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 8 City of Stockton

9 UNITED STATES BANKRUPTCY COURT  
 10 EASTERN DISTRICT OF CALIFORNIA  
 11 SACRAMENTO DIVISION

12 In re:  
 13 CITY OF STOCKTON, CALIFORNIA,  
 14 Debtor.

Case No. 2012-32118  
 D.C. No. OHS-15  
 Chapter 9

**DIRECT TESTIMONY  
 DECLARATION OF TERESIA  
 ZADROGA-HAASE IN SUPPORT OF  
 CONFIRMATION OF FIRST  
 AMENDED PLAN FOR THE  
 ADJUSTMENT OF DEBTS OF CITY  
 OF STOCKTON, CALIFORNIA  
 (NOVEMBER 15, 2013)<sup>1</sup>**

15 WELLS FARGO BANK, NATIONAL  
 16 ASSOCIATION, FRANKLIN HIGH  
 17 YIELD TAX-FREE INCOME FUND,  
 18 AND FRANKLIN CALIFORNIA  
 19 HIGH YIELD MUNICIPAL FUND,

Adv. No. 2013-02315

Date: May 12, 2014  
 Time: 9:30 a.m.  
 Dept: Courtroom 35  
 Judge: Hon. Christopher M. Klein

Plaintiffs,

23 v.

24 CITY OF STOCKTON, CALIFORNIA,  
 25 Defendant.

26 \_\_\_\_\_  
 27 <sup>1</sup> While this declaration is made in support of confirmation of the Plan, out of an abundance of caution, and because the evidentiary hearing on  
 28 Plan confirmation and the trial in the adversary proceeding share common issues, it is being filed in both the main case and the adversary  
 proceeding.

1 I, Teresia Zadroga-Haase, hereby declare:

2 1. I am the Human Resources Director for the City of Stockton, California (“the  
3 City” or “Stockton”). I make this declaration in support of confirmation of the City of Stockton,  
4 California’s (“City”) First Amended Plan For The Adjustment Of Debts Of City Of Stockton,  
5 California (November 15, 2013). In my capacity as Human Resources Director, I am responsible  
6 for administering the City’s human resources, labor relations, workforce planning, equal  
7 employment, risk management, and benefits administration functions.

8 2. There are 1,101 persons with Retiree Health Benefit Claims<sup>2</sup> against the City.  
9 These 1,101 claimants, whose Retiree Health Benefit Claims the Plan classifies in Class 12, are a  
10 subset of the members of Class 15, which includes the City’s over 2,100 CalPERS retirees as well  
11 as current and former employees entitled to City CalPERS pension benefits. Although all 1,101  
12 Retiree Health Benefit Claimants are City CalPERS retirees, not all City CalPERS retirees are  
13 Retiree Health Benefit Claimants. A Retiree Health Benefit Claimant has two separate and  
14 distinct interests. One of these, pension benefits paid to him by the City through CalPERS, is  
15 shared with all 2,100 CalPERS retirees. The other, lifetime health benefits paid to him by the City  
16 pursuant to labor agreements executed by the City, is not.

17 3. Attached hereto as **Exhibit A** is a true and correct copy of a forecast of what the  
18 yearly cost of the City’s retiree health benefit program would have been if the City had not  
19 eliminated its contribution to retiree health benefit payments. This forecast was prepared by the  
20 Segal Company, the City’s health insurance and other post-employment benefits actuary. As  
21 reflected in the forecast, retiree health benefit claims would have cost the City approximately  
22 \$14.9 million in fiscal year (“FY”) 2012-2013. The cost in FY 2013-2014 to date would have  
23 been approximately \$11.7 million (the approximate forecasted cost for all 12 months of FY 2013-  
24 2014, \$15.6 million, prorated for the period of July 1, 2013 through March 31, 2014). The filing  
25 of the bankruptcy case has enabled the City to avoid paying these amounts, meaning that the  
26 bankruptcy has allowed the City to avoid paying approximately \$26.6 million in retiree health  
27

28 <sup>2</sup> Capitalized terms used but not defined herein have the meaning ascribed to them in the First Amended Plan for the Adjustment of Debts of City of Stockton, California (November 15, 2013) [Dkt. No. 1204].

1 benefit costs to date. Because the Association of Retired Employees of the City of Stockton  
2 (“ARECOS”) already has pursued legal action against the City for the breach of its retiree health  
3 benefit obligations, I believe that, were the bankruptcy case dismissed, ARECOS or some other  
4 group claiming to represent Retiree Health Benefit Claimants would sue the City for payment of  
5 the amount of the unpaid benefits to date.

6 4. The Retirees Settlement is no bonanza for Retiree Health Benefit Claimants. If the  
7 Plan is confirmed, each Retiree Health Benefit Claimant will receive approximately a penny for  
8 each dollar of his or her Retiree Health Benefit Claim. Even with the cost reductions associated  
9 with the Affordable Care Act, health insurance premiums—especially for older individuals—  
10 remain expensive. For many Retiree Health Benefit Claimants, the amount they will receive  
11 under the Plan will cover only a few months of premiums for a health insurance policy purchased  
12 on a public exchange. For example, a Retiree Health Benefit Claimant with a claim of \$1 million  
13 will receive \$10,000. The FY 2013-2014 City self-pay retiree monthly medical premium for the  
14 Under 65 Modified Self-Funded plan is \$1,035.85 for the retiree only, and \$1,864.53 for the  
15 retiree plus one dependent. A settlement of \$10,000 (i.e., 1% of \$1 million) would not cover even  
16 12 months’ premium for the retiree only, and would cover less than six months’ premium for the  
17 retiree plus one dependent.

18  
19 Executed this 21<sup>st</sup> day of April 2014, at Stockton, California. I declare  
20 under penalty of perjury under the laws of the State of California and the United States of  
21 America that the foregoing is true and correct.

22  
23   
24 Teresia Zadroga-Haase

# Exhibit A

CITY OF STOCKTON BANKRUPTCY STUDY  
PROJECTED RETIREE HEALTH COSTS

Year Ended June 30,	Projected Costs	
	Annual	Cumulative
2013	14,919,712	14,919,712
2014	15,555,962	30,475,674
2015	16,038,883	46,514,557
2016	16,513,171	63,027,728
2017	16,854,112	79,881,840
2018	17,040,154	96,921,994
2019	17,026,612	113,948,606
2020	17,041,141	130,989,747
2021	17,111,465	148,101,212
2022	16,734,478	164,835,690
2023	16,591,229	181,426,919
2024	16,255,928	197,682,847
2025	16,296,902	213,979,749
2026	16,128,568	230,108,317
2027	15,560,288	245,668,605
2028	15,312,676	260,981,281
2029	15,325,322	276,306,603
2030	15,230,484	291,537,087
2031	15,120,823	306,657,910
2032	14,970,506	321,628,416
2033	14,819,087	336,447,503
2034	14,556,248	351,003,751
2035	14,283,793	365,287,544
2036	13,918,697	379,206,241
2037	13,452,091	392,658,332
2038	12,904,248	405,562,580
2039	12,334,811	417,897,391
2040	11,705,505	429,602,896
2041	11,004,864	440,607,760
2042	10,300,600	450,908,360
2043	9,634,319	460,542,679
2044	8,951,554	469,494,233
2045	8,287,777	477,782,010
2046	7,609,337	485,391,347
2047	6,946,526	492,337,873
2048	6,324,907	498,662,780
2049	5,733,526	504,396,306
2050	5,166,114	509,562,420
2051	4,634,923	514,197,343
2052	4,142,114	518,339,457
2053	3,689,097	522,028,554
2054	3,275,243	525,303,797
2055	2,899,180	528,202,977
2056	2,559,343	530,762,320
2057	2,254,005	533,016,325
2058	1,979,573	534,995,898
2059	1,731,965	536,727,863

CITY OF STOCKTON BANKRUPTCY STUDY  
PROJECTED RETIREE HEALTH COSTS

Year Ended June 30,	Projected Costs	
	Annual	Cumulative
2060	1,508,624	538,236,487
2061	1,306,952	539,543,439
2062	1,125,615	540,669,054
2063	962,940	541,631,994
2064	817,306	542,449,300
2065	687,765	543,137,065
2066	573,600	543,710,665
2067	473,908	544,184,573
2068	387,718	544,572,291
2069	313,966	544,886,257
2070	251,537	545,137,794
2071	199,225	545,337,019
2072	155,838	545,492,857
2073	120,246	545,613,103
2074	91,420	545,704,523
2075	68,416	545,772,939
2076	50,372	545,823,311
2077	36,484	545,859,795
2078	26,002	545,885,797
2079	18,237	545,904,034
2080	12,584	545,916,618
2081	8,530	545,925,148
2082	5,669	545,930,817
2083	3,685	545,934,502
2084	2,338	545,936,840
2085	1,442	545,938,282
2086	862	545,939,144
2087	497	545,939,641
2088	276	545,939,917
2089	146	545,940,063
2090	73	545,940,136
2091	35	545,940,171
2092	15	545,940,186
2093	6	545,940,192
2094	2	545,940,194
2095	1	545,940,195