amended and supplemented, including as amended and supplemented by the SCC 16 Settlement, the "**SCC 16 Lease**") and (B) the rights of the Authority, Wells Fargo Bank, as trustee under the indenture with respect to the 2004 Parking Bonds (the "**2004 Parking Bond Trustee**") and NPFPG under the 2004 Parking Bond Documents, and the Parking Authority shall assume all of the City's obligations under the 2004 Parking Bonds Leases, the SCC 16 Lease, and the 2004 Parking Bond Documents.

The City will also transfer all of its rights, title and interests in each of the other parking facilities within the Downtown Parking District, being the area shown on Figure 1, to the Parking Authority, including surface parking lots and other parking garages. The Parking Authority will also take over the operation, maintenance and collection of revenues from parking meters in the

SUBJECT TO MEDIATION PRIVILEGE AND FRE 408

Downtown Parking District. Also, the Parking Authority will take over responsibility for parking enforcement in the Downtown Parking District and the citation revenues from such enforcement activity shall be assigned to the Parking Authority. The Parking Authority will likely hire a private contractor to perform all or substantially all of its operations. In addition, any new parking assets within the Downtown Parking District shall be owned by the Parking Authority.

NPFG and the 2004 Parking Bond Trustee will turn over possession of the Garages to the Parking Authority.

The City, Parking Authority, 2004 Parking Bond Trustee and NPFG will enter into a Forbearance Agreement (the “*Parking Forbearance Agreement*,” and together with the Arena Forbearance Agreement, the “*Forbearance Agreements*”) pursuant to which NPFG and the 2004 Parking Bond Trustee will agree not to take any action to enforce remedies under the 2004 Parking Bond Documents against the City so long as the terms of the Parking Forbearance Agreement are complied with. Pursuant to the Parking Forbearance Agreement, the Parking Authority will agree to make payments to the 2004 Parking Bond Trustee as set forth in Schedule 3.

The obligation of the Parking Authority to make the payments to the 2004 Parking Bond Trustee at the times and in the amounts set forth on Schedule 3 shall be limited obligations of the Parking Authority payable solely from and secured by a first priority lien on and security interest in the gross revenues of the Parking Authority, and shall be treated as an Operation and Maintenance expense of the Parking Authority enterprise fund, senior to any future Parking Authority debt service obligations. The City’s general fund will not have any obligation with respect to such payments.

The Parking Authority will have the right to prepay, in whole, but not in part, the payments described in Schedule 3 at any time, upon 30 days’ prior written notice to the 2004 Parking Bond Trustee, by payment to the 2004 Parking Bond Trustee of an amount equal to the aggregate unpaid principal and interest amounts set forth on Schedule 3 plus **[amount reflecting present value of the remaining stream of payments]** required to be made by the Stockton City Center 16, LLC (the “*SCC 16*”) to the City pursuant to the SCC 16 Settlement.

The Parking Authority will have the right to issue revenue bonds secured by a pledge of the net revenues of the Parking Authority, on a subordinate basis to the obligations to make the payments under Schedule 3, so long as it meets a net revenue coverage test of 1.1 times the maximum annual debt service on such parking revenue bonds, based on the most recent audited financial statement of the Parking Authority.

Special tax revenues from the City’s Community Facilities District 2001-1 (the “*Downtown CFD*”) are *not* pledged to any payment under this settlement, and would not constitute Parking Authority revenues; however, a portion of such special tax revenues are expected to be used as permitted under the Downtown CFD proceedings to support some of the maintenance and operations costs of certain parking facilities within the Downtown District, thereby reducing the amount of such expenses that must be paid from the Parking Authority revenues.

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The City, the 2004 Parking Bond Trustee and NPFPG anticipate entering into a Settlement Agreement (the “*SCC 16 Settlement*”) with SCC 16. Pursuant to the SCC 16 Settlement, SCC 16 will (among other things) agree to make certain payments as additional rent under the SCC 16 Lease, from rental income received by SCC 16 from its subtenants under certain subleases of the space leased by the SCC 16 pursuant to the SCC 16 Lease (the “*Subleased Space*”). The City and Parking Authority will agree that all such payments from SCC 16 to the City shall be assigned and payable to the 2004 Parking Bond Trustee for the 2004 Parking Bonds.

The City and Parking Authority will agree that, upon the occurrence of an event of default under the SCC 16 Lease or in the event that the Subleased Space is abandoned by SCC 16 or the SCC 16 Lease with SCC 16 is terminated for any reason, in addition to or in connection with the exercise of all of the other rights granted to the 2004 Parking Bond Trustee as assignee of the City and the Parking Authority, the 2004 Parking Bond Trustee shall have the right, with or without terminating the SCC 16 Lease, to reenter the Subleased Space, remove all persons and property therefrom and to relet the Subleased Space on behalf of the Parking Authority in accordance with the terms of the Parking Structure Lease Back, to any then-existing subtenants thereof or to any other parties as the 2004 Parking Bond Trustee may determine, and any reletting revenues derived therefrom shall be assigned, and paid directly to, the 2004 Parking Bond Trustee to be applied to the payment of the principal of, and interest on the 2004 Parking Bonds at such times and in such manner as shall be determined by NPFPG. **Other than as provided in the immediately preceding sentence, in no event will the City or the Parking Authority be required to make any payment with respect to the SCC 16 Settlement from any source of funds other than the actual amounts, if any, received by the City or the Parking Authority with respect to the Subleased Space.** The City and Parking Authority will agree to assign absolutely and unconditionally their rights under the SCC 16 Lease to the 2004 Parking Bond Trustee and/or NPFPG to the extent necessary to allow the 2004 Parking Bond Trustee and/or NPFPG to enforce the SCC 16 Lease and the SCC 16 Settlement and will agree that they will not amend or consent to any waiver, forbearance or modification of the SCC 16 Lease or the SCC 16 Settlement without the prior written consent of the 2004 Parking Bond Trustee and NPFPG; *provided that*, at the direction of NPFPG or the 2004 Parking Bond Trustee, the City shall take such actions as may be required by NPFPG or the 2004 Parking Bond Trustee to enforce the SCC 16 Settlement against SCC 16.

Professional Fees

Each of the City and NPFPG shall bear the fees and costs of its respective professionals (including, but not limited to, its attorneys and financial advisors). Without limiting the foregoing, the City will waive the right to seek reimbursement of any fees and costs incurred by its professionals (including, but not limited to, its attorneys and financial advisors) related to the eligibility trial or the AB 506 “ask,” and NPFPG will waive the right to seek fees incurred by its professionals under the bond documents except for any professional fees incurred as a result of a future breach of the Plan.

The 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee shall each be entitled to recover reasonable attorneys’ fees and costs from reserve fund amounts held by the respective trustees under the respective bond documents and to recover reasonable attorneys’ fees with respect to any breach of the Plan in the future from such amounts; but, in the

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event the respective reserve fund amounts do not cover fees to date for any of the trustees (which we do not believe is the case), such trustee shall not be entitled to payment of same from the City's general fund.

Support for the Plan

NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee, and the 2006 SEB Bond Trustee will agree to support the City's Plan so long as it contains terms consistent with this Settlement with respect to the NPFG Bonds.

Mutual Releases

The City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee, and the 2006 SEB Bond Trustee, will exchange mutual releases, subject to certain carve-outs for, among other things, the transactions contemplated herein, the NPFG Bonds, the NPFG policies securing the payment of the NPFG Bonds, and breaches of the Settlement and/or the SCC 16 Settlement.

No Adverse Effect

The City shall cause a nationally recognized bond counsel reasonably acceptable to the City and NPFG, which may be Orrick, to deliver its opinion to the Authority, NPFG and the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable, for the benefit of the holders of the NPFG Bonds, that the transactions contemplated herein shall not cause interest on the NPFG Bonds to become includable in the gross income of the holders thereof for federal income tax purposes, and the City and the Authority shall agree to take such actions as may reasonably necessary to preserve such tax-exempt status of interest on the NPFG Bonds, including, without limitation, the tax-exempt current refunding of the bonds for federal income tax purposes, if necessary.

Documentation and Effectiveness

The City, NPFG and the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable, will work diligently to complete the preparation of the Forbearance Agreements and any other documents required to implement this Term Sheet. The City will commence the process of determining that there is a need for the Parking Authority of the City of Stockton to function and exercise its powers pursuant to California Government Code Section 32650 et seq. in connection with the Settlement concurrently with the proceedings for approval of the Plan.

The Forbearance Agreements, supplemental indentures, deeds, assignments, pledge agreements, control agreements, disclosure documents, and all of the other documents, instruments and agreements to be executed and delivered in connection with the consummation of the transactions contemplated hereby, including, without limitation, the opinion letters of counsel to the City and bond counsel, and the provisions of the Plan implementing the terms hereof shall, in each case, be in form and substance reasonably satisfactory to the City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable, and shall contain representations, warranties, covenants, events of default and such additional terms and conditions as are customary for transactions of this nature and otherwise reasonably

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acceptable to the City, NPMG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable.

The parties anticipate that the effectiveness of all of the documents involved in this Settlement be contingent upon the confirmation by the Court of the Plan and the Plan becoming effective.

The effectiveness of this Settlement is also contingent upon the entry into, and effectiveness of, the SCC 16 Settlement; *provided, however*, in the event that the parties are unable to agree to the terms of an SCC 16 Settlement that is acceptable to NPMG, the City, at the request or direction of the 2004 Parking Bond Trustee or NPMG shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPMG to terminate the Parking Structure Lease Back as part of an alternative arrangement that is acceptable to the City and the 2004 Parking Bond Trustee that is not conditioned upon the SCC 16 Settlement.

FRE 408

This Term Sheet and all any and all past, present or future discussions, negotiations, conferences, meetings, telephone conferences, drafts of agreements, correspondence and writings, submissions of data, financial information, financial projections and forecasts and term sheets; whether oral, written or both, relating to the various courses of action described herein or which may be explored with respect to or in connection with the NPMG Bonds and the transactions contemplated herein and therein (the “*Discussions*”) shall be considered to be communications to compromise and settle disputed matters. Nothing herein is intended to imply that Discussions prior to the date of this Term Sheet, were not “compromise negotiations” as defined in the Federal R. Evid. 408 and similar state laws and rules limiting the admissibility or discoverability of evidence concerning “compromise negotiations” or other communications to compromise and settle disputed matters (the “*Rules*”). This Term Sheet and all Discussions shall be considered “compromise negotiations” pursuant to the Rules, and no such Discussions shall ever be considered “otherwise discoverable” or be permitted to be discoverable or admissible or constitute evidence in connection with any bankruptcy case, legal proceeding, case, or litigation concerning any of the NPMG Bonds or for any other purpose such as to proving bias, admission of default, prejudice, interest of a witness or a party, negating a contention of undue delay, or an effort to obstruct a criminal investigation or prosecution as provided by the Rules.

This Term Sheet is being distributed and presented as a preliminary proposal for discussion purposes only and is not intended to be nor shall it be deemed a commitment or an offer on the part of any party hereto or any other person to enter into any of the transactions contemplated herein or otherwise. This Term Sheet merely represents a proposal of certain of the terms and conditions with respect to the proposed transactions and does not purport to reflect all matters on which the parties must reach agreement before they intend to be legally bound, and material and essential terms of such an agreement remain yet to be negotiated. Any final agreement with respect to the transactions contemplated herein may be conditioned upon additional terms and conditions and/or be substantially different from the terms and conditions discussed in this term sheet. Neither the delivery of this Term Sheet nor any discussions or representations with respect to the transactions contemplated hereby are intended to be, nor shall they constitute, a commitment, approval or binding offer of any kind or an admission of any liability or otherwise on the part of the City, NPMG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee

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and/or the 2006 SEB Bond Trustee, or any of their respective affiliates or any other party, and receipt of this Term Sheet does not in any way constitute a commitment or offer or admission of liability by the City, NCFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and/or the 2006 SEB Bond Trustee or any of their respective affiliates or any other party, to enter into any agreement or to enter into, offer or accept the above described transactions or otherwise. None of the parties referred to herein shall be bound by any of the terms hereof. **This is not a commitment, offer, acceptance, approval or admission of any kind or an indication that any commitment, offer, acceptance, approval or admission will be forthcoming. This term sheet is subject to change or withdrawal at any time.**

Attachments

Schedule 1: Revised Pledged Tax Increment Payment Schedule

Schedule 2: City's Maximum General Fund Payment Schedule, 2004 Arena Bonds

Schedule 3: Parking Installment Payment Schedule

Figure 1: Downtown Parking District Map

SCHEDULE 1: REVISED PLEDGED TAX INCREMENT PAYMENT SCHEDULE

Date	Annual Debt Service
9/1/2013	
9/1/2014	2,542,553.95
9/1/2015	2,591,972.37
9/1/2016	2,650,716.64
9/1/2017	2,703,523.65
9/1/2018	2,762,164.13
9/1/2019	2,789,110.81
9/1/2020	2,901,782.49
9/1/2021	2,975,126.93
9/1/2022	3,046,835.85
9/1/2023	3,113,133.32
9/1/2024	3,185,079.49
9/1/2025	3,255,771.74
9/1/2026	3,368,434.55
9/1/2027	3,444,630.00
9/1/2028	3,519,247.35
9/1/2029	3,627,234.10
9/1/2030	3,735,787.50
9/1/2031	3,811,362.85
9/1/2032	3,891,702.35
9/1/2033	3,976,028.20
9/1/2034	4,058,599.95
9/1/2035	4,143,968.70
9/1/2036	4,236,750.00
Totals	76,331,516.92

**SCHEDULE 2: CITY'S MAXIMUM GENERAL FUND
PAYMENT SCHEDULE, 2004 ARENA BONDS**

Date	Annual Debt Service
9/1/2013	
9/1/2014	2,542,553.95
9/1/2015	2,591,972.37
9/1/2016	2,650,716.64
9/1/2017	2,703,523.65
9/1/2018	2,762,164.13
9/1/2019	2,789,110.81
9/1/2020	2,898,756.25
9/1/2021	2,956,156.25
9/1/2022	3,019,556.25
9/1/2023	3,081,962.50
9/1/2024	3,144,625.00
9/1/2025	3,210,450.00
9/1/2026	3,280,750.00
9/1/2027	3,351,750.00
9/1/2028	3,419,750.00
9/1/2029	3,499,500.00
9/1/2030	3,570,000.00
9/1/2031	3,641,250.00
9/1/2032	3,717,750.00
9/1/2033	3,798,750.00
9/1/2034	3,878,500.00
9/1/2035	3,951,500.00
9/1/2036	4,042,500.00
Totals	74,503,547.81

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SCHEDULE 3: PARKING INSTALLMENT PAYMENT SCHEDULE

S3-1

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City of Stockton
 Parking Enterprise Fund
 Projected Payment Schedule

Gross Debt Service Schedule

Date	Principal	Coupon	Yield	Dollar Price	Accreted Interest	Periodic Debt Service	Fiscal Year Debt Service	Scheduled Debt Service	Remaining Principal	Optional Prepayment
06/01/14										
09/01/14	699,611.38	-	5.000	98.765	8,691.12	708,302.50		708,302.50	25,611,145.68	26,319,448.18
03/01/15	682,547.65	-	5.000	96.364	25,754.85	708,302.50	1,416,605.00	708,302.50	24,928,598.03	25,636,900.53
09/01/15	665,900.15	-	5.000	94.014	42,402.35	708,302.50		708,302.50	24,262,697.88	24,971,000.38
03/01/16	649,658.68	-	5.000	91.721	58,643.82	708,302.50	1,416,605.00	708,302.50	23,613,039.20	24,321,341.70
09/01/16	633,813.35	-	5.000	89.483	74,489.15	708,302.50		708,302.50	22,979,225.85	23,687,528.35
03/01/17	618,354.48	-	5.000	87.301	89,948.02	708,302.50	1,416,605.00	708,302.50	22,360,871.37	23,069,173.87
09/01/17	603,272.67	-	5.000	85.172	105,029.83	708,302.50		708,302.50	21,757,598.70	22,465,901.20
03/01/18	588,558.70	-	5.000	83.094	119,743.80	708,302.50	1,416,605.00	708,302.50	21,169,040.00	21,877,342.50
09/01/18	644,547.16	-	5.000	81.068	150,526.85	795,074.01		795,074.01	20,524,492.84	21,319,566.85
03/01/19	628,826.50	-	5.000	79.090	166,247.51	795,074.01	1,590,148.02	795,074.01	19,895,666.34	20,690,740.35
09/01/19	615,997.01	-	5.000	77.161	182,327.00	798,324.01		798,324.01	19,279,669.33	20,077,993.34
03/01/20	600,972.69	-	5.000	75.279	197,351.32	798,324.01	1,596,648.02	798,324.01	18,678,696.64	19,477,020.65
09/01/20	588,749.47	-	5.000	73.443	212,889.54	801,639.01		801,639.01	18,089,947.17	18,891,586.18
03/01/21	574,389.72	-	5.000	71.652	227,249.29	801,639.01	1,603,278.02	801,639.01	17,515,557.45	18,317,196.46
09/01/21	562,743.89	-	5.000	69.904	242,276.42	805,020.31		805,020.31	16,952,813.56	17,757,833.87
03/01/22	549,018.43	-	5.000	68.199	256,001.88	805,020.31	1,610,040.62	805,020.31	16,403,795.13	17,208,815.44
09/01/22	537,922.51	-	5.000	66.536	270,546.73	808,469.24		808,469.24	15,865,872.62	16,674,341.86
03/01/23	524,802.45	-	5.000	64.913	283,666.79	808,469.24	1,616,938.48	808,469.24	15,341,070.17	16,149,539.41
09/01/23	514,230.27	-	5.000	63.330	297,756.87	811,987.14		811,987.14	14,826,839.90	15,638,827.04
03/01/24	501,688.07	-	5.000	61.785	310,299.07	811,987.14	1,623,974.28	811,987.14	14,325,151.83	15,137,138.97
09/01/24	491,614.72	-	5.000	60.278	323,960.68	815,575.40		815,575.40	13,833,537.11	14,649,112.51
03/01/25	479,624.12	-	5.000	58.808	335,951.28	815,575.40	1,631,150.80	815,575.40	13,353,912.99	14,169,488.39
09/01/25	470,025.86	-	5.000	57.374	349,209.57	819,235.43		819,235.43	12,883,887.13	13,703,122.56
03/01/26	458,561.82	-	5.000	55.974	360,673.61	819,235.43	1,638,470.86	819,235.43	12,425,325.31	13,244,560.74
09/01/26	449,416.07	-	5.000	54.609	373,552.59	822,968.66		822,968.66	11,975,909.24	12,798,877.90
03/01/27	438,454.70	-	5.000	53.277	384,513.96	822,968.66	1,645,937.32	822,968.66	11,537,454.54	12,360,423.20
09/01/27	429,739.94	-	5.000	51.978	397,036.61	826,776.55		826,776.55	11,107,714.60	11,934,491.15
03/01/28	419,258.48	-	5.000	50.710	407,518.07	826,776.55	1,653,553.10	826,776.55	10,688,456.12	11,515,232.67
09/01/28	410,954.22	-	5.000	49.473	419,706.38	830,660.60		830,660.60	10,277,501.90	11,108,162.50
03/01/29	400,930.95	-	5.000	48.267	429,729.65	830,660.60	1,661,321.20	830,660.60	9,876,570.95	10,707,231.55
09/01/29	393,017.70	-	5.000	47.089	441,604.64	834,622.34		834,622.34	9,483,553.25	10,318,175.59
03/01/30	383,431.90	-	5.000	45.941	451,190.44	834,622.34	1,669,244.68	834,622.34	9,100,121.35	9,934,743.69
09/01/30	375,891.07	-	5.000	44.820	462,772.23	838,663.30		838,663.30	8,724,230.28	9,562,893.58
03/01/31	366,723.00	-	5.000	43.727	471,940.30	838,663.30	1,677,326.60	838,663.30	8,357,507.28	9,196,170.58
09/01/31	359,536.92	-	5.000	42.661	483,248.17	842,785.09		842,785.09	7,997,970.36	8,840,755.45
03/01/32	350,767.72	-	5.000	41.620	492,017.37	842,785.09	1,685,570.18	842,785.09	7,647,202.64	8,489,987.73

Date	Principal	Coupon	Yield	Dollar Price	Accreted Interest	Periodic Debt Service	Fiscal Year Debt Service	Scheduled Debt Service	Remaining Principal	Optional Prepayment
09/01/32	343,919.53	-	5.000	40.605	503,069.78	846,989.31		846,989.31	7,303,283.11	8,150,272.42
03/01/33	335,531.25	-	5.000	39.615	511,458.06	846,989.31	1,693,978.62	846,989.31	6,967,751.86	7,814,741.17
09/01/33	329,004.92	-	5.000	38.648	522,272.70	851,277.62		851,277.62	6,638,746.94	7,490,024.56
03/01/34	320,980.41	-	5.000	37.706	530,297.21	851,277.62	1,702,555.24	851,277.62	6,317,766.53	7,169,044.15
09/01/34	314,760.67	-	5.000	36.786	540,891.02	855,651.69		855,651.69	6,003,005.86	6,858,657.55
03/01/35	307,083.58	-	5.000	35.889	548,568.11	855,651.69	1,711,303.38	855,651.69	5,695,922.28	6,551,573.97
09/01/35	301,155.88	-	5.000	35.014	558,957.36	860,113.24		860,113.24	5,394,766.40	6,254,879.64
03/01/36	293,810.62	-	5.000	34.160	566,302.62	860,113.24	1,720,226.48	860,113.24	5,100,955.78	5,961,069.02
09/01/36	288,161.12	-	5.000	33.326	576,502.91	864,664.03		864,664.03	4,812,794.66	5,677,458.69
03/01/37	281,132.80	-	5.000	32.514	583,531.23	864,664.03	1,729,328.06	864,664.03	4,531,661.86	5,396,325.89
09/01/37	275,748.30	-	5.000	31.721	593,557.53	869,305.83		869,305.83	4,255,913.56	5,125,219.39
03/01/38	269,022.74	-	5.000	30.947	600,283.09	869,305.83	1,738,611.66	869,305.83	3,986,890.82	4,856,196.65
09/01/38	263,890.69	-	5.000	30.192	610,149.77	874,040.46		874,040.46	3,723,000.13	4,597,040.59
03/01/39	257,454.33	-	5.000	29.456	616,586.13	874,040.46	1,748,080.92	874,040.46	3,465,545.80	4,339,586.26
09/01/39	252,562.77	-	5.000	28.737	626,307.02	878,869.79		878,869.79	3,212,983.03	4,091,852.82
03/01/40	246,402.70	-	5.000	28.036	632,467.09	878,869.79	1,757,739.58	878,869.79	2,966,580.33	3,845,450.12
09/01/40	241,740.24	-	5.000	27.353	642,055.47	883,795.71		883,795.71	2,724,840.09	3,608,635.80
03/01/41	235,844.14	-	5.000	26.685	647,951.57	883,795.71	1,767,591.42	883,795.71	2,488,995.95	3,372,791.66
09/01/41	231,399.93	-	5.000	26.035	657,420.21	888,820.14		888,820.14	2,257,596.02	3,146,416.16
03/01/42	225,756.03	-	5.000	25.400	663,064.11	888,820.14	1,777,640.28	888,820.14	2,031,839.99	2,920,660.13
09/01/42	221,519.74	-	5.000	24.780	672,425.32	893,945.06		893,945.06	1,810,320.25	2,704,265.31
03/01/43	216,116.82	-	5.000	24.176	677,828.24	893,945.06	1,787,890.12	893,945.06	1,594,203.43	2,488,148.49
09/01/43	212,078.62	-	5.000	23.586	687,093.86	899,172.48		899,172.48	1,382,124.81	2,281,297.29
03/01/44	206,905.97	-	5.000	23.011	692,266.51	899,172.48	1,798,344.96	899,172.48	1,175,218.84	2,074,391.32
09/01/44	206,968.52	-	5.000	22.449	714,961.92	921,930.44	-	921,930.44	968,250.32	1,890,180.76
03/01/45	201,920.51	-	5.000	21.902	720,009.93	921,930.44	1,843,860.88	921,930.44	766,329.81	1,688,260.25
09/01/45	198,157.73	-	5.000	21.368	729,211.32	927,369.05	-	927,369.05	568,172.08	1,495,541.13
03/01/46	193,324.61	-	5.000	20.847	734,044.44	927,369.05	1,854,738.10	927,369.05	374,847.47	1,302,216.52
09/01/46	189,737.61	-	5.000	20.338	743,178.82	932,916.43	-	932,916.43	185,109.86	1,118,026.29
03/01/47	185,109.86	-	5.000	19.842	747,806.57	932,916.43	1,865,832.86	932,916.43	-	932,916.43
Totals	26,310,757.06				28,756,987.68	55,067,744.74	55,067,744.74			

FIGURE 1: DOWNTOWN PARKING DISTRICT MAP

F-1

Boundary Map of City of Stockton CFD 2001-1 (Downtown Parking District)

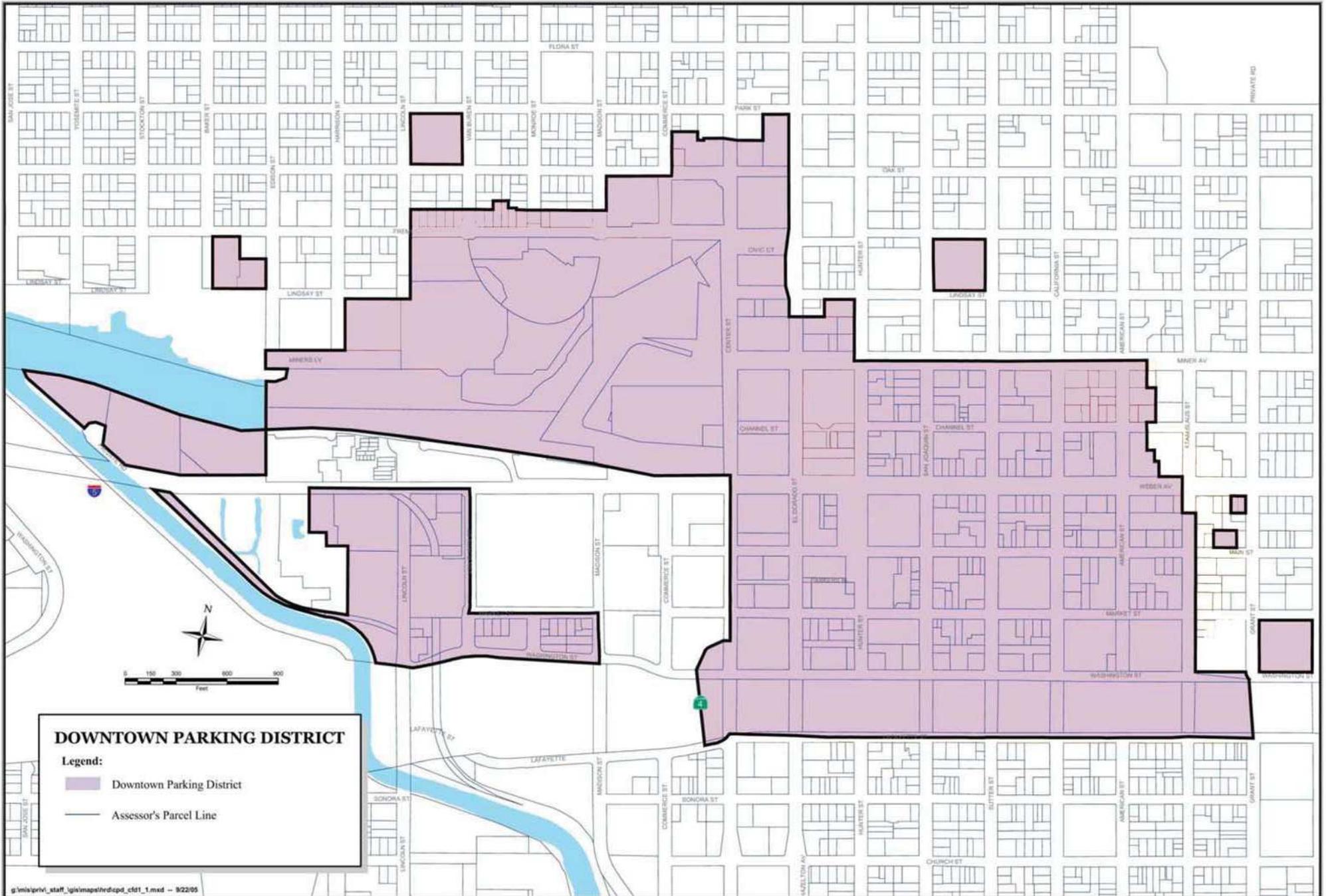


EXHIBIT B
TO
DISCLOSURE STATEMENT
WITH RESPECT TO
THE PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON,
CALIFORNIA

EXHIBIT B

LONG-RANGE FINANCIAL PLAN OF CITY OF STOCKTON

Forecast Basics

The General Fund budget forecast includes the following sections:

- Baseline Budget – Revenue projections are based on current revenue sources (before the Measure A sales tax on the November 2013 ballot). Expenditure projections are based on the current FY13-14 budget level of staffing, including future cost-of-living increases (COLAs) to remain competitive, and projected pension rate changes. These costs are inclusive of the labor agreements negotiated under the AB 506 mediation process which have since been approved and implemented. Services, supplies and program support assume inflationary growth. Debt service is based on original amortization schedules and projected contributions from other funds. The baseline budget is the status quo, but it is neither sustainable (it is service insolvent) nor viable (it is budgetary and cash insolvent).
- Fiscal Stabilization – This section contains expenditure increases to the status quo baseline budget, including modest increased contributions to deferred maintenance and internal service funds (worker’s compensation and liability insurance reserves, etc.), and funding of the Marshall Plan for improved public safety services. It is important to note that reinvestment in public safety as mapped out in the Marshall Plan is absolutely essential to Stockton’s ultimate success, because we must combat crime and violence in order to build an economically healthy City. The fiscal stabilization budget is sustainable (while it does not meet *all* of the City’s needs, it is arguably no longer service insolvent) but it remains unviable (because it is even more budgetary and cash insolvent due to the higher level of spending).
- Restructuring Savings – This section includes savings proposed under the original AB 506 process which require chapter 9 protection in order to be implemented for retiree medical benefits, debt obligations, lawsuit claimants and sports teams. (Again, the labor savings portion of restructuring savings has already been implemented.) For purposes of this presentation we have incorporated what we believe will be a negotiated settlement with the large creditor mentioned earlier. This is the most conservative approach for the City to take, given the uncertainty, and thus prudent. This section also includes the proposed revenue from Measure A, along with additional efficiencies, cost recovery and income from land sales. With all of these savings and new revenues, the City realizes a balanced budget that is not service insolvent.

Tables 1A, 1B and 1C summarize these three elements of the General Fund budget and show the resulting net surplus or shortfall projected to remain after each element over the next 30 years. The entire forecast is shown in Exhibit A. It is important to note that a forecast of this range is inherently subject to significant variability. Even a one percent change in assumptions can have a major impact over time. However given the long-term nature of City obligations we

need to have a plan and have attempted to model likely fiscal performance in a conservative manner. These conservative modeling assumptions, which are detailed in our discussion of revenues and variable expenditures later in this report, mean that on balance we can expect that variances are somewhat more likely to be “good news” than “bad news”, but we have also striven to develop realistic projections given the pressure to restore City services and pay creditors. The point is that the forecast is prudently conservative but still subject to risks based on assumptions made.

Table 1A. Long-Range Financial Plan With Restructuring Savings (FY11-12 to FY 20-21)

(\$ in 000)	<u>11-12</u>	<u>12-13</u>	<u>13-14</u>	<u>14-15</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>
Total Baseline Revenues	160,268	160,655	159,519	161,354	165,590	170,453	175,456	180,591	185,922	191,109
Total Baseline Expenditures	159,254	174,319	184,702	190,450	202,611	210,492	214,599	220,371	226,519	231,835
Net Annual After Baseline	1,013	(13,663)	(25,184)	(29,097)	(37,021)	(40,038)	(39,142)	(39,780)	(40,597)	(40,725)
Fiscal Stabilization Expenditures	-	-	-	18,995	24,526	22,691	23,032	24,215	25,409	26,719
Net Annual After Stabilization	1,013	(13,663)	(25,184)	(48,092)	(61,547)	(62,729)	(62,175)	(63,995)	(66,006)	(67,444)
Total Restructuring	653	20,862	31,987	57,120	58,823	61,535	61,843	62,936	65,251	65,713
Net Annual After Restructuring	1,666	7,199	6,804	9,028	(2,724)	(1,194)	(331)	(1,059)	(755)	(1,731)
Beginning Available Balance	6,639	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769
Transfer to Bankruptcy Fund	(5,592)	(6,913)	-	-	-	-	-	-	-	-
AB 506 Carryover	(2,713)	2,713	-	-	-	-	-	-	-	-
Ending General Fund Balance	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769	11,038
Balance as % of Total Exp	0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%

Table 1B. Long-Range Financial Plan With Restructuring Savings (FY21-22 to FY 30-31)

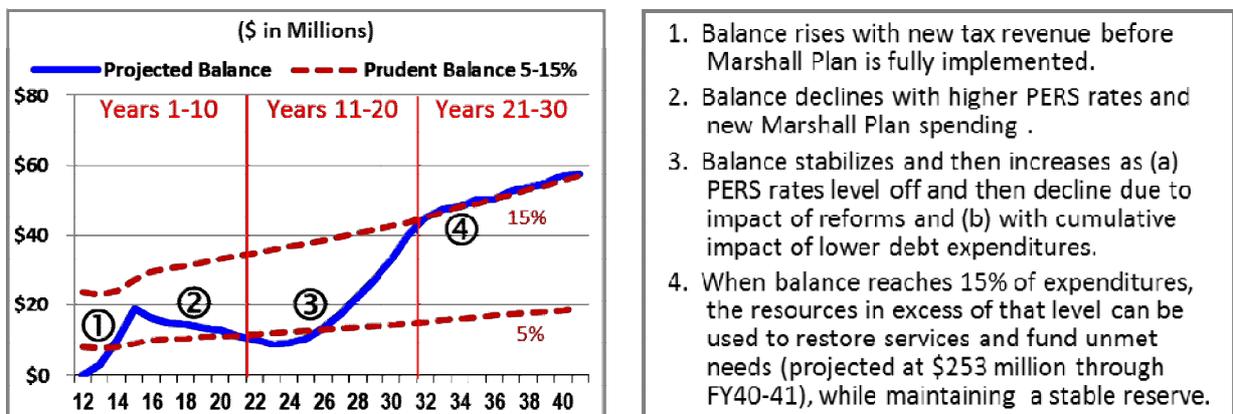
(\$ in 000)	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
Total Baseline Revenues	196,439	201,955	207,664	213,586	219,635	225,756	232,002	238,339	244,759	251,271
Total Baseline Expenditures	238,112	244,445	250,931	257,906	263,001	269,997	277,460	284,400	291,443	298,628
Net Annual After Baseline	(41,672)	(42,490)	(43,267)	(44,320)	(43,367)	(44,241)	(45,458)	(46,060)	(46,684)	(47,357)
Fiscal Stabilization Expenditures	27,220	27,732	28,249	28,775	29,303	29,838	30,387	30,940	31,502	32,076
Net Annual After Stabilization	(68,892)	(70,222)	(71,516)	(73,095)	(72,670)	(74,079)	(75,845)	(77,000)	(78,186)	(79,433)
Total Restructuring	67,871	69,028	71,689	74,470	75,894	77,964	80,760	81,813	84,081	86,380
Net Annual After Restructuring	(1,021)	(1,194)	173	1,375	3,224	3,885	4,915	4,812	5,894	6,947
Beginning Available Balance	11,038	10,017	8,823	8,996	10,371	13,595	17,480	22,395	27,207	33,101
Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
Ending General Fund Balance	10,017	8,823	8,996	10,371	13,595	17,480	22,395	27,207	33,101	40,048
Balance as % of Total Exp	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%

Table 1C. Long-Range Financial Plan With Restructuring Savings (FY31-32 to FY 40-41)

(\$ in 000)	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
Total Baseline Revenues	257,847	263,430	270,046	276,595	283,323	289,681	296,520	303,403	310,213	317,206
Total Baseline Expenditures	302,987	309,314	313,691	321,179	317,755	325,171	333,834	328,571	333,615	340,102
Net Annual After Baseline	(45,140)	(45,885)	(43,645)	(44,584)	(34,432)	(35,490)	(37,314)	(25,168)	(23,402)	(22,896)
Fiscal Stabilization Expenditures	38,304	42,894	49,047	48,649	63,033	61,630	64,242	68,403	69,047	69,717
Net Annual After Stabilization	(83,445)	(88,779)	(92,692)	(93,233)	(97,465)	(97,120)	(101,556)	(93,571)	(92,449)	(92,613)
Total Restructuring	88,682	91,003	93,269	95,447	97,323	99,472	102,546	94,895	94,100	94,474
Net Annual After Restructuring	5,237	2,224	577	2,214	(142)	2,352	990	1,324	1,651	1,861
Beginning Available Balance	40,048	45,285	47,509	48,086	50,300	50,158	52,510	53,500	54,824	56,475
Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
Ending General Fund Balance	45,285	47,509	48,086	50,300	50,158	52,510	53,500	54,824	56,475	58,336
Balance as % of Total Exp	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%

Due to the timing of new tax revenues, implementing the Marshall Plan, and changing levels of PERS rates, the General Fund balance will vary as shown in Figure 1.

Figure 1. General Fund Balance with Revenue Growth as Forecasted

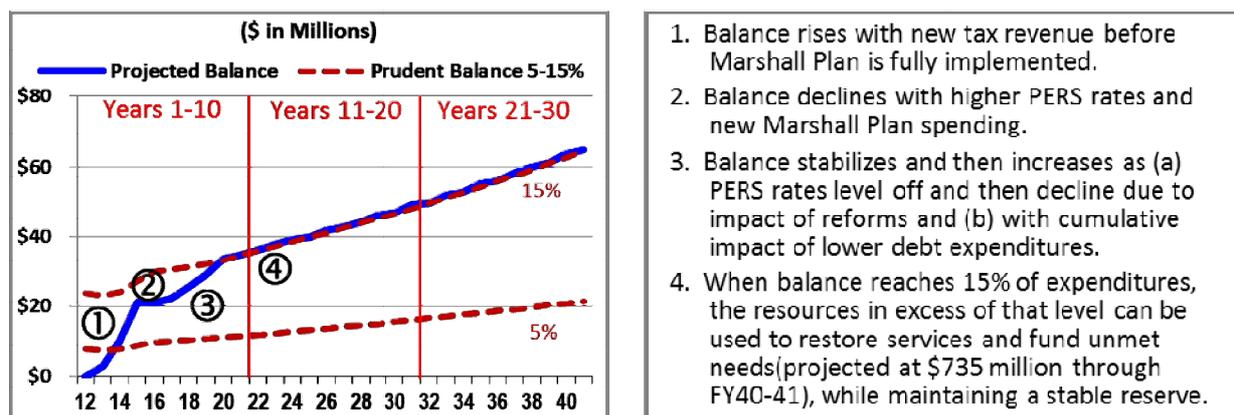


1. Balance rises with new tax revenue before Marshall Plan is fully implemented.
2. Balance declines with higher PERS rates and new Marshall Plan spending.
3. Balance stabilizes and then increases as (a) PERS rates level off and then decline due to impact of reforms and (b) with cumulative impact of lower debt expenditures.
4. When balance reaches 15% of expenditures, the resources in excess of that level can be used to restore services and fund unmet needs (projected at \$253 million through FY40-41), while maintaining a stable reserve.

As is apparent from these graphics, the City will need to be carefully managed for some time to make sure that the General Fund balance maintains a prudent level of reserves. To weather the impacts created by near-term increases in PERS rates and implementation of the Marshall Plan, the City will have to exercise disciplined expenditure control. With the longer run stabilization and eventually reduction in PERS costs, the City's fiscal position will improve.

It should also be noted that we have been conservative in developing model assumptions, so it is possible that actual performance will be somewhat better than projected. Small ongoing improvements to base revenues, compounded over time, can significantly improve the fund balance outlook and capacity to address unmet needs. For example, Figure 1A below compares what fund balance would look like if our annual growth in core revenues (all taxes, including Measure A) is just 0.5% better than projected. Under this scenario fund balance hits the 15% reserve target in 2020 (despite higher near-term retirement costs), and mission critical spending capacity over the entire 30-year period increases from \$253 million under the forecasted revenue level to \$735 million under a "forecast+0.5%" growth in core revenues.

Figure 1A. General Fund Balance with Annual Ongoing Core Revenue Growth 0.5% Higher Than Forecasted (Compounded Basis)



The following is a summary of the key revenue and expenditure assumptions on which this forecast is based.

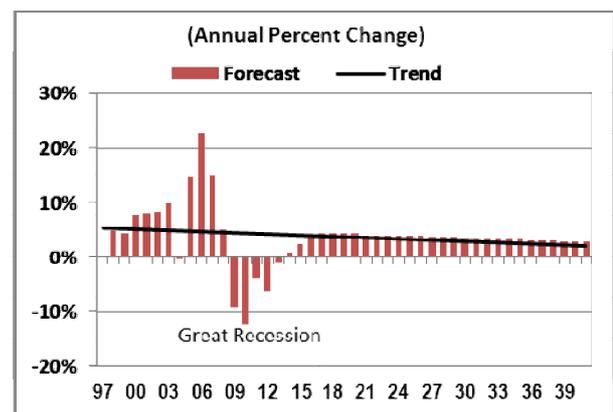
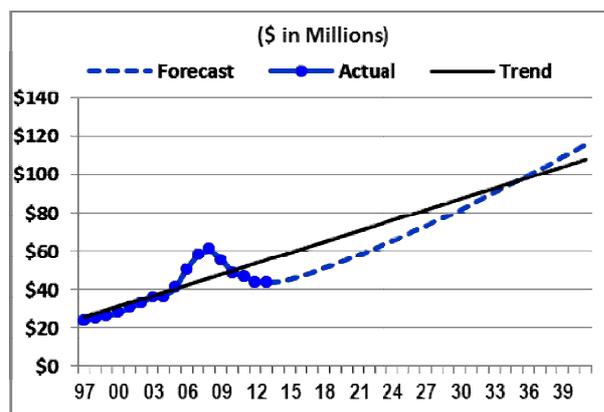
Major Revenue Trends

Property Tax – This tax comprises 27.1% of total FY13-14 General Fund revenue, and includes property tax in lieu of vehicle license fees. At \$43.9 million, property tax revenue remains 28.2% below its peak of \$61.1 million in FY07-08. Stockton property values declined precipitously during the Great Recession: during 2009-2012 Stockton ranked from 2nd to 4th in the nation in magnitude of home price reduction. Median home prices fell from a peak of \$400,000 in December 2005 to \$118,500 in February 2012, a decline of 70%. Home sale prices have begun to recover over the past year, but given the time lag in property tax administration this will not be immediately realized in terms of higher tax revenues. There is also a lag in addressing assessment appeals, which means some value declines, especially for commercial properties, have not yet been implemented.

The FY13-14 adopted budget assumes a 0.72% overall increase in property tax revenue, but this will not be confirmed until mid-December 2013 when the first tax payment is received. The forecast assumes property tax growth of 2.5% in FY14-15, rising to 4.0% in FY15-16, and 4.5% from FY16-17 through FY19-20, with slower growth rates thereafter. This is a mid-range estimate, given that there will be higher and lower growth years, and as the early 1980s, mid-1990s, and last several years attest, there will be negative growth years as well. This is a revenue source strongly linked to the real estate market and general economy, as evidenced by the revenue levels shown in Figure 2 and the percentage change in revenue in Figure 3. The linear trend from actual revenues received during FY96-97 through FY12-13 remains higher than the forecasted revenues for two reasons: (1) the dramatic growth rates in property values fueled by easy credit during the late 1990s and early 2000s is not expected to be repeated in the post-Great Recession banking environment, and (2) the historical revenue included an average of 2,064 new housing units each year, whereas a market absorption study prepared for the City projects an average of 700 units annually going forward.

Figure 2. Property Tax Revenue Forecast

Figure 3. Property Tax Growth Rate



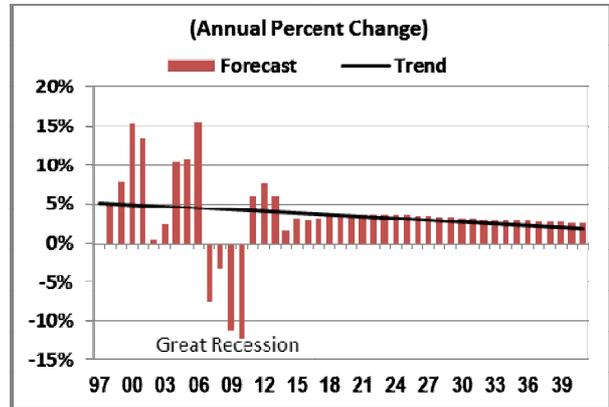
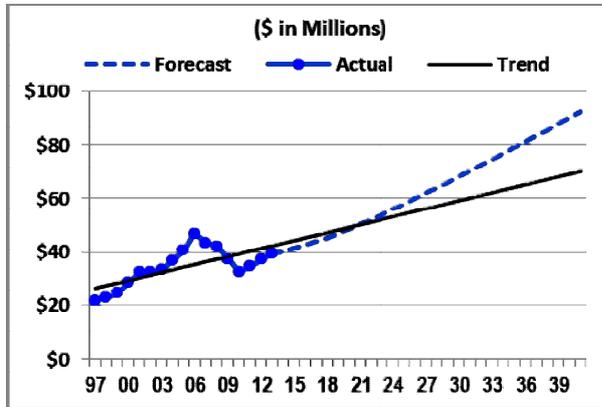
Sales Tax – This tax comprises 24.6% of total FY13-14 General Fund revenue, and includes the 0.75% local tax rate, the 0.25% “triple flip” tax rate paid by the state through the annual property tax remittance from the county, and the Prop 172 public safety sales tax. (Not included here are the current 0.25% Measure W public safety sales tax, which is a special tax accounted for in a separate fund, and the proposed 0.75% Measure A general sales tax.) At \$40.2 million, sales tax revenue remains 14.5% below its peak of \$47.0 million in FY05-06. Figures 4 and 5 show the historical and forecasted sales tax revenues, which have registered positive growth the last four years, following four years of decline.

The estimates for FY12-13 through FY14-15 were supplied by HdL Companies, the city’s sales tax consultant. Future years reflect a mid-range growth estimate (which is higher than the 20-year average Consumer Price Index growth of 2.5%). Again, this is a mid-range estimate, taking into account that some years will be higher, and others lower (or negative). In addition to the effects of general economic conditions, there is continued downward pressure on sale tax levels from an ongoing shift to untaxed services, and increasing on-line purchases that avoid or

divert sales tax payment to other jurisdictions. Long-term revenue growth is projected at 3.5%, which is consistent with the revenue growth trend line.

Figure 4. Sales Tax Revenue Forecast

Figure 5. Sales Tax Growth Rate

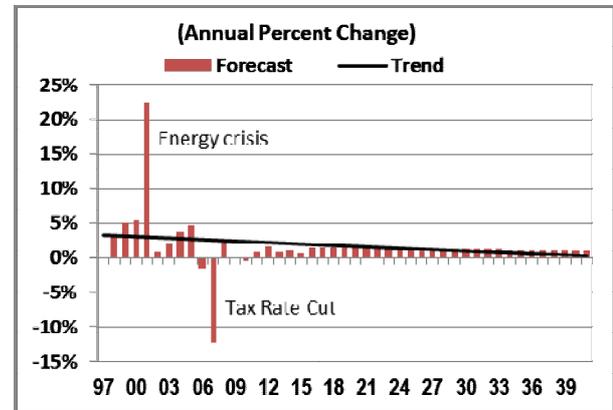
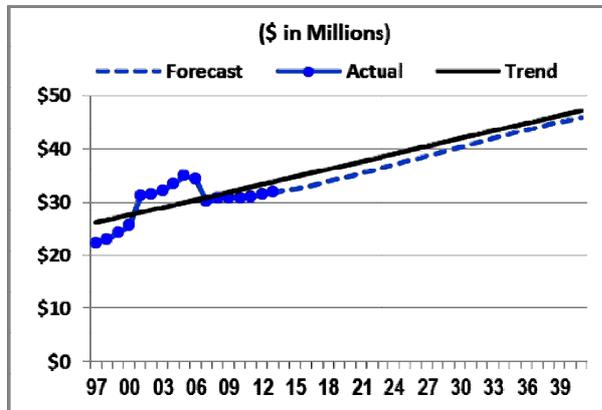


Utility Users Tax – The General Fund’s third largest revenue source is the 6% utility users tax on gas, electric, telecommunications, cable TV and water. This tax raises \$32.2 million in FY13-14 (19.8% of General Fund revenue), and remains 7.8% below its peak year of \$34.9 million in FY04-05. Estimates from FY12-13 through FY14-15 for the non-water sectors were supplied by MuniServices, the city’s utility users tax consultant.

Figures 6 and 7 show the two major impacts on the tax: (1) the California “energy crisis” of 2001 that for a time dramatically increased the energy costs on which the tax was applied, and the subsequent reduction in tax rate from 8% to 6% over 2005-2007. Since then the tax has barely averaged a 1.0% growth rate, in part because of a reduced growth rate in new households, price competition and changing trends in telecommunications (reduced use of cable and landline phones), and customer conservation efforts. The City is discussing a Climate Action Plan that will be encouraging conservation, and water conservation efforts mandated by state law are having and will continue to have a similar effect. For these reasons the forecasted revenues runs just below the linear trend of utility user tax revenues based on past actual revenues. Long-term revenue growth is projected at 1.5%.

Figure 6. Utility Users Tax Revenue Forecast

Figure 7. Utility Users Tax Growth Rate



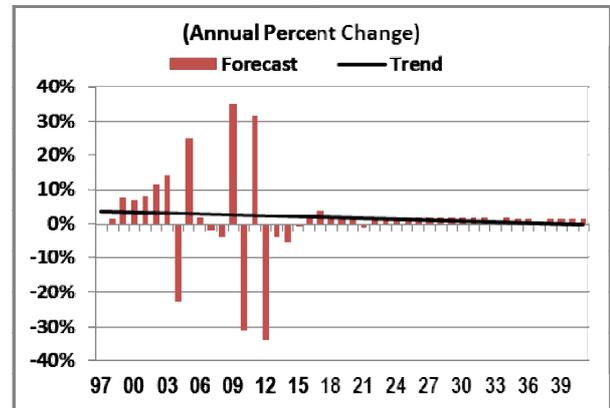
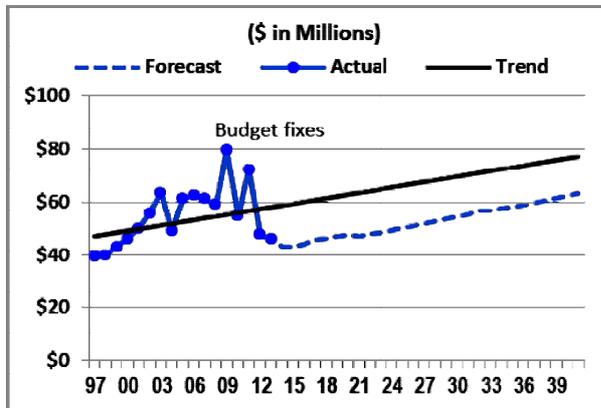
Other Revenues – The remaining 28.5% of General Fund revenue is comprised of the following sources:

- Franchise taxes on PG&E, cable TV/video and waste haulers (7.3% of General Fund revenue). Similar to the UUT, this \$11.7 million tax is somewhat volatile, being based on franchisee gross receipts. Slower population growth, conservation and telecommunication industry trends are projected to limit future revenue growth to 2.0%.
- Business License Tax (\$9.0 million or 5.6% of General Fund revenue). This tax on business gross receipts reflects changes in the overall economy, and is expected to grow slowly in coming years, given local economic conditions. Long-term revenue growth is projected at 1.5%.
- Program Revenues (\$10.3 million or 6.5% of General Fund revenue) include charges for services, fines and forfeitures, fire contract, revenue from other agencies, licenses and permits, code enforcement and miscellaneous revenue. Composite long-term growth is projected at 1.1%.
- Interfund Reimbursements and Transfers (\$9.7 million or 6.1% of General Fund revenue) include indirect cost allocation, refunds and reimbursements, rents, leases, concessions, and Parking Fund reimbursement of debt service. Composite long-term revenue growth declines from 2.0% to 0.5% over time.
- Other Taxes (\$2.6 million or 1.6% of General Fund revenue) include the hotel tax (1.0% annual growth), documentary transfer tax (1.5% annual growth) and vehicle license fees (no growth).
- Interest Income is a negligible amount in FY13-14, but it will grow at varying rates in future years based on fund balance levels.

Figures 8 and 9 show the volatility of these “Other Revenue” sources over time. The linear trend based on past year collections is much higher than the forecasted revenues, because in past years this category included funds that are no longer received by the General Fund, such as water payments in lieu of taxes (ruled illegal by court), construction permits (switched to Development Services Fund), or past one-time budget fixes (such as workers compensation reimbursements).

Figure 8. Other Revenue Forecast

Figure 9. Other Revenue Growth Rate

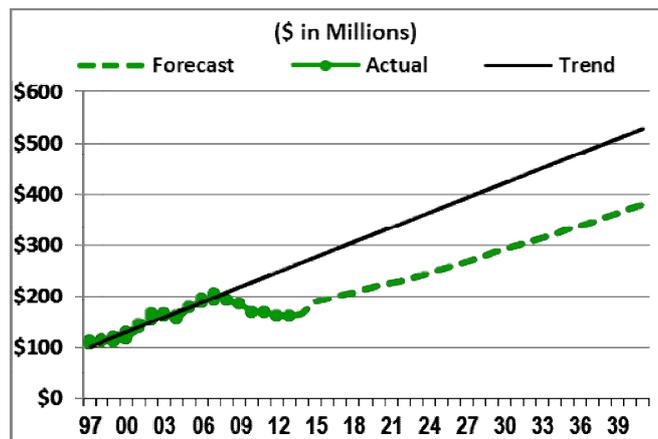


Revenue Gap

Since FY07-08, the City has suffered significant revenue losses due to the deteriorated local economy. Total ongoing General Fund revenues have dropped from approximately \$192.9 million in FY07-08 to \$157.7 million in FY12-13. Even with enactment of the proposed 0.75% sales tax, FY14-15 revenues would total \$189.9 million, which is still below the FY07-08 level.

Figure 10 compares the linear trend based on actual revenues from FY96-97 through FY06-07 (less one-time budget fixes in FY08-09 and FY10-11) to the forecasted revenues (including the proposed sales tax) and indicates there is approximately a \$90 million “revenue gap” between forecasted revenues and the expectation of what revenues would have been based on that historical revenue growth. Program and compensation level decisions in the late 1990s to the mid-2000s were based on those earlier revenue expectations. The magnitude of this gap, and that fact that it continues to grow, has created havoc with the General Fund budget.

Figure 10. General Fund Revenue Gap between Reality and Pre-Recession Expectations



It is important to note that actual revenues have yet to rebound to pre-recession levels, and based on projected trends will not reach such levels until approximately 2020. It is unlikely that

the City will ever achieve the trend level of growth assumed in the pre-recession period. Many of the expenditures, such as all the debt obligations taken on during this period, assumed that this aggressive trend line of growth would be achieved, and this failure is at the heart of the bankruptcy.

Baseline and Fiscal Stabilization Expenditures

This widening gap in ongoing revenues took place against a background of multi-year labor agreements which included significant cost escalators. Initially, the City used reserves and other sources of one-time funding to maintain solvency. However, such alternatives were exhausted over FY09-10 and FY10-11. Consequently the City was forced to make severe reductions in compensation, staffing and services. Projected salary and benefit costs have fallen from over \$147.1 million in FY07-08 to \$107.2 million in FY12-13. This reduction has been accomplished by a combination of negotiated compensation reductions, service and staffing reductions and imposed reductions via a finding of fiscal emergency, resulting in budget reductions totaling \$90 million enacted over the three-year period of FY09-10 through FY11-12.

Staffing Levels – Table 2 shows the major declines in City staffing levels since FY08-09. Highlights are as follows:

- General Fund sworn police officers were reduced by 98 positions or 25% (another 22 officers are paid by grants which expire at the end of FY11-12; the City must retain these positions for three years and the resulting funding gap is part of the General Fund shortfall).
- General Fund fire department staffing was reduced by 30%.
- General Fund non-safety department staffing was reduced by 43%.

Table 2. General Fund Staffing Change between FY08-09 and FY11-12

					Chng from	Percent
(Full Time Equivalents)	<u>08-09</u>	<u>09-10</u>	<u>10-11</u>	<u>11-12</u>	<u>08-09</u>	<u>Change</u>
Police-sworn	398	312	292	300	(98)	-25%
Police-other	232	207	199	185	(47)	-20%
Fire	253	265	226	177	(76)	-30%
Other Departments	471	302	268	269	(202)	-43%
Total Before Grants	1,354	1,086	985	931	(423)	-31%
Police Grants	6	17	31	25	19	317%
Total After Grants	<u>1,360</u>	<u>1,103</u>	<u>1,016</u>	<u>956</u>	<u>(404)</u>	<u>-30%</u>

The *baseline* section of the budget forecast is based on a continuation of FY13-14 staffing levels with no position changes to any departments thereafter. The forecast assumes that upon expiration of current police grant funding that the General Fund assumes the cost of the affected positions, to avoid a reduction in safety staffing.

The *fiscal stabilization* section of the forecast includes implementation of the Marshall Plan for augmented public safety services, which adds 120 sworn officers over three years starting in FY14-15, and associated non-sworn positions. Table 3 shows the change in staffing including the adopted budgets for FY12-13 and FY13-14 through the implementation of the Marshall Plan.

Table 3. General Fund Staffing Levels between FY12-13 and FY17-18 including Marshall Plan

(Full Time Equivalents)	<u>12-13</u>	<u>13-14</u>	<u>14-15</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>
Police-sworn	319	321	361	401	441	441	441	441	441
Police-other	183	184	198	199	201	201	201	201	201
Fire	175	177	177	177	177	177	177	177	177
Other Departments	268	271	271	271	271	271	271	271	271
Total Before Grants	945	953	1,007	1,048	1,090	1,090	1,090	1,090	1,090
Police Grants	26	26	26	26	26	26	26	26	26
Total After Grants	971	979	1,033	1,074	1,116	1,116	1,116	1,116	1,116

Marshall Plan costs are shown in Table 4, and include (1) all labor costs net of vacancy savings, including pension, benefits, overtime and compensated absences, (2) higher costs of supervisory positions needed for such an increase in workforce, (3) support positions required for records management and crime analysis, (4) support of the Ceasefire program upon expiration of current grant, (5) expansion of the Peacekeeper program, (6) expansion of code enforcement and neighborhood “blitz teams”, and (7) creation of an Office of Violence Reduction to monitor overall Marshall Plan implementation.

Table 4. Projected Costs of Marshall Plan (FY14-15 through FY 23-24)

(\$ in 000)	<u>14-15</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>	<u>21-22</u>	<u>22-23</u>	<u>23-24</u>
Sworn Officers	6,252	12,284	18,477	18,776	19,914	21,063	22,327	22,781	23,246	23,714
Violence Reduction Off.	250	255	260	265	271	276	282	287	293	299
Records Assistants	129	197	334	341	348	355	362	369	377	384
Crime Analysts	395	403	411	419	428	436	445	454	463	472
Ceasefire Program	113	115	118	120	122	125	127	130	132	135
Peacekeeper Program	500	510	520	531	541	552	563	574	586	598
Code Enforcement	807	202	-	-	-	-	-	-	-	-
Neighborhood Team	500	510	520	531	541	552	563	574	586	598
Totals	8,945	14,476	20,641	20,982	22,165	23,359	24,669	25,170	25,682	26,199

Compensation and Benefits – The forecast assumes that employees continue to receive merit increases where applicable (i.e., employees not already at top step) which results in an aggregate increase of approximately 1.2% in compensation annually. In an effort to remain at least marginally competitive with the City’s labor market, the forecast assumes salary cost-of-living increases (COLAs) at 2% annually starting in FY15-16, and the costs of pension and other benefits reflect this increase. Overtime costs and workers comp contributions (a much smaller aggregate cost than compensation and benefits) also increase by 1.2% annually, because they are a direct function of overall compensation. Health contributions are also projected to increase by 2% annually, starting in FY14-15.

Retirement Costs – Stockton’s retirement costs include two components, the pension program and the separate medical insurance program for retirees. By far, the biggest unfunded liability was found in the retiree medical program. When I arrived in July, 2010, the unfunded actuarial accrued liability was \$544 million. By comparison, the actuarial value of unfunded liability for the

California Public Employees Retirement System (CalPERS) for June 30, 2011 was \$172 million. Our strategy for restructuring revolved around the dual goals of achieving radical cost reductions while maintaining a viable workforce. Many pundits have not appreciated the key difference between chapter 9 and other chapters of the bankruptcy code. Private sector corporations can be dissolved under bankruptcy, while cities must continue providing essential health and safety services.

Virtually all public sector jobs include a defined benefit retirement plan. Among California cities almost all (97%) contract with CalPERS, as does Stockton, and over 99% of city employees are enrolled in CalPERS or an equivalent program. Only a few of the very largest cities operate their own pension systems, which tend to mirror CalPERS or the very similar county defined benefit pension programs (1937 Act counties). In any event, at this time a CalPERS pension is virtually a given in California public agency employment. For this reason Stockton has taken the position that it will reform and reduce the costs of its pension program along with other post-employment benefits, but retain the basic CalPERS pension which is crucial to the City's ability to recruit and retain a quality workforce. These costs are projected on the basis of a forecast of future PERS rates prepared by the Segal Company (retirement actuaries) which incorporate the following assumptions and reform actions already taken by the City:

- Recently-implemented rate smoothing and amortization changes will increase rates in the near-term but lower them in the long-run, as unfunded liability costs will be paid off under a fixed schedule instead of being continually rolled over on a 30-year basis (a more conservative approach by CalPERS).
- A reduction of 0.25% in the PERS discount rate for interest earnings which increases rates (this has not yet been enacted, but a 0.5% reduction was proposed in 2012 by CalPERS staff and the board only implemented half of it at that time). (This is a good example of the conservative approach we have taken in developing the fiscal model.)
- Lower City payroll in recent years than CalPERS has projected, which increases the unfunded liability portion of the employer rate. (This impact will be mitigated after the Marshall Plan is implemented, as it will increase the payroll base on which the unfunded rate is computed, thus reducing the unfunded rate from what it would otherwise have been.)
- Higher costs from improved mortality and other demographic changes.
- The anticipated savings from Public Employee Pension Reform Act (PEPRA) changes, as well as the two-tier benefit plans implemented by the City.

Stockton's retirement reforms, achieved as a result of difficult labor negotiations and pre- and post-bankruptcy mediation, has produced a number of cost reductions with retirees and employees. To understand the complete retirement cost picture in Stockton one needs to understand first the population of existing retirees. These can be categorized into roughly two groups:

- The first and more senior retiree group consists of those that retired under benefit packages prior to enhancement in the early 2000's. This category receives on average

\$24,000 per year in benefits and did not receive a retiree medical benefit. We do not propose a change in overall benefits to this group.

- The second retiree group consists of those that retired under the more enhanced programs provided in the early 2000's. They are younger in age and receive an average PERS benefit of \$51,000 per year and a medical benefit worth \$26,000 per year. Most of this group does not receive Social Security from their Stockton employment. The City reduced and ultimately stopped paying medical premiums while in bankruptcy and we propose eliminating the retiree medical benefit, for an approximately 30% reduction in this group's overall benefits.

For current employees the medical post retirement package has also been eliminated and the following pension reforms have also been instituted. Their total loss in retirement benefits ranges from 30-50% or more when you add the future value of the loss of retiree medical benefits.

- Employees agreed to pay 100% of the employee's share of PERS (7% of salary for miscellaneous employees and 9% for safety employees) which results in immediate savings. This also had the impact that the legal "spiking" of pension benefits through the Employer-Paid Member Contribution (EPMC) benefit of 7-9% higher retirement pay was eliminated for most employees, which will reduce pension costs over time.
- Employees agreed to a new retirement tier that had lower formula, eliminated retirement credit for sick leave, and eliminated all optional benefits, which will reduce pension costs over time.
- Reductions in compensation were enacted that ranged up to 23%, with the higher range affecting police officers through the elimination of certain "add-pays." Since the CalPERS benefit formula relies on final compensation, this reduces their future pension benefit. This also reduces PERS contributions due to lower payroll, for immediate savings, and in the long-run will reduce pension costs due to lower retirement income.

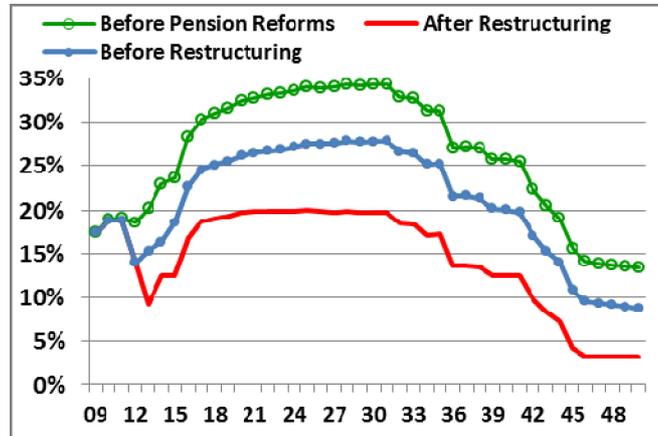
Future employees (after January 1, 2013) lost all the above and are subject to the new retirement reforms instituted on January 1. Their total reduction in benefit is arguably up 50-70% for most new hires and higher for some types of new hires when you combine the CalPERS reductions and the loss of future retiree medical benefits. Again, these employees will not be eligible for Social Security benefits from their Stockton employment.

To put all this in perspective, Figure 11 compares what General Fund total retirement costs¹ would have been as a percentage of total General Fund expenditures, before the pension cost reductions from the City reforms cited above, and with and without the restructuring savings from elimination of retiree medical benefits. The total General Fund dollar savings from FY12-13 through FY49-50 from the City pension reforms is projected to be \$659 million, and the General Fund portion of savings from the elimination of retiree medical benefits for both retirees and

¹ The pension portion of total retirement costs includes baseline PERS costs (before salary COLAs), the impact of the 2% salary COLAs under fiscal stabilization, and pension costs attributable to the higher Police staffing under the Marshall Plan.

employees not yet retired is projected to be \$812 million over the same period, for a total retirement-related savings to the General Fund over this period of \$1.47 billion.²

Figure 11. Total General Fund Retirement Costs as a Percent of Total Expenditures



The net result of these changes is that the General Fund is *not* going to be overwhelmed by retirement costs. From FY08-09 through FY11-12, before restructuring, total retirement costs averaged 17% of total General Fund expenditures. For FY12-13 through FY30-31, after restructuring and pension reforms and CalPERS rate adjustments, that average is projected to be 18%. And for FY31-32 through FY49-50 the projected decline in PERS rates will reduce total retirement costs to an average of 10% of total General Fund expenditures, falling to below 5% by FY44-45.

Other Pay and Benefits – Incorporates phase-out of certain benefits and increases other costs in accordance with salary growth.

Compensated Absences – The baseline forecast includes payment of compensated absences in accordance with current labor agreements, including vacation leave at termination (required by state law), holiday leave, and a short-term provision for payment of specified amounts of sick leave at termination for prior retirees. The City used to cash out a portion of unused sick leave upon leaving employment but this was ceased as part of new labor agreements. This was the reason for large cash outs in the past.

Vacancy Savings – The baseline budget assumes a 1% vacancy rate in FY13-14, increasing to 2% in FY14-15, and 3% for FY15-16 and thereafter. The fiscal stabilization section costs for the Marshall Plan are net of vacancy rate savings at the same rates.

Services and Supplies – The baseline forecast assumes 1.5% annual increases in the costs for internal services-equipment, general liability insurance, utilities, maintenance/repair services, labor/legal services, tax collection, election and general expenses.

² The \$812 million portion of this total retirement-related savings is the General Fund’s 55% share of the \$1.538 billion total retiree medical savings from retirees and employees, described further on page 19.

The fiscal stabilization section includes \$1 million in additional annual contributions to internal services funds to gradually reduce the large negative internal service fund balances, e.g., Workers Compensation, and to replace old information technology systems.

Program Support – The baseline forecast assumes continuation of General Fund support for Library, Recreation, Golf and Entertainment Venues with growth in accordance with the overall rate of increase in baseline personnel expense. The costs for RDA Successor Agency support, marina support, capital outlay and grant match are held constant over time. Supplemental administrative building rental costs are budgeted with 8% escalators every four years. A five-year program of support for the Development Services Fund ends in FY17-18.

Debt Service – The baseline forecast assumes the original amortization over time of existing bonds and settlement payments, offset by projected available contributions from other eligible funds. (Reductions in debt service are reflected under restructuring savings.)

Mission Critical Spending Needs – The fiscal stabilization section contains a line for “mission critical” spending, i.e., an allowance to fund unmet needs, such as replacing the 22-year old financial systems, making needed administrative building improvements, providing a local match for Measure K street maintenance costs, increasing deferred maintenance contributions, restoring a greater portion of the current \$40 million deficit in the Workers Comp Fund, and making creditor payments under the plan of adjustment. To partially address these needs, the forecast builds in \$16 million over the two-year period of FY14-15 and FY15-16, and \$500,000 annually thereafter until the balance exceeds the dollar amount equal to 15% of total expenditures³, when the amount over 15% is contributed to mission critical spending needs. Until the fund balance exceeds this threshold, such unmet needs will remain significant.

Contingency – The baseline forecast budgets \$2 million for contingencies annually.

Treatment of Creditors in the Plan of Adjustment

In Stockton, bankruptcy was triggered by a combination of the substantial reductions in revenues caused by the great recession, and a variety of long term obligations for debt, retiree medical and labor compensation, which in many cases was structured to increase over time. The expenditure load for these obligations was just too much for the City to handle, while still maintaining minimal service levels. During AB 506 and bankruptcy mediation the City has made good progress in restructuring a number of these obligations. We were able to reach agreements with all the organized labor groups, with retirees concerning medical insurance and with a number of other creditors including some involving debt obligations.

The remaining creditors largely center on obligations for debt service on long-term bonds. Negotiations continue as of this writing, but it is important to note that through difficult and painful negotiations, we have collectively eliminated much more than what is waiting to be resolved in this case. As just one example, the retiree medical obligation was estimated to have a total cost in future dollars of \$1.538 billion for all funds. This has been totally eliminated with

³ The Government Finance Officers Association recommends a General Fund reserve level equal to two months of average operating expenditures, which would be 16.67%.

this plan. When you add other compensation reductions agreed to in the new MOU's, the total savings approach \$2 billion through 2050.

Most of the City's General Fund debt is structured as lease/leaseback obligations. Absent voluntary agreements on restructuring, bankruptcy forces the City to choose between accepting each of its lease obligations in total or rejecting such leases. For the pension obligation bonds, there is no lease and the obligation is unsecured.

In cases where the City has been able to secure voluntary agreements with creditors, the plan of adjustment hews to that agreement. Examples of this are the Ambac obligation and the treatment of retiree health insurance claims outlined in the unsecured creditors section of the plan of adjustment.

In cases where the City has been unable to secure an agreement, the plan of adjustment provides for rejection of the leases, UNLESS, the obligation concerns an essential facility of the City. In such cases, the City has no choice but to assume the lease or other obligation and pay the entire obligation in full, unless an agreement can be reached. The best example of the former treatment would be the Stewart/Eberhardt Building (SEB) debt. Because this debt obligation is secured by the SEB building and because this building is essential to City operations and probably has a value at least as high as the amount of the bonds, we have always assumed that in a non-consensual plan of adjustment the obligation would be paid in full. This is a crucial difference between the plan of adjustment and the AB 506 Ask of over a year ago. In the Ask we did request restructuring of this debt (and all other debt) but that was in the context of voluntary negotiations. Our internal budget calculations have always included the assumption that this obligation would be paid as a worst case estimate.

An example of the latter treatment, which is applicable in cases where there is no security or the security does not relate to public safety or core City operations, would be the 2009 Capital Improvement Bonds. This is a secured obligation (Oak Park and two golf courses), but it could be argued that the golf courses are neither very valuable from a market value point of view nor essential to the operations of the City. The property cannot be sold by the creditor, and while the creditor could choose to operate the facilities, zoning does not allow alternative uses for the facilities. Since our attempts at a negotiated settlement with respect to this obligation have thus far not been successful, the plan of adjustment provides that the applicable leases must be rejected. As a result, if it chooses to do so, the creditor could take over possession and operation of the facilities. However, the creditor cannot sell the properties because it will not own them. Neither can the creditor use them for other purposes, due to zoning and use restrictions. The City's only other alternative would have been to pay most of the debt service out of the General Fund, causing additional service reductions or reducing our commitment to the Marshall Plan on Crime. This lease is proposed to be rejected because thus far the City has been unable to reach a negotiated settlement that does not unravel the City's General Fund services or commitment to the Marshall Plan, and that is acceptable to the impacted creditors. Assuming these leases and paying full debt service is not a viable option within the City's budget constraints.

The City does not view these results as desirable or optimal. Rather they are reflective of the binary choices we face in developing the plan of adjustment. We do not believe the creditors will find such treatment appropriate either, and both sides should continue to negotiate a better solution. However, since the City is determined to exit chapter 9, which is expensive and distracting, we had to develop a plan of adjustment which was both legally sound and financially prudent even without voluntary restructuring.

Therefore the plan of adjustment is in many cases a worst case, but financially prudent approach. Details on the plan of adjustment treatment on various obligations are reviewed below.

Restructuring Treatment and Savings

The restructuring section of the forecast includes reductions in expenditures not yet defined as permanent that require the chapter 9 process to play out: retiree medical benefits, debt obligations, legal settlement payments, and sports team agreements. Approximately \$39.6 million of the \$46.4 million in potential labor savings identified in the AB 506 process for FY12-13 through FY20-21 (85% of the total) already have been implemented through meet and confer negotiations facilitated by the AB 506 and bankruptcy mediators, and these savings are incorporated into the baseline personnel costs. In addition, the \$90 million in past compensation and service cuts that were enacted by the City are assumed to stay in effect and to gain in value of avoided costs over time. The following are the remaining areas of anticipated restructuring savings:

- Retiree Medical Reductions – After settlement payments in FY13-14, 100% of retiree medical expenses are eliminated. The loss of this medical benefit is worth approximately \$26,000 per retiree per year, or \$600,000 over a lifetime (not adjusted for inflation). In aggregate, the City estimates the total liability for all funds of these former benefits to be \$538 million; this will be eliminated through chapter 9. The value of retiree medical obligations for employees yet to retire is approximately \$1 billion for all funds; this was eliminated through new labor agreements last year. The total savings for employees and retirees through the life of the program is \$1.538 billion. Table 5 reflects the annual total of retiree medical savings (including program administration and other non-benefit costs) for the General Fund only.
- Debt Reductions – These are based on the following actions relative to each debt amount:
 - 2003 Certificates of Participation – The agreement previously reached with Ambac restructures the amounts that would have otherwise been absorbed by the General Fund, and provides a mechanism for subsequent General Fund reimbursement. The lease payments on these bonds (\$12.6 million outstanding), were restructured because (a) the collateral for these bonds consisted of Maya Angelou Library, the Main Police Facility and three fire stations, which are essential facilities and therefore had to be retained by the City, and (b) our estimation is that the value of the collateral was at least equal to the amount of the debt. Ambac is at risk for a potential haircut of up to 19.5% if

tax increment levels prove insufficient to pay debt service. However, since tax increments are pledged to debt service, if assessed values grow as projected, Ambac would not suffer a haircut (and would not even in a cram down).

- 2004 Arena Lease Revenue Bonds (LRBs) – The City accepts lease payments on these bonds (\$45.1 million outstanding), which helped pay the costs of constructing the arena. A preliminary term sheet agreement has been reached with NPFPG, the bond insurer for this issuance, along with agreements on the other bonds insured by NPFPG relating to the parking garages and the SEB facility. Based on our preliminary agreement with NPFPG the restructured debt should be fully serviced by tax increment revenues, except in the eventuality that our relatively conservative assumptions concerning assessed valuation growth are not achieved. In this unlikely eventuality some General Fund liability would be possible, but it would be much reduced from the current situation. While we fully expect to consummate the agreement, the alternative would have been to reject the lease. NPFPG would then have the right, but not the obligation, to take control of the Arena for the remaining lease term as the pledged collateral for these bonds. Since the City would no longer have been able to perform pursuant to the license agreements, the subsidy for arena operations and the Thunder sports team would end. NPFPG could choose whether or not to continue to operate the facility and in order to remain in the facility, the Thunder would have to negotiate a new agreement with NPFPG. However, since the debt payments were already covered by a dedicated revenue stream outside the General Fund, we decided to reach agreement to keep control of the Arena.
- 2004 Parking LRBs – Under the preliminary agreement with NPFPG the City basically accepts the leases relating to these bonds (\$31.6 million outstanding) which paid for the Coy, Market and Arena garages. Under this agreement control of the garages, which NPFPG had previously took possession of, would revert to the City. Payments to satisfy most of this debt obligation would be provided to NPFPG from the net revenues of a new parking enterprise the City will create to take over operation of all parking assets in the central area of the City. Via a combination of contracting for operation of parking facilities and implementation of capital improvements, net revenues from parking will increase above their current levels, allowing for payment of the bulk of the obligation over an extended time period. Using parking revenues to pay this obligation will shield the General Fund from exposure. Obtaining control of the three garages, combined with a contract operations approach, will allow the City to achieve economies of scale in operations, reducing ongoing expenditures, and maximizing overall revenues. Should the agreement with NPFPG not be finalized the City would have to revert to rejection of these leases. With regard to the parking garages this result would not be too much of a problem, because the garages would continue to be open to the public as they have been since NPFPG took control. However, this result would have threatened the Arena agreement, which requires NPFPG's cooperation.

- 2006 LRBs – The City will assume the lease relating to these bonds (\$12.1 million outstanding), which built the SEB parking garage. The SEB houses essential City services, so these bonds will not be impaired and the General Fund will continue to make \$900,000 annual payments on these bonds, which are reimbursed by the Parking Fund and Police Public Facilities Fee (PFF) Fund, so there is no net impact on the General Fund.
- 2006 Dept of Boating and Waterways (DBW) Loan – There is no enforceable General Fund obligation to pay this state loan (\$10.8 million outstanding), which funded marina improvements. This loan was never enforceable against the General Fund given its structure as a debt obligation, due to the constitutional debt limit and the lack of voter approval. The state does have a lien on revenues from the Marina, which requires a subsidy of approximately \$160,000 per year from the City. Since the City cannot repay this loan from Marina revenues or the General Fund the State could take over operation of the facility. Indeed the State does operate numerous marina facilities through its Parks Department into which the Department of Boating and Waterways was recently merged. Very recently the State has indicated this may be a preferred option. The General Fund saves \$685,000 annually from elimination of this debt service payment. If the state elects to take over operations of the facility it would eliminate the need for a City operational subsidy and this would increase the annual savings to the General Fund by \$160,000. Negotiations with the state concerning this obligation continue.
- 2007 Pension Obligation Bonds (POBs) – These bonds (\$124.3 million outstanding) refinanced unfunded liability due to CalPERS. These bonds are insured by Assured Guaranty. They are an unsecured creditor, in that there is no collateral pledged to the debt. As this document was being finalized the City was in negotiations with this creditor and had developed the outlines of a negotiated settlement. However the draft term sheet will not be reviewed by executive management at Assured until after this staff report and the associated disclosure statement of plan of adjustment are filed with the Council and the public. (We are informed a review will occur on Monday, September 30.) While we will recommend treatment of this obligation before the Council approves of our plan of adjustment and disclosure statement, at this time we would like to provide time for the negotiations to be finalized, and thus keep treatment of this obligation as an issue to be determined based on the resolution of current negotiations. As covered earlier, our budget model makes provision for a settlement as this is the most conservative posture for the City.
- 2007 Variable Rate Demand Bonds (VRDOs) – These bonds (\$40.4 million outstanding) paid for acquisition of 400 East Main, which was originally intended to be the new City Hall. Assured Guaranty obtained possession of the building prior to the City filing for bankruptcy through an unlawful detainer action. Under the umbrella of the negotiated settlement discussed above the City also deals with this obligation. Therefore the same discussion regarding allowing time for current negotiations to be resolved applies to this obligation.

- 2009 LRBs for Capital Improvement Projects – The City rejects the lease relating to these bonds (\$35.1 million outstanding), which repaid prior City interfund loans used to construct the Police Communications Center, a fire station, parks, and street improvements. The leased property consists of Oak Park, and the Swenson and Van Buskirk golf courses. The General Fund is legally obligated to make the lease payments, but PFFs from the streets, police, fire, and parklands funds were expected to be used as an internal source of funds as available. Annual debt service is approximately \$2.9 million. The baseline budget assumes a conservative \$500,000 in available PFF revenues (the remainder being required for project funding and payment of reimbursable agreements and fee credits), so under a rejection of leases the General Fund would save \$2.4 million annually. If no agreement is reached, Franklin, which owns all of the bonds, could elect to take possession of the leased properties pledged as collateral for the bonds and could choose whether or not to operate those facilities itself. Zoning does not allow alternative uses for the facilities (and for Van Buskirk, the deed granting the property to the City also does not allow for anything except public recreation uses, and contains a reversionary interest). Franklin might elect not to take possession of facilities that operate at a loss. Furthermore they cannot take title of these lands, so they cannot sell them, and sale is prohibited under the obligation provisions. If Franklin elects to take possession of the facilities, the General Fund would no longer incur a subsidy for golf and ice rink operations, resulting in approximately \$700,000 in annual savings. Furthermore, we would avoid making \$65 million in debt service payments from the General Fund (the baseline budget estimate of debt service in excess of projected available PFF revenues). Again, paying this debt service would have caused more service reductions or a reduced commitment to the Marshall Plan on Crime. If Franklin does not elect to take possession of the facilities, then the City would be permitted, but not required, to continue to operate them. We will continue and try to reach a negotiated settlement with Franklin, but not at the expense of further service reduction or backtracking on commitments to the Marshall Plan on Crime.
- Other Reductions – These savings are from seven sources, and some reflect negotiated agreements, notably with the Marina Towers plaintiffs, Thunder hockey team and police association:
 - Settlement with Police Officer’s Association - The Stockton Police Officers Association and the City agreed that their claims were valued at approximately \$8.5 million for compensation reductions imposed by the City in 2010 and 2011 as part of the City fiscal emergencies. The parties have agreed to a settlement of 44 hours of paid time off for each SPOA employee who was employed by the city as of June 30, 2012.
 - Sick Leave Buyout - Employees who left city employment between February 17, 2012 and June 30, 2012, may have claims for payment of unused sick leave

- hours that were not made at that time. Former employees with these claims will be treated in the same manner as other claims in their class.
- Jarvis Settlement - These annual payments are due from the General Fund to the Water and Wastewater funds as the result of a settlement regarding the City's long-standing former practice of charging utility funds payments in lieu of taxes. The General Fund saves \$1.1 million annually through 2040, for a total of \$31.6 million. Jarvis has not participated in negotiations, or complained about this treatment, which is strictly internal to the City, but important to the General Fund.
 - Marina Towers Settlement – The City has negotiated an agreement with the Marina Towers plaintiffs to substitute excess land (worth \$973,500) for the \$1,875,000 in remaining payments (\$312,500 annually through FY17-18). This eminent domain lawsuit involved a portion of the ballpark that could have reverted to the plaintiffs in the absence of a settlement.
 - Price Settlement – The City will make no further payments under this settlement of an inverse condemnation case involving downtown area single-room occupancy hotels, relating to payment of relocation costs and production of low income housing units. Obligations due have been in dispute and no General Fund costs had been budgeted.
 - Main Hotel – The City will not pay the remaining \$500,000 payment due related to a redevelopment restoration project, which reduces the level of redevelopment subsidy required of the General Fund.
 - Sports Teams – Restructuring savings from the AB 506 Ask assumes a reduction of approximately \$500,000 annually in license agreement costs for the Ports baseball team and Thunder hockey team through the end of the current agreements in 2026. The City has been able to reach a tentative agreement with the Thunder, which will decrease City costs and increase City revenues associated with Thunder operations. Negotiations with the Ports have not been successful to date and the City will be seeking to reject the agreement and impose new terms to reduce the level of subsidy absorbed by the City.
- In addition to actions implemented through the chapter 9 process, the City would undertake the following actions:
 - Property Sales – The City has identified parcels estimated at \$6 million in value that are projected to be sold over the next six years.
 - Efficiencies – The City has initiated a series of studies designed to reduce costs through efficiencies, alternative service delivery or increased cost recovery. The projected annual savings start at \$2.5 million in FY 14-15 and increase to \$3 million by FY16-17.
 - Measure A – This proposed 0.75% transactions and use tax requires majority voter approval on the November 5, 2013 ballot. It is projected to raise approximately \$28 million annually, starting with a quarter of that amount received at the close of FY13-14.

- Staffing and Service Cuts – While the \$90 million in cuts previously enacted would remain in effect, there are no further budget cuts incorporated into the plan of adjustment due to the City’s current level of service insolvency. However, failure of the tax to pass would force an additional \$11 million in ongoing budget cuts to make up for the loss of new revenue, even if the Marshall Plan is not implemented.

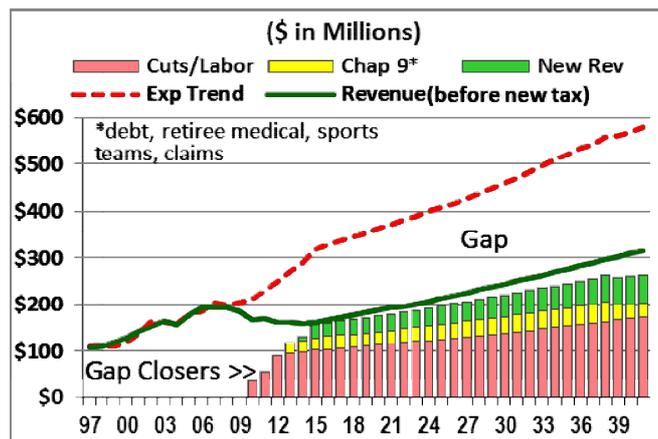
Table 5 shows the total restructuring savings assumed by the City from the above sources:

Table 5. Projected Restructuring Savings (FY13-14 through FY20-21)

(\$ in 000)	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Retiree Medical Reductions	9,903	10,751	11,653	11,887	12,674	13,360	14,195	15,029
Debt Reductions	13,968	13,580	13,585	13,779	12,229	11,838	12,169	11,889
Other Reductions	1,440	1,940	1,940	1,940	1,940	1,627	1,627	1,627
Subtotal Chap 9 Restructuring	25,311	26,270	27,177	27,605	26,843	26,825	27,991	28,545
Sale of Surplus Property	-	500	500	1,250	1,250	1,250	1,250	-
Efficiency Savings	-	2,500	2,500	3,000	3,000	3,000	3,000	3,000
New Revenue-Sales Tax	6,804	27,979	28,777	29,813	30,886	31,998	33,150	34,310
Service & Staffing Reductions	-	-	-	-	-	-	-	-
Total Restructuring	32,114	57,249	58,954	61,668	61,979	63,073	65,391	65,855

Figure 12 shows the projected gap between projected revenues without Measure A and the pre-budget cut level of expenditures including the Marshall Plan, and how this gap is filled through the combination of prior budget cuts and future efficiencies, chapter 9 restructuring and increased revenue.

Figure 12. Closing the Gap between General Fund Expenditure Trend and Available Resources



Conclusion

The General Fund's Long-Range Financial Plan meets the three tests of solvency:

- It is cash solvent. Balances will be adequate to pay bills when they come due.
- It is budget solvent. The budgets are balanced with all spending categories accounted for, including compensated absences and internal service contributions. It will require continued fiscal discipline to prevent excess spending growth between now and when the fund balance reaches its minimal level in the mid-2020s, to avoid reducing fund balance at a faster pace. Fund balance shows excellent growth after this period, but these far out-year projections are subject to the most uncertainty in the model, simply because of the nature of such a long range projection, so the projection should be viewed with caution.
- It provides minimal service solvency. The Marshall Plan restores a significant amount of police services to the community, and raises the sworn officer staffing level from 1.16 per 1000 residents to 1.6 per 1000. In the near-term, no additional service level improvements can be funded and maintenance and technology investments remain low. However, by the late 2020s, improving reserve levels will allow for additional commitments to service levels, including a second phase of police staffing increases, and higher maintenance levels.

EXHIBIT A
CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN (FY11-12 to FY20-21, Dollars in Millions)

GENERAL FUND	<u>11-12</u>	<u>12-13</u>	<u>13-14</u>	<u>14-15</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>
1 General Revenues										
2 Property Taxes										
3 Property Taxes	26.38	26.28	26.39	27.04	28.13	29.39	30.71	32.10	33.54	34.88
4 In-Lieu of Motor Vehicle Fees	17.58	17.31	17.52	17.95	18.67	19.51	20.39	21.31	22.27	23.16
5 Subtotal Property Taxes	<u>43.96</u>	<u>43.59</u>	<u>43.90</u>	<u>45.00</u>	<u>46.80</u>	<u>48.90</u>	<u>51.10</u>	<u>53.40</u>	<u>55.81</u>	<u>58.04</u>
6 Sales Taxes										
7 75% Point of Sale	27.73	28.33	29.08	29.90	30.75	31.86	33.00	34.19	35.42	36.66
8 25% County ERAF Backfill	8.39	9.94	9.78	10.18	10.46	10.62	11.00	11.40	11.81	12.22
9 Proposition 172	1.18	1.27	1.31	1.34	1.38	1.43	1.48	1.53	1.59	1.65
10 Subtotal Sales Taxes	<u>37.30</u>	<u>39.54</u>	<u>40.17</u>	<u>41.41</u>	<u>42.59</u>	<u>43.91</u>	<u>45.49</u>	<u>47.12</u>	<u>48.82</u>	<u>50.53</u>
11 Utility Users Tax										
12 Water	3.16	3.25	3.26	3.29	3.34	3.39	3.44	3.49	3.54	3.59
13 Electric & Gas	17.11	17.06	17.60	17.99	18.26	18.53	18.81	19.09	19.38	19.67
14 Cable	1.95	2.33	2.36	2.36	2.39	2.43	2.47	2.50	2.54	2.58
15 Telecommunications	9.29	9.15	8.98	8.80	8.93	9.06	9.20	9.34	9.48	9.62
16 Subtotal Utility Users Tax	<u>31.50</u>	<u>31.79</u>	<u>32.19</u>	<u>32.43</u>	<u>32.92</u>	<u>33.41</u>	<u>33.91</u>	<u>34.42</u>	<u>34.94</u>	<u>35.46</u>
17 Franchise Tax										
18 PG&E	1.86	1.84	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.19
19 Cable/Video	3.11	2.20	2.24	2.22	2.26	2.31	2.36	2.40	2.45	2.50
20 Waste Haulers	7.50	7.55	7.52	7.63	7.79	7.94	8.10	8.26	8.43	8.60
21 Subtotal Franchise Tax	<u>12.46</u>	<u>11.60</u>	<u>11.67</u>	<u>11.80</u>	<u>12.04</u>	<u>12.28</u>	<u>12.52</u>	<u>12.77</u>	<u>13.03</u>	<u>13.29</u>
22 Other General Revenues										
23 Business License Tax	8.92	9.13	8.99	9.08	9.22	9.35	9.49	9.64	9.78	9.93
24 Hotel/Motel Tax	1.93	1.98	1.95	1.97	1.99	2.01	2.03	2.05	2.07	2.09
25 Document Transfer Tax	0.60	0.46	0.50	0.51	0.51	0.52	0.53	0.54	0.54	0.55
26 Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27 Interest Income	0.05	0.02	0.02	0.28	0.35	0.31	0.30	0.28	0.26	0.24
28 Subtotal Other General Revenues	<u>11.65</u>	<u>11.73</u>	<u>11.61</u>	<u>11.99</u>	<u>12.21</u>	<u>12.34</u>	<u>12.49</u>	<u>12.65</u>	<u>12.81</u>	<u>12.96</u>
29 Program Revenues										
30 Fire Contracts	4.79	3.34	3.33	3.26	3.29	3.32	3.36	3.39	3.43	3.46
31 Code Enforcement	4.04	2.82	2.95	3.01	3.04	3.07	3.10	3.13	3.16	3.19
32 Charges for Services	1.91	1.87	1.83	1.84	1.86	1.88	1.90	1.92	1.94	1.96
33 Fines & Forfeitures	1.73	1.27	1.30	1.31	1.34	1.37	1.39	1.42	1.45	1.48
34 Revenues from Other Agencies	0.78	0.85	0.68	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35 Licenses & Permits	0.40	0.38	0.37	0.37	0.38	0.39	0.40	0.40	0.41	0.42
36 Misc Other Revenues	(0.38)	3.03	(0.14)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37 Subtotal Program Revenues	<u>13.27</u>	<u>13.56</u>	<u>10.31</u>	<u>10.40</u>	<u>10.51</u>	<u>10.63</u>	<u>10.75</u>	<u>10.86</u>	<u>10.99</u>	<u>11.11</u>
38 Interfund Reimbursements										
39 Indirect Cost Allocation	5.11	4.85	4.72	4.49	4.68	5.14	5.34	5.49	5.67	5.86
40 Refunds & Reimbursements	0.87	0.45	1.33	0.25	0.26	0.26	0.27	0.27	0.28	0.28
41 Rents/Leases/Concessions	2.56	2.72	2.71	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42 Parking Fund - Debt Service	1.58	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
43 Subtotal Reimbursements	<u>10.12</u>	<u>8.86</u>	<u>9.68</u>	<u>8.33</u>	<u>8.52</u>	<u>8.99</u>	<u>9.19</u>	<u>9.36</u>	<u>9.54</u>	<u>9.73</u>
44 Total General Fund Revenues	<u>160.27</u>	<u>160.66</u>	<u>159.52</u>	<u>161.35</u>	<u>165.59</u>	<u>170.45</u>	<u>175.46</u>	<u>180.59</u>	<u>185.92</u>	<u>191.11</u>
45										
46 Salaries & Benefits										
47 Salaries - Safety (w/ COLA)	34.00	34.23	38.91	39.38	40.64	41.94	43.28	44.66	46.09	47.57
48 Salaries - Non-Safety (w/ COLA)	15.48	15.59	17.72	17.93	18.50	19.10	19.71	20.34	20.99	21.66
49 Salaries - Part time, Temporary	1.05	1.06	1.48	1.50	1.54	1.59	1.65	1.70	1.75	1.81
50 Pension - CalPERS	14.14	14.24	17.75	20.88	28.75	30.82	31.91	33.41	34.95	35.99
51 Health/Dental/Vision-Employee (w/COLA)	8.79	8.85	9.37	9.55	9.75	9.94	10.14	10.34	10.55	10.76
52 Health - Retirees	7.96	9.18	9.90	10.75	11.65	11.89	12.67	13.36	14.20	15.03
53 Workers Compensation	7.16	7.21	7.19	7.27	7.36	7.45	7.54	7.63	7.72	7.81
54 Other Pay & Benefits	6.39	6.44	5.52	5.53	5.57	5.61	5.66	5.71	5.75	5.80
55 Overtime & Standby/Callback	7.61	7.66	7.23	7.31	7.55	7.79	8.04	8.30	8.56	8.83
56 Compensated Absences	3.46	2.74	2.01	2.91	3.06	2.96	3.13	3.31	3.50	3.69
57 Salaries - Safety-Expiring Grants	-	-	-	-	-	2.32	2.39	2.47	2.55	2.63
58 Net Labor Adjust/Reimbursements	-	-	0.94	1.01	1.15	1.20	1.23	1.27	1.32	1.35
59 Budgeted Vacancy Savings	-	-	(1.05)	(2.24)	(3.69)	(3.92)	(4.04)	(4.17)	(4.31)	(4.44)
60 Subtotal Salaries & Benefits	<u>106.05</u>	<u>107.20</u>	<u>116.96</u>	<u>121.79</u>	<u>131.84</u>	<u>138.68</u>	<u>143.30</u>	<u>148.31</u>	<u>153.61</u>	<u>158.51</u>

GENERAL FUND (cont.)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
61 Services & Supplies										
62 Internal Services-Equipment	12.18	13.44	13.51	13.41	13.61	13.81	14.02	14.23	14.45	14.66
63 General Liability Insurance	2.24	3.01	3.37	3.44	3.49	3.54	3.60	3.65	3.71	3.76
64 Utilities	2.49	2.49	2.65	2.69	2.73	2.77	2.82	2.86	2.90	2.95
65 Maintenance & Repair Services	2.14	2.61	2.60	2.63	2.67	2.71	2.76	2.80	2.84	2.88
66 Labor/Legal Services	3.76	6.33	2.20	2.23	2.26	2.30	2.33	2.37	2.40	2.44
67 General Expenses	6.70	8.43	8.90	8.63	8.71	8.79	8.87	8.96	9.09	9.23
68 Tax Collection & Election	2.09	2.34	2.28	2.57	2.61	2.65	2.70	2.75	2.79	2.83
69 Subtotal Services & Supplies	31.61	38.66	35.51	35.61	36.09	36.59	37.10	37.61	38.17	38.74
70 Program Support for Other Funds										
71 Library	3.98	3.91	4.00	4.30	4.88	5.08	5.22	5.40	5.58	5.73
72 Recreation	2.76	2.34	2.85	3.06	3.47	3.61	3.72	3.84	3.97	4.08
73 Golf Courses	-	0.50	0.45	0.48	0.55	0.57	0.59	0.61	0.63	0.65
74 Entertainment Venues	2.44	2.64	2.65	2.85	3.24	3.37	3.47	3.58	3.70	3.80
75 RDA Successor Agency	1.81	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76 Downtown Marina	0.05	0.05	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77 Capital Improvements	0.62	0.58	1.29	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78 Administration Building	-	0.16	-	0.84	0.84	0.84	0.91	0.91	0.91	0.91
79 Grant Match	0.04	0.16	0.40	0.40	0.40	0.30	0.30	0.30	0.30	0.30
80 Development Services	0.15	1.00	1.00	1.00	1.00	1.00	-	-	-	-
81 Other	0.25	0.03	-	-	-	-	-	-	-	-
82 Subtotal Program Support	12.09	12.11	13.55	14.41	15.87	16.25	15.69	16.13	16.58	16.96
83 Debt - Bonds/Other										
84 Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
85 Marina Settlement	-	0.31	0.31	0.31	0.31	0.31	0.31	-	-	-
86 2003 COPs	-	0.13	0.60	0.52	0.51	0.49	0.24	0.20	0.09	-
87 2004 Arena Bonds	-	0.29	0.74	0.66	0.73	0.82	0.49	0.54	0.33	-
88 2006 LRBs-Parking (SEB)	0.77	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
89 2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90 2007 POBs	5.62	6.25	6.73	6.84	6.95	7.06	7.17	7.29	7.40	7.52
91 2007 VRDLRB - 400 E.Main	0.24	2.59	2.67	2.67	2.67	2.67	2.67	2.67	2.70	2.72
92 2009 LRBs-Pub Facil Bonds/CIP	0.65	1.92	2.42	2.43	2.42	2.42	2.42	2.42	2.42	2.42
93 Debt - Other/Admin	0.42	0.21	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.24
94 Subtotal Debt	9.51	14.36	16.68	16.64	16.81	16.97	16.51	16.32	16.15	15.62
95 Contingency	-	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96 Total General Fund Baseline Expenditures	159.25	174.32	184.70	190.45	202.61	210.49	214.60	220.37	226.52	231.83
97 Surplus(Shortfall) After Baseline	1.01	(13.66)	(25.18)	(29.10)	(37.02)	(40.04)	(39.14)	(39.78)	(40.60)	(40.73)
98										
99 Fiscal Stabilization										
100 Increased Deferred Maintenance	-	-	-	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101 Contributions to Workers Comp ISF	-	-	-	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102 Contributions to Technology/Other ISF	-	-	-	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103 Marshall Plan/Police Services	-	-	-	8.95	14.48	20.64	20.98	22.16	23.36	24.67
104 Mission Critical Spending Needs	-	-	-	8.00	8.00	-	-	-	-	-
105 Repay 2/28/12 Transfers	-	-	-	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106 Total Fiscal Stabilization	-	-	-	19.00	24.53	22.69	23.03	24.21	25.41	26.72
107 Surplus(Shortfall) After Fiscal Stabilization	1.01	(13.66)	(25.18)	(48.09)	(61.55)	(62.73)	(62.17)	(63.99)	(66.01)	(67.44)
108										
109 Restructuring (Labor included in Baseline)										
110 Retiree Medical Reductions	-	7.05	9.90	10.75	11.65	11.89	12.67	13.36	14.20	15.03
111 Debt Reductions	0.65	11.87	13.84	13.45	13.45	13.65	12.09	11.70	12.03	11.75
112 Other Reductions	-	1.94	1.44	1.94	1.94	1.94	1.94	1.63	1.63	1.63
113 Subtotal Restructuring	0.65	20.86	25.18	26.14	27.05	27.47	26.71	26.69	27.85	28.40
114 Sale of Surplus Property	-	-	-	0.50	0.50	1.25	1.25	1.25	1.25	-
115 Efficiencies/Alt Svc Delivery/Fees/Other	-	-	-	2.50	2.50	3.00	3.00	3.00	3.00	3.00
116 New Revenue-Sales Tax (Nov-13 ballot)	-	-	6.80	27.98	28.78	29.81	30.89	32.00	33.15	34.31
117 Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118 Total Restructuring	0.65	20.86	31.99	57.12	58.82	61.53	61.84	62.94	65.25	65.71
119 Surplus(Shortfall) After Restructuring	1.67	7.20	6.80	9.03	(2.72)	(1.19)	(0.33)	(1.06)	(0.75)	(1.73)
120 Transfer to Bankruptcy Fund	(5.59)	(6.91)	-	-	-	-	-	-	-	-
121 Encumbrance+AB 506 Carryover	(2.71)	2.71	-	-	-	-	-	-	-	-
122 Beginning Available Balance	6.64	-	3.00	9.80	18.83	16.11	14.91	14.58	13.52	12.77
123 Ending Available Balance	-	3.00	9.80	18.83	16.11	14.91	14.58	13.52	12.77	11.04
124 Balance as % of Total Expenditures	0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%
125 Vacancy Rate (% of Baseline+COLAs)	4.2%	5.9%	1.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

STOCKTON LONG-RANGE FINANCIAL PLAN (FY21-22 to FY30-31, Dollars in Millions)

GENERAL FUND	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
1 General Revenues										
2 Property Taxes										
3 Property Taxes	36.28	37.73	39.24	40.81	42.41	44.04	45.69	47.38	49.09	50.83
4 In-Lieu of Motor Vehicle Fees	24.08	25.05	26.05	27.09	28.15	29.23	30.33	31.45	32.59	33.74
5 Subtotal Property Taxes	<u>60.36</u>	<u>62.78</u>	<u>65.29</u>	<u>67.90</u>	<u>70.56</u>	<u>73.27</u>	<u>76.03</u>	<u>78.83</u>	<u>81.68</u>	<u>84.58</u>
6 Sales Taxes										
7 75% Point of Sale	37.94	39.27	40.65	42.07	43.51	44.98	46.46	47.96	49.47	51.01
8 25% County ERAF Backfill	12.65	13.09	13.55	14.02	14.50	14.99	15.49	15.99	16.49	17.00
9 Proposition 172	1.70	1.76	1.82	1.89	1.95	2.02	2.09	2.15	2.22	2.29
10 Subtotal Sales Taxes	<u>52.30</u>	<u>54.13</u>	<u>56.02</u>	<u>57.98</u>	<u>59.97</u>	<u>61.99</u>	<u>64.03</u>	<u>66.10</u>	<u>68.19</u>	<u>70.30</u>
11 Utility Users Tax										
12 Water	3.65	3.70	3.76	3.82	3.87	3.93	3.98	4.04	4.09	4.15
13 Electric & Gas	19.96	20.26	20.57	20.87	21.18	21.49	21.79	22.09	22.39	22.69
14 Cable	2.62	2.66	2.70	2.74	2.78	2.82	2.86	2.90	2.94	2.97
15 Telecommunications	9.76	9.91	10.06	10.21	10.36	10.51	10.66	10.80	10.95	11.10
16 Subtotal Utility Users Tax	<u>35.99</u>	<u>36.53</u>	<u>37.08</u>	<u>37.64</u>	<u>38.19</u>	<u>38.74</u>	<u>39.29</u>	<u>39.83</u>	<u>40.37</u>	<u>40.91</u>
17 Franchise Tax										
18 PG&E	2.24	2.28	2.33	2.37	2.42	2.47	2.51	2.56	2.61	2.65
19 Cable/Video	2.55	2.60	2.65	2.71	2.76	2.81	2.86	2.92	2.97	3.02
20 Waste Haulers	8.77	8.94	9.12	9.30	9.49	9.67	9.85	10.03	10.21	10.39
21 Subtotal Franchise Tax	<u>13.55</u>	<u>13.83</u>	<u>14.10</u>	<u>14.38</u>	<u>14.67</u>	<u>14.95</u>	<u>15.23</u>	<u>15.51</u>	<u>15.79</u>	<u>16.07</u>
22 Other General Revenues										
23 Business License Tax	10.08	10.23	10.38	10.54	10.69	10.85	11.02	11.18	11.35	11.52
24 Hotel/Motel Tax	2.11	2.13	2.15	2.17	2.20	2.22	2.24	2.26	2.28	2.31
25 Document Transfer Tax	0.56	0.57	0.58	0.59	0.59	0.60	0.61	0.62	0.63	0.64
26 Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27 Interest Income	0.21	0.19	0.18	0.19	0.24	0.31	0.40	0.50	0.60	0.73
28 Subtotal Other General Revenues	<u>13.11</u>	<u>13.27</u>	<u>13.44</u>	<u>13.64</u>	<u>13.87</u>	<u>14.14</u>	<u>14.42</u>	<u>14.71</u>	<u>15.02</u>	<u>15.35</u>
29 Program Revenues										
30 Fire Contracts	3.49	3.53	3.56	3.60	3.64	3.67	3.71	3.75	3.78	3.82
31 Code Enforcement	3.22	3.26	3.29	3.32	3.35	3.39	3.42	3.46	3.49	3.53
32 Charges for Services	1.98	2.00	2.02	2.04	2.06	2.08	2.10	2.12	2.14	2.16
33 Fines & Forfeitures	1.51	1.54	1.57	1.60	1.63	1.67	1.70	1.73	1.77	1.80
34 Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35 Licenses & Permits	0.43	0.44	0.45	0.46	0.46	0.47	0.48	0.49	0.50	0.51
36 Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37 Subtotal Program Revenues	<u>11.23</u>	<u>11.36</u>	<u>11.49</u>	<u>11.61</u>	<u>11.74</u>	<u>11.88</u>	<u>12.01</u>	<u>12.15</u>	<u>12.29</u>	<u>12.42</u>
38 Interfund Reimbursements										
39 Indirect Cost Allocation	6.02	6.19	6.37	6.54	6.73	6.90	7.09	7.30	7.50	7.72
40 Refunds & Reimbursements	0.29	0.29	0.30	0.30	0.31	0.32	0.32	0.33	0.34	0.34
41 Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42 Parking Fund - Debt Service	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
43 Subtotal Reimbursements	<u>9.90</u>	<u>10.07</u>	<u>10.25</u>	<u>10.43</u>	<u>10.63</u>	<u>10.80</u>	<u>11.00</u>	<u>11.21</u>	<u>11.42</u>	<u>11.64</u>
44 Total General Fund Revenues	<u>196.44</u>	<u>201.95</u>	<u>207.66</u>	<u>213.59</u>	<u>219.63</u>	<u>225.76</u>	<u>232.00</u>	<u>238.34</u>	<u>244.76</u>	<u>251.27</u>
45										
46 Salaries & Benefits										
47 Salaries - Safety (w/ COLA)	49.09	50.66	52.28	53.95	55.68	57.46	59.30	61.20	63.16	65.18
48 Salaries - Non-Safety (w/ COLA)	22.35	23.07	23.81	24.57	25.36	26.17	27.00	27.87	28.76	29.68
49 Salaries - Part time, Temporary	1.87	1.93	1.99	2.05	2.12	2.18	2.25	2.33	2.40	2.48
50 Pension - CalPERS	37.05	38.13	39.21	40.36	40.84	41.95	43.10	44.24	45.40	46.58
51 Health/Dental/Vision-Employee (w/COLA)	10.98	11.19	11.42	11.65	11.88	12.12	12.36	12.61	12.86	13.12
52 Health - Retirees	15.93	16.83	17.76	18.84	19.85	20.62	21.80	22.31	23.05	23.82
53 Workers Compensation	7.91	8.00	8.10	8.19	8.29	8.39	8.49	8.59	8.70	8.80
54 Other Pay & Benefits	5.85	5.91	5.96	6.13	6.31	6.50	6.69	6.88	7.09	7.30
55 Overtime & Standby/Callback	9.12	9.41	9.71	10.02	10.34	10.67	11.01	11.37	11.73	12.11
56 Compensated Absences	3.91	4.13	4.37	4.62	4.89	5.17	5.48	5.80	5.80	5.86
57 Salaries - Safety-Expiring Grants	2.71	2.80	2.89	2.98	3.08	3.18	3.28	3.38	3.49	3.60
58 Net Labor Adjust/Reimbursements	1.39	1.43	1.47	1.51	1.54	1.58	1.63	1.67	1.71	1.76
59 Budgeted Vacancy Savings	(4.57)	(4.70)	(4.84)	(4.98)	(5.11)	(5.26)	(5.42)	(5.58)	(5.73)	(5.89)
60 Subtotal Salaries & Benefits	<u>163.58</u>	<u>168.78</u>	<u>174.12</u>	<u>179.91</u>	<u>185.06</u>	<u>190.73</u>	<u>196.98</u>	<u>202.68</u>	<u>208.42</u>	<u>214.38</u>

GENERAL FUND (cont.)	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
61 Services & Supplies										
62 Internal Services-Equipment	14.88	15.11	15.33	15.56	15.80	16.03	16.27	16.52	16.76	17.02
63 General Liability Insurance	3.82	3.88	3.93	3.99	4.05	4.11	4.18	4.24	4.30	4.37
64 Utilities	2.99	3.03	3.08	3.13	3.17	3.22	3.27	3.32	3.37	3.42
65 Maintenance & Repair Services	2.92	2.97	3.01	3.06	3.10	3.15	3.20	3.25	3.29	3.34
66 Labor/Legal Services	2.47	2.51	2.55	2.59	2.63	2.67	2.71	2.75	2.79	2.83
67 General Expenses	9.37	9.51	9.65	9.79	9.94	10.09	10.24	10.39	10.55	10.71
68 Tax Collection & Election	2.89	2.93	2.97	3.02	3.08	3.13	3.18	3.22	3.29	3.34
69 Subtotal Services & Supplies	39.34	39.93	40.53	41.14	41.77	42.40	43.04	43.68	44.36	45.02
70 Program Support for Other Funds										
71 Library	5.89	6.05	6.21	6.39	6.53	6.71	6.90	7.10	7.27	7.46
72 Recreation	4.19	4.30	4.42	4.55	4.65	4.78	4.91	5.05	5.17	5.30
73 Golf Courses	0.66	0.68	0.70	0.72	0.73	0.76	0.78	0.80	0.82	0.84
74 Entertainment Venues	3.91	4.01	4.12	4.24	4.33	4.45	4.58	4.71	4.82	4.95
75 RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76 Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77 Capital Improvements	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78 Administration Building	0.98	0.98	0.98	0.98	1.06	1.06	1.06	1.06	1.15	1.15
79 Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
80 Development Services	-	-	-	-	-	-	-	-	-	-
81 Other	-	-	-	-	-	-	-	-	-	-
82 Subtotal Program Support	17.42	17.82	18.22	18.67	19.09	19.55	20.02	20.50	21.02	21.48
83 Debt - Bonds/Other										
84 Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
85 Marina Settlement	-	-	-	-	-	-	-	-	-	-
86 2003 COPs	-	-	-	-	-	-	-	-	-	-
87 2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
88 2006 LRBs-Parking (SEB)	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
89 2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90 2007 POBs	7.64	7.76	7.88	8.01	8.16	8.31	8.47	8.63	8.80	8.97
91 2007 VRDLRB - 400 E.Main	2.76	2.78	2.81	2.83	2.86	2.87	2.90	2.92	2.94	2.95
92 2009 LRBs-Pub Facil Bonds/CIP	2.41	2.41	2.41	2.40	2.40	2.40	2.40	2.40	2.39	2.39
93 Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
94 Subtotal Debt	15.77	15.91	16.06	16.19	15.08	15.32	15.42	15.54	15.65	15.75
95 Contingency	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96 Total General Fund Baseline Expenditures	238.11	244.44	250.93	257.91	263.00	270.00	277.46	284.40	291.44	298.63
97 Surplus(Shortfall) After Baseline	(41.67)	(42.49)	(43.27)	(44.32)	(43.37)	(44.24)	(45.46)	(46.06)	(46.68)	(47.36)
98										
99 Fiscal Stabilization										
100 Increased Deferred Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101 Contributions to Workers Comp ISF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102 Contributions to Technology/Other ISF	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103 Marshall Plan/Police Services	25.17	25.68	26.20	26.72	27.25	27.79	28.34	28.89	29.45	30.03
104 Mission Critical Spending Needs	-	-	-	-	-	-	-	-	-	-
105 Repay 2/28/12 Transfers	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106 Total Fiscal Stabilization	27.22	27.73	28.25	28.77	29.30	29.84	30.39	30.94	31.50	32.08
107 Surplus(Shortfall) After Fiscal Stabilization	(68.89)	(70.22)	(71.52)	(73.10)	(72.67)	(74.08)	(75.84)	(77.00)	(78.19)	(79.43)
108										
109 Restructuring (Labor included in Baseline)										
110 Retiree Medical Reductions	15.93	16.83	17.76	18.84	19.85	20.62	21.80	22.31	23.05	23.82
111 Debt Reductions	11.80	10.82	11.26	11.63	10.70	11.13	11.35	10.49	10.60	10.70
112 Other Reductions	1.63	1.63	1.63	1.63	1.63	1.13	1.13	1.13	1.13	1.13
113 Subtotal Restructuring	29.36	29.27	30.65	32.10	32.17	32.87	34.28	33.93	34.78	35.64
114 Sale of Surplus Property	-	-	-	-	-	-	-	-	-	-
115 Efficiencies/Alt Svc Delivery/Fees/Other	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
116 New Revenue-Sales Tax (Nov-13 ballot)	35.51	36.75	38.04	39.37	40.72	42.09	43.48	44.88	46.30	47.74
117 Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118 Total Restructuring	67.87	69.03	71.69	74.47	75.89	77.96	80.76	81.81	84.08	86.38
119 Surplus(Shortfall) After Restructuring	(1.02)	(1.19)	0.17	1.38	3.22	3.88	4.92	4.81	5.89	6.95
120 Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
121 Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
122 Beginning Available Balance	11.04	10.02	8.82	9.00	10.37	13.60	17.48	22.40	27.21	33.10
123 Ending Available Balance	10.02	8.82	9.00	10.37	13.60	17.48	22.40	27.21	33.10	40.05
124 Balance as % of Total Expenditures	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%
125 Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

STOCKTON LONG-RANGE FINANCIAL PLAN (FY31-32 to FY40-41, Dollars in Millions)

GENERAL FUND	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
1 General Revenues										
2 Property Taxes										
3 Property Taxes	52.60	54.39	56.20	58.04	59.90	61.78	63.68	65.60	67.54	69.49
4 In-Lieu of Motor Vehicle Fees	34.92	36.10	37.31	38.53	39.76	41.01	42.27	43.55	44.83	46.13
5 Subtotal Property Taxes	<u>87.52</u>	<u>90.49</u>	<u>93.51</u>	<u>96.57</u>	<u>99.66</u>	<u>102.79</u>	<u>105.95</u>	<u>109.14</u>	<u>112.37</u>	<u>115.62</u>
6 Sales Taxes										
7 75% Point of Sale	52.56	54.12	55.70	57.30	58.90	60.52	62.15	63.79	65.44	67.09
8 25% County ERAF Backfill	17.52	18.04	18.57	19.10	19.63	20.17	20.72	21.26	21.81	22.36
9 Proposition 172	2.36	2.43	2.50	2.57	2.64	2.72	2.79	2.86	2.94	3.01
10 Subtotal Sales Taxes	<u>72.44</u>	<u>74.59</u>	<u>76.77</u>	<u>78.97</u>	<u>81.18</u>	<u>83.41</u>	<u>85.65</u>	<u>87.91</u>	<u>90.19</u>	<u>92.47</u>
11 Utility Users Tax										
12 Water	4.20	4.25	4.31	4.36	4.41	4.46	4.52	4.57	4.62	4.67
13 Electric & Gas	22.98	23.28	23.57	23.86	24.14	24.43	24.71	24.99	25.27	25.54
14 Cable	3.01	3.05	3.09	3.13	3.17	3.20	3.24	3.28	3.31	3.35
15 Telecommunications	11.24	11.38	11.53	11.67	11.81	11.95	12.09	12.22	12.36	12.49
16 Subtotal Utility Users Tax	<u>41.44</u>	<u>41.97</u>	<u>42.49</u>	<u>43.01</u>	<u>43.53</u>	<u>44.04</u>	<u>44.55</u>	<u>45.05</u>	<u>45.55</u>	<u>46.05</u>
17 Franchise Tax										
18 PG&E	2.70	2.74	2.79	2.84	2.88	2.93	2.97	3.02	3.06	3.10
19 Cable/Video	3.08	3.13	3.18	3.23	3.28	3.34	3.39	3.44	3.49	3.54
20 Waste Haulers	10.58	10.76	10.93	11.11	11.29	11.47	11.65	11.82	12.00	12.17
21 Subtotal Franchise Tax	<u>16.35</u>	<u>16.63</u>	<u>16.90</u>	<u>17.18</u>	<u>17.46</u>	<u>17.73</u>	<u>18.00</u>	<u>18.27</u>	<u>18.54</u>	<u>18.81</u>
22 Other General Revenues										
23 Business License Tax	11.69	11.87	12.05	12.23	12.41	12.60	12.79	12.98	13.17	13.37
24 Hotel/Motel Tax	2.33	2.35	2.38	2.40	2.43	2.45	2.47	2.50	2.52	2.55
25 Document Transfer Tax	0.65	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.73	0.74
26 Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27 Interest Income	0.85	0.93	0.96	0.98	1.00	1.03	1.06	1.08	1.11	1.15
28 Subtotal Other General Revenues	<u>15.68</u>	<u>15.96</u>	<u>16.20</u>	<u>16.44</u>	<u>16.68</u>	<u>16.92</u>	<u>17.18</u>	<u>17.43</u>	<u>17.69</u>	<u>17.96</u>
29 Program Revenues										
30 Fire Contracts	3.86	3.90	3.94	3.98	4.02	4.06	4.10	4.14	4.18	4.22
31 Code Enforcement	3.56	3.60	3.63	3.67	3.71	3.74	3.78	3.82	3.86	3.89
32 Charges for Services	2.18	2.21	2.23	2.25	2.27	2.30	2.32	2.34	2.37	2.39
33 Fines & Forfeitures	1.84	1.88	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.20
34 Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35 Licenses & Permits	0.52	0.53	0.54	0.55	0.57	0.58	0.59	0.60	0.61	0.62
36 Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37 Subtotal Program Revenues	<u>12.57</u>	<u>12.71</u>	<u>12.85</u>	<u>13.00</u>	<u>13.15</u>	<u>13.30</u>	<u>13.45</u>	<u>13.61</u>	<u>13.77</u>	<u>13.93</u>
38 Interfund Reimbursements										
39 Indirect Cost Allocation	7.93	8.04	8.27	8.37	8.61	8.42	8.65	8.89	9.01	9.27
40 Refunds & Reimbursements	0.35	0.36	0.36	0.37	0.38	0.39	0.39	0.40	0.41	0.42
41 Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42 Parking Fund - Debt Service	0.90	-	-	-	-	-	-	-	-	-
43 Subtotal Reimbursements	<u>11.86</u>	<u>11.08</u>	<u>11.31</u>	<u>11.42</u>	<u>11.67</u>	<u>11.48</u>	<u>11.73</u>	<u>11.98</u>	<u>12.10</u>	<u>12.37</u>
44 Total General Fund Revenues	<u>257.85</u>	<u>263.43</u>	<u>270.05</u>	<u>276.60</u>	<u>283.32</u>	<u>289.68</u>	<u>296.52</u>	<u>303.40</u>	<u>310.21</u>	<u>317.21</u>
45										
46 Salaries & Benefits										
47 Salaries - Safety (w/ COLA)	67.26	69.42	71.64	73.93	76.30	78.74	81.26	83.86	86.54	89.31
48 Salaries - Non-Safety (w/ COLA)	30.63	31.61	32.62	33.67	34.74	35.86	37.00	38.19	39.41	40.67
49 Salaries - Part time, Temporary	2.56	2.64	2.72	2.81	2.90	2.99	3.09	3.19	3.29	3.40
50 Pension - CalPERS	45.20	46.34	44.67	45.76	37.49	38.28	39.12	37.12	37.99	38.94
51 Health/Dental/Vision-Employee (w/COLA)	13.38	13.65	13.92	14.20	14.48	14.77	15.07	15.37	15.68	15.99
52 Health - Retirees	24.55	25.31	25.99	26.57	26.85	27.38	27.65	27.81	27.81	27.77
53 Workers Compensation	8.91	9.01	9.12	9.23	9.34	9.45	9.57	9.68	9.80	9.92
54 Other Pay & Benefits	7.51	7.73	7.96	8.20	8.45	8.70	8.96	9.23	9.51	9.79
55 Overtime & Standby/Callback	12.49	12.89	13.31	13.73	14.17	14.62	15.09	15.57	16.07	16.59
56 Compensated Absences	5.91	5.80	5.86	5.92	5.98	6.04	6.10	6.16	6.22	6.28
57 Salaries - Safety-Expiring Grants	3.72	3.84	3.96	4.09	4.22	4.35	4.49	4.63	4.78	4.94
58 Net Labor Adjust/Reimbursements	1.76	1.80	1.81	1.85	1.75	1.79	1.84	1.84	1.88	1.93
59 Budgeted Vacancy Savings	(5.98)	(6.14)	(6.23)	(6.40)	(6.29)	(6.47)	(6.65)	(6.75)	(6.94)	(7.13)
60 Subtotal Salaries & Benefits	<u>217.91</u>	<u>223.90</u>	<u>227.36</u>	<u>233.56</u>	<u>230.36</u>	<u>236.51</u>	<u>242.58</u>	<u>245.90</u>	<u>252.05</u>	<u>258.39</u>

GENERAL FUND (cont.)		31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
61	Services & Supplies										
62	Internal Services-Equipment	17.27	17.53	17.79	18.06	18.33	18.61	18.89	19.17	19.46	19.75
63	General Liability Insurance	4.43	4.50	4.57	4.63	4.70	4.77	4.85	4.92	4.99	5.07
64	Utilities	3.47	3.52	3.57	3.63	3.68	3.74	3.79	3.85	3.91	3.97
65	Maintenance & Repair Services	3.39	3.44	3.50	3.55	3.60	3.66	3.71	3.77	3.82	3.88
66	Labor/Legal Services	2.87	2.92	2.96	3.00	3.05	3.09	3.14	3.19	3.24	3.28
67	General Expenses	10.87	11.03	11.20	11.37	11.54	11.71	11.88	12.06	12.24	12.43
68	Tax Collection & Election	3.39	3.44	3.51	3.56	3.62	3.67	3.75	3.80	3.86	3.92
69	Subtotal Services & Supplies	45.70	46.38	47.10	47.80	48.52	49.25	50.01	50.76	51.52	52.29
70	Program Support for Other Funds										
71	Library	7.48	7.65	7.66	7.85	7.43	7.61	7.79	7.79	7.99	8.19
72	Recreation	5.32	5.44	5.45	5.58	5.28	5.41	5.54	5.54	5.68	5.83
73	Golf Courses	0.84	0.86	0.86	0.88	0.84	0.86	0.88	0.88	0.90	0.92
74	Entertainment Venues	4.96	5.08	5.08	5.21	4.93	5.05	5.17	5.17	5.30	5.43
75	RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76	Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77	Capital Improvements	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78	Administration Building	1.15	1.15	1.24	1.24	1.24	1.24	1.34	1.34	1.34	1.34
79	Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
80	Development Services	-	-	-	-	-	-	-	-	-	-
81	Other	-	-	-	-	-	-	-	-	-	-
82	Subtotal Program Support	21.52	21.96	22.07	22.54	21.50	21.94	22.50	22.50	22.99	23.49
83	Debt - Bonds/Other										
84	Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	-
85	Marina Settlement	-	-	-	-	-	-	-	-	-	-
86	2003 COPs	-	-	-	-	-	-	-	-	-	-
87	2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
88	2006 LRBs-Parking (SEB)	0.90	-	-	-	-	-	-	-	-	-
89	2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90	2007 POBs	7.56	7.66	7.76	7.86	7.96	8.06	9.33	-	-	-
91	2007 VRDLRB - 400 E.Main	2.96	2.98	2.99	2.99	3.00	3.01	3.01	3.01	3.02	3.01
92	2009 LRBs-Pub Facil Bonds/CIP	2.39	2.38	2.37	2.37	2.36	2.36	2.35	2.35	-	-
93	Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
94	Subtotal Debt	15.86	15.06	15.17	15.27	15.37	15.47	16.75	7.41	5.07	3.94
95	Contingency	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96	Total General Fund Baseline Expenditures	302.99	309.31	313.69	321.18	317.76	325.17	333.83	328.57	333.62	340.10
97	Surplus(Shortfall) After Baseline	(45.14)	(45.88)	(43.65)	(44.58)	(34.43)	(35.49)	(37.31)	(25.17)	(23.40)	(22.90)
98											
99	Fiscal Stabilization										
100	Increased Deferred Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101	Contributions to Workers Comp ISF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102	Contributions to Technology/Other ISF	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103	Marshall Plan/Police Services	30.25	30.84	31.00	31.60	30.98	31.58	32.19	32.35	33.00	33.67
104	Mission Critical Spending Needs	6.00	10.00	16.00	15.00	30.00	28.00	30.00	34.00	34.00	34.00
105	Repay 2/28/12 Transfers	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106	Total Fiscal Stabilization	38.30	42.89	49.05	48.65	63.03	61.63	64.24	68.40	69.05	69.72
107	Surplus(Shortfall) After Fiscal Stabilization	(83.44)	(88.78)	(92.69)	(93.23)	(97.47)	(97.12)	(101.56)	(93.57)	(92.45)	(92.61)
108											
109	Restructuring (Labor included in Baseline)										
110	Retiree Medical Reductions	24.55	25.31	25.99	26.57	26.85	27.38	27.65	27.81	27.81	27.77
111	Debt Reductions	10.81	10.92	11.02	11.13	11.23	11.33	12.60	3.26	0.92	0.91
112	Other Reductions	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	-
113	Subtotal Restructuring	36.50	37.35	38.14	38.83	39.20	39.84	41.38	32.20	29.86	28.68
114	Sale of Surplus Property	-	-	-	-	-	-	-	-	-	-
115	Efficiencies/Alt Svc Delivery/Fees/Other	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
116	New Revenue-Sales Tax (Nov-13 ballot)	49.19	50.65	52.13	53.62	55.12	56.64	58.16	59.70	61.24	62.79
117	Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118	Total Restructuring	88.68	91.00	93.27	95.45	97.32	99.47	102.55	94.89	94.10	94.47
119	Surplus(Shortfall) After Restructuring	5.24	2.22	0.58	2.21	(0.14)	2.35	0.99	1.32	1.65	1.86
120	Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
121	Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
122	Beginning Available Balance	40.05	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.48
123	Ending Available Balance	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.47	58.34
124	Balance as % of Total Expenditures	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%
125	Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%