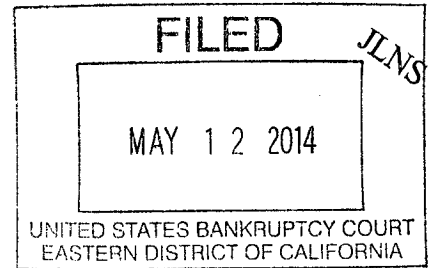


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12-32118

05/07/2014

Your Honor,

Thank you in advance for considering my enclosed letter in regard to Stockton's Bankruptcy. I have labored over and perhaps even dreaded writing this letter to you having stopped and started it multiple times. Upon each review, I find myself adding and deleting this and that and I keep finding something that needs to be changed or corrected. Please keep that in mind when you read through the letter.

I do want you to know that I am on the board of the San Joaquin Taxpayers Association. The SJTA had no idea that I was writing this letter until this morning when I sent them a copy just in case it ever comes up.

Last week I left a message for Ms. Hendricks asking if it was proper for me to address the court in this manner - a letter instead of something on pleading paper or more official. If you find this letter to be a burden of some sort, you can let her know that all future correspondence should be more "official" and at least in this case, might have dissuaded me from contacting you... ;-). And so you and Ms. Hendricks know, I really appreciate that she took the time to return my call.

Sincerely,

A handwritten signature in black ink, appearing to be "Russ Stoddart", with a long horizontal flourish extending to the right.

Russ

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05/07/2014

Honorable Christopher M. Klein
Chief Judge of the United States Bankruptcy Court
Eastern District of California
501 I Street, Suite 3-200
Sacramento, California 95814

In re: City of Stockton, California, Case No. 12-32118-C-9

I am writing to you as a resident and taxpayer of the city of Stockton. I have little experience with law and I know even less about municipal bankruptcy. That said, I do have a little bankruptcy experience.

My first experience with bankruptcy was when I owned a small business in the 1990's. I received a notice in the mail about a client's bankruptcy and never received payment for my services.

My second, third and possibly fourth experience with bankruptcy were due to some shrewd stock investments I made... I recall the broker providing me with a statement that showed that my 100 + shares of one of the bankrupt stocks - due to some in-house accounting procedure had a combined value of less than a penny and that there was no way to actually get my hands on that penny.

And these past experiences have me scratching my head over Stockton's bankruptcy exit plan. The payout to some of these creditors seems to rich. These creditors getting such sweetheart deals compared to my own personal experience is more than a little amusing. If one looks at the agreements made with the bond insurers, without my being privy to all of the details, those deals make it appear that the process was somehow rigged which is probably why Franklin is arguing their position in your court.

One has to wonder if the creditors that have negotiated deals with Stockton threatened to make Stockton take on CalPERS if they did not get what they want? Of note, City Manager Bob Deis kind of had a conflict of interest when deciding not to include

CalPERS as a creditor. I have to ask and I hope you are asking yourself if the deals that were successfully negotiated were done solely on the basis of not getting CalPERS involved in our bankruptcy?

With the deals that have been negotiated, it seems to me that Stockton is continuing on the same path that got us into bankruptcy in the first place. Additionally, I have heard comments from persons I believe to be knowledgeable and well intentioned who have brought up points that I do not believe have been properly addressed.

The first matter I would put out there to the court is that as far as I can tell, no one has addressed Stockton's plan going forward in the most basic sense; what might possibly go wrong with their plan? Is there any chance that any of their predictions could be wrong? If so, which ones?

Are the negotiated deals better than they need to be? Did Stockton's representatives negotiate the best deals they could get or did they fold to the demands of creditors who had the ability to force Stockton to take on CalPERS? Did City Manager Bob Deis have an interest in settling the debts as he did so he would not leave such a huge mess when he retired? The citizens of Stockton are depending on you to ensure that the City of Stockton and its citizens are not getting a "raw deal" that was made for expedience.

I think there is a huge issue that has been making news across the nation and that is deferred maintenance on infrastructure. After bankruptcy, will Stockton be in a position to adequately address our own infrastructure problems or will Stockton be hamstrung by the deals it is making today? Does Stockton's plan address this issue? I provide you evidence that these issues have not been properly addressed from the City of Stockton's 2013/2014 Adopted Annual Budget:

- Roadway pavement: \$10 million per year is needed to resurface pavement to keep the pavement network in its current condition. This cost would significantly increase if streets that warrant reconstruction due to severe distress, high roadway center, or extensive curb damage are included. The proposed program allocates only \$2 million per year.
- Facilities: more than \$6 million is needed to catch up on maintenance of City facilities other than City Hall; however, only minor repair funding is allocated in the proposed program.

- Roofs: \$7 million is needed to catch up on necessary repairs and replacements, however only \$227,000 is allocated in the proposed program.
- The CIP for fiscal year 2013-2014 includes a General Fund allocation of \$1,290,000, which is up from the \$575,000 included in the current year budget. This level is still far below the amount needed to address existing deficiencies or ongoing needs for maintenance of capital assets essential to functions funded through the General Fund.
- The Computer Equipment budget includes approximately \$2.1 million that was set aside for implementing the Citywide Technology Strategic Plan projects which have been approved by Council. This does not come close to meeting our needs. The Plan spans five years and some projects have shifted into future years beyond their initial planning but within the five year model. These planning changes have been reflected in the Fiscal Year 2013-14 budget and will be reported to Council through a separate Citywide Technology Strategic Plan update report. The budget for computer replacements has been budgeted at \$200,000 above last year.
- The proposed General Fund allocation for capital projects in FY 2013-14 is \$1,290,000. Funding is allocated to miscellaneous emergency maintenance including specific Library repairs, roof repairs and replacements including Fire Station No. 10, HVAC upgrades/replacements which will likely include City Hall heating system, safety renovations including repairs in City Attorney and City Clerk offices, repairs to SMG managed properties (boiler #2, signage and lighting at Arena, water pump #2 and sprinkler system at Theater, and lighting at Ballpark and Oak Park Ice Arena), Fire Station No. 2 electric gate repair, Fire Station No. 2, 10 and 11 parking lot repairs. Due to funding constraints, this level of funding is again very low level compared to the immediate needs and is far from sufficient to fund a robust program. To give an idea of needed funding, for the projects listed in FY 2014-15 through FY 2017-18 (which are not comprehensive), the average expenditure on projects that would typically be funded from the General Fund is over \$5 million per year.

Your Honor - I do not have a keen eye or necessarily a penchant for numbers or properly editing this letter to you, but if I can skim through the budget and find these matters, I would have to guess that there might be more "under the hood" as they say. I am hoping you make sure that Stockton is not providing a plan and budget going forward that is not realistic to Stockton's needs.

In regard to the arena complex and parking garages, I am told that that the best strategy for Stockton is to let the bond insurers take them back. The only exception being the SEB bond for the Eberhardt building as that is essential to city services. The insurers will then either run those properties themselves or sell them to get some of their money back.

In regard to the SEB pension bond which is unsecured, the City of Stockton should give them the same deal they gave retirees who are only getting .97% on their health care claim of 531 million. The retirees are only receiving 5.1 million for the health benefits that were taken from them so using those numbers, the SEB pension bond should only get 1.1 million on their claim of 125 million instead of the 50 - 75 percent or more based on the sale of the Chase building. This deal alone; that an unsecured pension bond is receiving preferential treatment should raise flags indicating to the court that the deals that have been made might not be in Stockton's best interest.

The following numbers are rough, but I am told that by letting the arena and parking garages go that this move alone would save the city about 10 million a year and combined with the 2 million savings on the CalPERS bond would provide a good boost to our general fund. That works out to about 12 million the first year plus the arena, golf courses and parking garages are costing the general fund at least 3 million a year. So if this is close to being correct, Stockton will have 15 million more a year in their coffers and all those properties go back on the tax roll and give the City of Stockton more tax dollars to work with.

Another matter that I have heard and perhaps I am misinformed or the circumstances have changed but the matter I find most perplexing in the current bankruptcy exit plan is the City having predicated their exit plan on 30 years of revenue from Measure A when the approved measure only includes 10 years of revenue with options to remove/extend the tax based on the City's financial circumstances.

How can a plan be based on actions which are as yet, uncertain? One could suppose if Measure A were to be rescinded as a result of improving economic conditions, at least we would have a sense that our overall financial health was improving.

However, any decision to extend Measure A is predicated on a compliant Council - so how can the Court place any assurance on the present plan when the future decision makers are not yet even known?

The citizens of Stockton are depending on you to do your best to insure that Stockton has a viable plan going forward. City Manager Deis, the chief architect of this plan is retired and the current city manager will most likely be long gone or look for a way out when/if things turn south with their current plan. As you know, Stockton and its citizens are depending on you.

In regard to CalPERS, I believe that entity has become a huge monster that needs to be slayed. I don't know if that issue is a proper matter for this court, but in regard to Stockton pensioners, I have met quite a few of them. A few of them are on the "published lists" but most of them are just ordinary people who will be hurt by cuts to their pensions. If the court chooses to address the CalPERS matter, it is my sincere hope that you will keep the "ordinary pensioners" in mind. But I also want to share with you part of a recent email exchange. The following exchange was in regard to Lodi, CA, but I am told by someone other than the writer that something similar can be said of Stockton's projections.

Question: Additionally, I was meeting with some of the folks at city of Lodi. Their CalPERS pension cost is skyrocketing and nobody knows anything about that.

Answer: I am not sure who "nobody" is, but just about everyone I deal with knows about it. Now the question would be, "What are they and every other PERS organization going to do about it"? We have all got projections, but no one knows right now what the exact impact will be. The projections are significant and there would be layoffs. I think they are actually willing to wait and hope things get better rather than doing anything about it right now. The projections ramp up each year for about 4 or 5 years with the maximum being a city contribution going up to about 50%. 50% means, if someone makes 100K a year, the city contribution is 50K with the employee paying 9%. The current rate is about 39% on the cityside, employees share does not change.

Approximately 21% of registered voters in Stockton passed Measure A by a narrow margin; 51.86% to 48.14%. I do not think the court will be playing with "what if's" but the court should note that there was a citizens effort in the past to reduce the utility tax in Stockton which was to become Measure I. This effort to reduce the utility tax was in response to skyrocketing electric utility bills. I believe signatures were first gathered in 2001 and in 2004 the city seeing that the voters were going to act on this initiative negotiated a "better deal" with the persons who brought this issue forward than what would have appeared on the ballot.

Additionally, in November of 2004 the voters approved a special use tax; Measure W (0.25%) to fund police and firefighters. We were promised 40 police and 40 firefighters (20 firefighter positions were supposed to be paramedics - another story...). I believe this tax only funds 25 police and 23 firefighters. I share this with you because I am pretty certain that Stocktonians will think seriously about entertaining efforts to rescind the Measure A tax if they find they have again "been sold a bill of goods" and the citizens don't get something close to what was promised.

To be sure, Stockton voters are just as responsible as the elected leaders who have led us to your court room. We are now paying the highest sales tax allowed by law. Our leaders are not able to come back and ask for more. We are depending on you to make sure this bankruptcy exit plan is right going forward. That the deals being presented to you are the best deals possible and that the budgets and projections are as accurate as possible and not just window dressing for the court. I do not think Stockton's exit out of bankruptcy should include a saddle that will make it difficult for the city to be properly managed and prosper.

Thank you for your time,

A handwritten signature in black ink, appearing to read "Russ Stoddart". The signature is stylized with a large loop and a long horizontal stroke extending to the right.

Russ Stoddart