



CITY OF STOCKTON NEWS RELEASE

FOR IMMEDIATE RELEASE:
Tuesday, February 28, 2012

Contact: Connie Cochran
Public Information Officer
(209) 937-8827
connie.cochran@stocktongov.com

Council Approves AB 506 Confidential Neutral Evaluation Process

(Stockton, CA) - The Stockton City Council approved a recommendation to move forward with a process recently approved by the State of California that allows for financial restructuring using a (60-day) confidential neutral evaluation process to avoid bankruptcy, under AB 506. The Council voted on items and associated findings, as follows:

- Continue the fiscal emergency, approved (7 – 0);
- Accept Management Partners Financial Assessment Report, approved (7 – 0);
- Request that City staff determine options for investigation into the causes of the City's current financial situation, approved (7 -0).
- Suspension of certain debt payments; adjustments for fiscal year 2010-11 final financial statements; mid-year budget adjustments for fiscal year 2011-12; authorize confidential neutral evaluation process as defined by AB 506; authorize contract with Management Partners for AB 506 project management; and adopt findings and ratified suspension of leave payoffs, approved (6 – 1).

-more-more-more-

City of Stockton
News Release – Council Approves AB 506
Tuesday, February 28, 2012
Page 2 of 3

“The sources of our fiscal situation include unsustainable retiree health insurance; unsustainable and unworkable labor contracts; an extreme amount of debt issued in the first decade of this century that assumed hyper growth would last forever; state raids on our finances; the protracted Valley recession; and poor fiscal management practices,” explained City Manager Bob Deis.

To prepare for the upcoming fiscal year, the City engaged Management Partners to conduct an independent financial condition assessment and provide a second opinion. Management Partners concurred with City staff that, while the City has aggressively moved to control current expenditures and more in the last two years than any other comparable jurisdiction, the City faces large deficits now and in the future and must take immediate steps to protect itself and restructure its finances to address debt obligations and unfunded liabilities.

Other options for addressing the \$15 million in unrestricted fund deficits in the current fiscal year and an estimated deficit in Fiscal Year 2012-13 ranging from \$20 – \$38 million would make the City unhealthy and unsafe, such as more service reductions and more employee compensation reductions, which would cause current employees to leave. Addressing future deficits with a tax increase would place the burden on a community that may not support additional taxes. Until the City gets its fiscal house in order and litigation resolved, voters would be unlikely to support a tax increase.

“We have cut to the bone,” continued Deis. “There are no other alternatives.

-more-more-more-

City of Stockton
News Release – Council Approves AB 506
Tuesday, February 28, 2012
Page 3 of 3

Reductions in programs, services and employees can no longer yield the financial results needed and it will put our citizens at risk. We need to share the burden with our other creditors.”

From March to June, the City will suspend \$2,048,658 debt payments from unrestricted funds on 2009 Lease Revenue (Public Facilities Fees) Bonds, 2007 Variable Rate (400 E. Main Street) Bonds, and 2004 Lease Revenue (Parking Garages) Bonds. The City will continue to pay bills, make payroll and make all other bond and debt payments. In addition, the City will temporarily suspend employee leave pay outs.

The process approved this evening allows municipalities to enter into a period of confidential mediation with creditors or “interested parties” with \$5 million or more in obligations or debt, which includes bond insurers, bond trustees, employee labor groups, retirees and others. The City and interested parties will select a neutral evaluator with the goal of reaching an agreement on how to manage City debt obligations. The process is confidential until an agreement is reached by all parties, at which time the City Council will vote on the final agreement.

“This Council has always been tough and strong in making difficult decisions, when we have been given complete and accurate information, and this City Manager has given us accurate information” said Mayor Ann Johnston. “This process is our last best chance to avoid bankruptcy – a process that was backed by unions. Our safety and the safety of our citizens depend on this process to move forward.”

###

All News Releases can be found on the City of Stockton website. www.stocktongov.com/news