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9 UNITED STATES BANKRUPTCY COURT  
 10 EASTERN DISTRICT OF CALIFORNIA  
 11 SACRAMENTO DIVISION  
 12

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

Case No. 2012-32118

Chapter 9

**CITY'S SUBMISSION OF REDLINED  
 COMPARISON OF THE DISCLOSURE  
 STATEMENT WITH RESPECT TO  
 THE FIRST AMENDED PLAN FOR  
 THE ADJUSTMENT OF DEBTS OF  
 CITY OF STOCKTON, CALIFORNIA,  
 DATED NOVEMBER 15, 2013 AND  
 THE DISCLOSURE STATEMENT  
 WITH RESPECT TO THE PLAN FOR  
 THE ADJUSTMENT OF DEBTS OF  
 CITY OF STOCKTON, CALIFORNIA,  
 DATED OCTOBER 10, 2013**

Date: November 18, 2013  
 Time: 1:00 p.m.  
 Dept: Courtroom 35  
 Judge: Hon. Christopher M. Klein

1           The City of Stockton, California (“City”), the debtor in the above-captioned case, hereby  
 2 submits the redlined comparison, attached hereto as Exhibit 1, of the City’s Disclosure Statement  
 3 with Respect to the First Amended Plan for the Adjustment of Debts of the City of Stockton,  
 4 California, Dated November 15, 2013 (“November 15 Disclosure Statement”) and the City’s  
 5 Disclosure Statement with Respect to the Plan for the Adjustment of Debts of the City of  
 6 Stockton, California, Dated October 10, 2013 [Dkt. No. 1134] (“October 10 Disclosure  
 7 Statement”). The City also hereby submits the redlined comparison, attached hereto as Exhibit 2,  
 8 of Exhibit B to the November 15 Disclosure Statement and Exhibit B to the October 10  
 9 Disclosure Statement.

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Dated: November 15, 2013

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By:           /s/ Marc A. Levinson            
 MARC A. LEVINSON  
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# Exhibit 1

This draft disclosure statement has not been approved by the Bankruptcy Court. The distribution of this draft Court and of the distribution of the draft disclosure statement and of this draft plan, in no way shall be construed to be the solicitation of a vote on this draft plan or on any other plan.

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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

Chapter 9

**DISCLOSURE STATEMENT  
WITH RESPECT TO FIRST  
AMENDED PLAN FOR THE  
ADJUSTMENT OF DEBTS OF  
CITY OF STOCKTON,  
CALIFORNIA (~~OCTOBER  
10~~, NOVEMBER 15, 2013)**

Date: November 18, 2013

Time: 1:00 p.m.

Judge: Hon. Christopher M. Klein

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**(TO BE FILED ON NOVEMBER 18, 2013)**

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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 **First Amended** Plan For The Adjustment Of Debts Of City Of Stockton, California (~~October 10,~~ **November 15,** 2013) (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 The Plan significantly impairs the interests of former employees and retirees with respect  
2 to health benefits. Outside of the Plan, retirement benefits for current and future employees  
3 already have been impacted by negotiated changes in the City's labor agreements. Retiree health  
4 benefits worth approximately \$1 billion for current employees have been eliminated as a result of  
5 negotiated agreements. This loss of retiree health benefits constitutes an approximate reduction in  
6 pension benefits, which along with certain compensation changes for these employees amounts to  
7 a 30-50% reduction from what they otherwise would have received. Additionally, pension  
8 benefits for new employees hired after January 1, 2013 have been reduced by approximately  
9 50-70% (including lost retiree health benefits) for all employees and in some cases higher for  
10 certain types of employees as a result of changes in state law and changes in labor agreements that  
11 the City has negotiated. New hires are also required to pay a greater share of their future pension  
12 benefits. Additionally, because of compensation reductions of up to 30% in pensionable income  
13 negotiated in 2011 and 2012, the future pensions of employees will be lower than they otherwise  
14 would have been, though no further reduction is imposed by the Plan. Such reductions in  
15 compensation to City employees have the effect of lowering the costs of pension benefits funded  
16 by the City. The City intends to fully fund the contributions to be made for the reduced pension  
17 benefits of City employees. Such pension contributions will continue to be made to CalPERS in  
18 its capacity as trustee for the City's pension trust for its retired workers and their dependents who  
19 are the beneficiaries of this trust, as well as for current employees and their beneficiaries (the City  
20 has one contract with CalPERS, but there are three contract groups: police, fire, and  
21 miscellaneous).

22 Payment to holders of General Unsecured Claims—which holders include, but are not  
23 limited to, ~~bondholders for any shortfall in the payment by the City of certain bond~~  
24 ~~issuances~~ holders of lease rejection claims, the Retiree Health Benefit Claimants, and the holders  
25 of Leave Buyout Claims—shall receive cash payment on the Effective Date in an amount equal to  
26 a set percentage of the Allowed amount of such Claims. The percentage of the Allowed amount  
27 paid on such claims will be the Unsecured Claim Payout Percentage (unless the amount of the  
28 Retiree Health Benefit Claims changes, that percentage will be equal to 0.93578% (i.e.,

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\$5,100,000/ divided by \$545,000,000 = 0.93578%) or such other amount as is determined by the Bankruptcy Court before confirmation of the Plan to constitute a pro-rata payment on such other General Unsecured Claims. While the City regrets that it cannot pay a higher amount to holders of General Unsecured Claims, the fact is that the City lacks the revenues to do so if it is to maintain an adequate level of municipal services such as the provision of fire and police protection, the maintenance and repair of the City's streets and other public facilities, and the continued availability of important municipal services such as library, recreation, and parks.

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

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

<b><u>Debtor</u></b>	City of Stockton, California.
<b><u>Bankruptcy Court</u></b>	United States Bankruptcy Court for the Eastern District of California, Sacramento Division, The Honorable Chief Judge Christopher M. Klein presiding.
<b><u>Plan</u></b>	<b><u>First Amended</u></b> Plan For The Adjustment Of Debts Of City Of Stockton, California ( <del>October 10,</del> <b><u>November 15,</u></b> 2013).
<b><u>Purpose of the Disclosure Statement</u></b>	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.
<b><u>Balloting Information</u></b>	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 [_____], <del>2013.</del> <b><u>2014.</u></b> Objections to confirmation also must be filed and served by no later than [_____], <del>2013.</del> <b><u>2014.</u></b>
<b><u>Ballot Tabulator</u></b>	Rust Consulting/Omni Bankruptcy, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367.
<b><u>Confirmation Hearing and</u></b>	A hearing regarding confirmation of the Plan will be held by

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**Confirmation Objections**

the Bankruptcy Court on [\_\_\_\_\_], 2014, commencing at [\_\_\_\_\_] a.m., Pacific Time.

**Treatment of Claims**

If the Court confirms the Plan and the Plan becomes effective, claims will be treated as follows:

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~~ **The treatment of the Class 1A Claims will be as** 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]~~ **should be consulted for the precise terms of the treatment.**

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

**Unimpaired.** On the Effective Date, the City will assume the SEB Lease Back and the SEB Lease Out under section 365(a) pursuant to the NPFG SEB Settlement. 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 Arena Settlement **Documents**, which should be consulted for the precise terms of the treatment. ~~In summary, with respect to these Claims, after modification of the payment terms of the Arena Lease Back, as provided in the NPFG Arena Settlement, on the Effective Date, the City will assume the Arena Lease Back (as modified), and as a result, the City will continue to remain in possession, custody, and control of the Arena.~~

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 Parking Settlement, which should be consulted for the precise terms of the treatment. ~~In summary, with respect to these Claims, the City will create a new parking authority for the City and will transfer ownership and control of the Parking Structure Properties, other downtown parking structures and lots, and downtown parking meters, as well as parking enforcement revenues, to the parking~~

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~~authority. The City Council members will sit *ex officio* as the board members of the new parking authority. Revenues from the newly created parking authority will be pledged to the 2004 Parking Bond Trustee in support of a new schedule of installment payments to NPPG in exchange for (i) transfer of the possessory interest currently held by the 2004 Parking Bond Trustee on behalf of NPPG and the bondholders to the new parking authority and (ii) a forbearance agreement on the part of NPPG and the 2004 Parking Bond Trustee with respect to remedies for default on the Parking Structure Lease Back. The General Fund will have no liability for such new installment payments schedule, nor any obligation to make payments under the Parking Structure Lease Back.~~

The effectiveness of the NPPG Parking Settlement is contingent upon the entry into the SCC 16 Settlement Agreement. In the event the parties are unable to agree to the terms of such settlement that is acceptable to NPPG and the 2004 Parking Bond Trustee, then the City, at the request or direction of the 2004 Parking Bond Trustee or NPPG shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPPG 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 on the occurrence of such settlement.

Class 5  
Office Building  
Claims of the 2007  
Office Building Bond  
Trustee/Assured  
Guaranty – 2007  
Office Building Bonds

**Impaired.** The treatment of the Class 5 Claims will be as set forth in the Assured Guaranty Settlement Documents, which should be consulted for the precise terms of the treatment. ~~A summary of the treatment follows:~~

- ~~- The Office Building Lease Out and Lease Back will be terminated, and the City shall have no obligations under the same. The City will transfer fee title in the 400 E. Main Office Building Property to Assured Guaranty or its designee at Assured Guaranty's election, subject to the New 400 E. Main Lease. Assured Guaranty may elect to keep the property or to sell it at some future date, subject to the New 400 E. Main Lease. Assured Guaranty shall be entitled to all net rent and profits of the property after the transfer and to all of the sales proceeds of the property should Assured Guaranty elect to sell the property, and Assured Guaranty shall be obligated to pay all costs of operation and maintenance of the property. The City shall be released from any and all liability with respect to the 2007 Office Building Bonds and associated documents and the terminated Office Building Lease Out and Lease Back and other related bond documents.~~
- ~~- The New 400 E. Main Lease shall include the terms set forth in the Assured Guaranty Term Sheet, including without limitation the following: the initial term shall begin on the Effective Date and end on June 30, 2022; the City shall enjoy exclusive use of the City Space (as~~

~~defined in the Assured Guaranty Term Sheet); the City shall make monthly rent payments as specified in the Assured Guaranty Term Sheet; the New 400 E. Main Lease supersedes the Fourth Floor Lease of 400 E. Main.~~

Class 6  
Pension Obligation Bonds Claims of Assured Guaranty

**Impaired.** The treatment of the Class 6 Claims will be as set forth in the Assured Guaranty Settlement Documents, which should be consulted for the precise terms of the treatment. ~~A summary as it relates to these Claims follows.~~

- ~~- The City agrees to make non-contingent payments on the Pension Obligation Bonds in each fiscal year equal to the sum of the 2007 Lease Ask Payments, Special Fund Payments, and Supplemental Payments on the dates and in the amounts set forth in the Assured Guaranty Term Sheet.~~
- ~~- Assured Guaranty shall also be entitled to Contingent Payments in accordance with the City's Contingent Payment Model, a copy of which is attached to the Assured Guaranty Term Sheet as Exhibit A. If the City does not exceed its baseline financial projections in the upcoming years, Assured Guaranty would receive no Contingent Payments. However, if the City were to exceed its financial projections over the years which the City and Assured Guaranty believe may be achievable Assured Guaranty would receive Contingent Payments until Assured Guaranty has received payment in full on the Pension Obligation Bond Class 6 Claims; provided, that the last date a Contingent Payment is required to be paid is June 1, 2052. Contingent Payments will be based upon the City's budget in each year, subject to adjustment following year-end audit.~~
- ~~- Contingent Payments on the Pension Obligation Bonds for each fiscal year shall be paid on June 1 of such fiscal year, commencing June 1, 2018 and ending on June 1, 2052, subject to adjustment based on audits as mentioned above.~~

Class 7  
Claims of DBW

**Impaired.** The General Fund will not be required to pay debt service on this obligation or to reimburse operating expenses to DBW should DBW take over operations of the Marina Project. DBW will retain its pledge of rents and leases generated from the Marina Project. However, the pledge of gross revenues will be converted to a pledge of revenues net of all reasonable and direct operating expense of the Marina Project, calculated on a fiscal year basis ending June 30 of each year pursuant to section 928(b). Should DBW decide to take over operations of the Marina Project, DBW will be responsible for payment of all operating expenses of the Marina Project and the City will have the right to ensure that the Marina Project is operated in a responsible and safe

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manner, including providing adequate security, and the City shall have the right to compel DBW to alter its manner of operations if such operations pose a threat to the public welfare or if such operations abet a public nuisance. The General Fund shall have no liability, directly or indirectly, for the Claims of DBW, and the City may decide at any time to cease subsidizing the operating deficits of the operation of the Marina Project. DBW has stated to the City an interest in exercising its remedy of taking possession of the Marina Project. The real property that is the subject of the Marina Project shall be that real property described in Exhibit A to the Plan, and should DBW exercise its remedy of taking possession of the Marina Project, DBW shall succeed to possession and control only over the real property set forth in Exhibit A to the Plan.

Class 8  
SCC 16 Claims

~~Impaired~~ **Unimpaired.** To the extent SCC 16 has any offset rights arising under the Construction Agreement or the Disposition and Development Agreement, SCC 16 shall apply any such offsets against amounts owing under the SCC 16 Promissory Note. ~~To the extent SCC 16 has an Unsecured Claim, it will be entitled to the treatment of General Unsecured Claims in Class 12.~~

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Class 9  
Thunder Claims

**Impaired.** The treatment of the Class 9 Claims will be as set forth in the Thunder Settlement. ~~The Thunder Settlement is summarized as follows (the Thunder Settlement Term Sheet, which should be consulted for the precise terms of the Thunder Settlement):~~

- ~~- The Base Rent payable to the City will be increased by \$2,000 per regular season home game. Base Rent for pre-season and playoff games remains unchanged.~~
- ~~- Catering Services Adjusted Gross Revenue paid to the team will be reduced from 30% to 10%.~~
- ~~- The team will have the exclusive right to sell team merchandise, will retain 100% of revenues from the same and bear the expenses of the same.~~
- ~~- The team will purchase the use of five luxury suites from the City each year for a total cost of \$150,000, adjusted annually for any increases in the costs of other luxury suites sold by the City. The team shall have the right to sublease the luxury suites (but not to current luxury suite lessees of the City or prospective lessees—as specified in the Thunder Settlement Term Sheet). Revenues received on account of such leases shall be subject to the existing sharing formula of 65% to the City and 35% to the team.~~
- ~~- Additional payments to the City shall be made once certain performance benchmarks of paid attendees and advertising are reached.~~

Class 10  
Claims of Holders of  
Restricted Revenue  
Bond and Note  
Payable Obligations

**Unimpaired.** 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 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 and pursuant to the provisions of the relevant documents related to the Restricted Revenue Bonds and Notes Payable Obligations. 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

**Unimpaired.** Class 11 consists of Claims of the holders of

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Claims of Holders of  
Special Assessment  
and Special Tax  
Obligations

Special Assessment and Special Tax Obligations ~~that, which~~ are secured by special and restricted sources of revenues consisting of specific levies on real property within certain financing districts created by the City ~~and are not payable from the General Fund.~~

Special Assessment and Special Tax Obligations. The 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~~ **Claims** in this Class include without limitation: **(1i)** the Retiree Health Benefit Claims; **(2ii)** the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; **(3iii)** the Leave Buyout Claims; ~~(4) the Price Claims;~~ and **(5iv)** Other Postpetition Claims.

~~The Retiree Health Benefit Claims are held by approximately 1,100 of the City’s former employees. The Retirees Committee maintains that the aggregate amount of the Retiree Health Benefit Claims is approximately \$545,000,000 (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 Retiree Health Benefit Claimants** 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.

All other General Unsecured Claims shall receive cash 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, or such other

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amount as is determined by the Bankruptcy Court before confirmation of ~~this~~the Plan to constitute a pro-rata payment on such other General Unsecured Claims; *provided, however, that* the dollar amount to be paid on account of General Unsecured Claims other than the Retiree Health Benefit Claims on the Effective Date shall not exceed \$500,000. If the amounts to be paid exceed \$500,000, then such excess amounts shall be made in two (2) equal annual installments on the first and second anniversary of the Effective Date, together with simple interest accruing from and after the Effective Date at 5% per annum. Such excess amounts may be prepaid at the option of the City without penalty.

Class 13  
Convenience Class  
Claims

~~Impaired~~Unimpaired. 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 Regarding  
City's Obligations to  
Fund Employee Plan  
Contributions to  
CalPERS, as Trustee  
under the CalPERS  
Pension Plan for the  
Benefit of CalPERS  
Pension Plan  
Participants

Unimpaired. ~~In order to be both clear and transparent, the Plan designates the CalPERS contract in a separate Class. The Plan expressly provides that~~ CalPERS will continue as the ~~Trustee~~trustee for the City's pension plan for its employees, and ~~that the contract~~CalPERS Pension Plan will be assumed by the City.

The City will continue to honor its obligations to its employees and retirees 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~~

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~~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 law.

Class 16  
Claims of Equipment  
Lessors

**Unimpaired.** Any equipment leases not specifically rejected by the Rejection Motion will be assumed under ~~this~~the 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.~~

Class 19  
Price Claims

**Impaired. The treatment of the Class 19 Claims will be as set forth in the Price Settlement, which should be consulted for the precise terms of the treatment.**

**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

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1 and values, high unemployment rates, and generally lower collections of tax revenues and user  
2 fees, the City had virtually no General Fund reserves as of the Petition Date. It had slashed its  
3 General Fund workforce by an aggregate of 30% during the preceding three years: sworn police  
4 officers were cut by 25%, non-sworn police staffing by 20%, fire staffing by 30%, and non-safety  
5 staffing by 43%. It had also reduced compensation by \$52 million and cut staffing and service  
6 ///  
7 levels by \$38 million, for an overall General Fund budget reduction of approximately \$90 million  
8 during fiscal years 2009-10, 2010-11, and 2012-13.

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

18 Despite having taken these desperate measures, as of June 2012 the City's General Fund  
19 budget for the impending fiscal year was still \$25.9 million underwater.<sup>1</sup> The negative balance  
20 meant that the General Fund was prohibited from borrowing from the City's restricted funds and  
21 that the City therefore could not pay the first payroll of the fiscal year, which was due in July  
22 2012. The City was instead forced to enact its "Pendency Plan" budget, described in Section  
23 III.A. below, which enabled it to meet payroll and debt obligations during the Chapter 9 Case.

24 The City entered bankruptcy only after unsuccessful mediation with its major creditors,  
25 although the mediation did produce agreements with the City's labor organizations. The Chapter  
26 9 Case was contentious from the outset, with the so-called capital markets creditors contending  
27

28 <sup>1</sup> 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](http://www.stocktongov.com/files/COS_2012_2013_ProposedAnnualBudget_2012_5_15.pdf).

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1 that the City was ineligible for bankruptcy relief. Their objections were overruled by the  
2 Bankruptcy Court, but only after many months of costly discovery, briefing, legal maneuvering,  
3 and ultimately a trial on the City's eligibility to be a chapter 9 debtor. But prior to filing the  
4 Chapter 9 Case, during the case, and even during the litigation phase, the City and its creditors  
5 were engaging in mediation under the auspices of a court-appointed mediator—a United States  
6 Bankruptcy Judge from Oregon. The mediation is ongoing and has resulted in several  
7 settlements, the key one relating to retiree health benefits that was negotiated with the Retirees  
8 Committee that represents the interests of the retirees. The City has reached settlement  
9 agreements with Ambac, NCFG, and Assured Guaranty, but has not reached agreement with  
10 Franklin, the holder of approximately \$35,080,000 of bond debt.

11 The Plan, filed with the Bankruptcy Court as of the date hereof, as set forth on **Exhibit A**,  
12 represents the City's proposed adjustment of its debts. The Plan is a spartan one. It returns the  
13 City to financial and public service provider solvency, but, in the absence of agreements with City  
14 creditors whose obligations are secured by leases of City real estate, the Plan includes the  
15 potential loss of City control of certain City properties.

16 **The holders of General Unsecured Creditors, Claims in Class 12**, including retiree health  
17 benefit claimants, will be paid a percentage of their claims equal to the Unsecured Claim Payout  
18 Percentage (unless the amount of the Retiree Health Benefit Claims changes, that percentage will  
19 be **equal to 0.93578% (i.e., \$5,100,000/ divided by \$545,000,000 = 0.93578%)**) or such other  
20 amount as is determined by the Bankruptcy Court before confirmation of the Plan to constitute a  
21 pro-rata payment on such other general unsecured claims. That is all the City can afford to pay  
22 and still maintain even a bare minimum level of City services. In fact, the constituencies that will  
23 bear the greatest burden as a result of the City's inability to meet its financing obligations are its  
24 current employees, and its retirees who collectively hold approximately \$545 million in claims  
25 against the City, but who have agreed, after months of negotiations, to accept \$5.1 million in  
26 satisfaction of those claims. Retirees who are receiving a CalPERS pension but no health benefits  
27 from the City will not be affected by the Plan. Retirees who are receiving a CalPERS pension  
28 plus health benefits will have their health benefits eliminated.

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Current employees of the City have also agreed to forgo health benefits in retirement, which along with changes in compensation results in the loss of their retirement “spike” and reduces their postemployment benefits by 30-50%. The loss of retiree health benefits is a substantial concession of approximately \$1 billion that has already been agreed to without compensation for this loss. In addition, most current employees hired before January 1, 2013 have also agreed to a 7-30% reduction in pensionable compensation, which will reduce their future CalPERS pension from what it otherwise would have been.

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

~~The Plan is premised on the passage on November 5, 2013, of Measure A, which will impose a 3/4 cent sales tax increase. Should Measure A fail, the projections attached to this Disclosure Statement, upon which the Plan is premised, will not be achievable. Not only will the City be unable to fund the Plan, but it will be unable to pay its current operating costs. The result will be further and significant staff and service reductions, ultimately to be decided by the City Council. However, in order to protect police services, the magnitude of necessary cuts could be along the lines of shutting down the City library system, elimination of recreation programs, closing all community centers, and an additional 14% cut to the fire department budget, which will likely mean station closures. In addition, the City will likely be unable to consummate the proposed settlements with Ambac, Assured Guaranty, and NPPG.~~

Unlike a corporate chapter 11 debtor, a city in chapter 9 simply cannot be allowed to fail. It must continue to provide police and fire protection to its residents, to maintain streets and highways, to treat its employees and retirees fairly, and generally to create an environment in which its residents can prosper. Unlike a corporation, its assets cannot be liquidated or sold to a

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1 competitor in order to satisfy its debts. The City believes that the financial restructuring set forth  
2 in its Plan is its current best option for achieving such goals. It will continue to negotiate with its  
3 creditors in an attempt to achieve settlements that provide better returns for creditors and better  
4 economics for the City. If any additional agreements are reached, the Plan and Disclosure  
5 Statement will be modified to reflect those agreements.

6 As described more fully herein, the City believes that the Plan provides the greatest and  
7 earliest possible recoveries to holders of claims while preserving necessary City services and  
8 operations. The City thus believes that acceptance of the Plan is in the best interests of creditors  
9 and parties in interest, as well as in the best interests of the City's residents and businesses, and  
10 that any alternative debt adjustment or restructuring would result in additional delay, uncertainty,  
11 expense, litigation, and, ultimately, smaller or no distributions to creditors. Accordingly, **the City**  
12 **urges that you cast your ballot in favor of the Plan.**

13  
14 **A. The Purpose of This Disclosure Statement.**

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

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

26 This Disclosure Statement, however, cannot and does not provide creditors with legal or  
27 other advice or inform such parties of all aspects of their rights. Claimants are advised to consult  
28 with their attorneys and/or financial advisors to obtain more specific advice regarding how the  
Plan will affect them and regarding their best course of action with respect to the Plan. As noted

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1 below, retirees are advised to consult with the Retirees Committee, which was appointed in April  
2 2013 by the Office of the United States Trustee to represent the interests of the City's  
3 approximately 2,400 retirees in the Chapter 9 Case.

4 This Disclosure Statement has been prepared in good faith and in compliance with  
5 applicable provisions of the Bankruptcy Code. Based upon information currently available, the  
6 City believes that the information contained in this Disclosure Statement is correct as of the date  
7 of its filing. This Disclosure Statement, however, does not and will not reflect some events that  
8 occur after October 10, 2013 (and, where indicated, specified earlier dates), and the City assumes  
9 no duty and presently does not intend to prepare or distribute any amendments or supplements to  
10 reflect such events.

11  
12 **B. Summary of Entities Entitled to Vote on the Plan and of Certain**  
13 **Requirements Necessary for Confirmation of the Plan.**

14 Holders of Allowed Claims in the following Classes are entitled to vote on the Plan  
15 because the Claims in each such Class are "impaired" under the Plan within the meaning of  
16 section 1124: 1A, 1B, 3, 4, 5, 6, 7, ~~8~~-9, 12, ~~13~~-14, 18, and ~~18~~-19.

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

23 In the event of a rejection of the Plan by any of the voting Classes, the City will request  
24 that the Bankruptcy Court confirm the Plan in accordance with those portions of section 1129(b)  
25 that are applicable to the Chapter 9 Case, which provisions permit confirmation by a process  
26 known as "cramdown" notwithstanding such rejection if the Bankruptcy Court finds, among other  
27 things, that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to  
28 each rejecting Class. Other sections of this Disclosure Statement provide a more detailed  
description of the requirements for acceptance and confirmation of the Plan.

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1  
2 **C. Voting Procedures, Balloting Deadline, Confirmation Hearing, and Other**  
3 **Important Dates, Deadlines, and Procedures.**

4 **1. Voting Procedures and Deadlines.**

5 The City has provided copies of this Disclosure Statement and ballots to all known holders  
6 of Impaired Claims in the voting Classes. Those holders of an Allowed Claim in each of the  
7 voting Classes who seek to vote to accept or reject the Plan **must** complete a ballot and return it to  
8 the Court-appointed ballot tabulator, Rust Consulting/Omni Bankruptcy, 5955 DeSoto Avenue,  
9 Suite 100, Woodland Hills, CA 91367 (the “**Ballot Tabulator**”)—so that their ballots actually are  
10 received by no later than the Balloting Deadline (as defined in the following paragraph), and must  
11 be returned directly to the Ballot Tabulator, **not** to the Bankruptcy Court. Note that Ballots do not  
12 constitute proofs of claim.

13 *All ballots, including ballots transmitted by facsimile, must be completed, signed,*  
14 *returned to, and actually received by the Ballot Tabulator by not later than [\_\_\_\_\_],*  
15 *2013, at 4:30 p.m. Pacific Time (the “Balloting Deadline”). Neither Ballots received after the*  
16 *Balloting Deadline, nor ballots returned directly to the Bankruptcy Court rather than to the*  
17 *Ballot Tabulator, shall be counted in connection with confirmation of the Plan.*

18  
19 **2. Date of the Confirmation Hearing and Deadlines for Objection to**  
20 **Confirmation of the Plan.**

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

27 Any objections to confirmation of the Plan must be filed with the Bankruptcy Court and  
28 served on the following entities so as to be **actually received** by no later than [\_\_\_\_\_]  
2013: (a) John M. Luebberke, City Attorney’s Office, 425 N. El Dorado Street, 2nd Floor,

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1 Stockton, CA 95202; (b) Marc A. Levinson, Orrick, Herrington & Sutcliffe LLP, 400 Capitol  
2 Mall, Suite 3000, Sacramento, CA 95814-4497 (counsel to the City); (c) Steven H. Felderstein,  
3 Felderstein, Fitzgerald, Willoughby & Pascuzzi LLP, 400 Capitol Mall, Suite 1750, Sacramento,  
4 CA 95814 (counsel to the Retirees Committee); (d) Jennifer Niemann, Felderstein, Fitzgerald,  
5 Willoughby & Pascuzzi LLP, 400 Capitol Mall, Suite 1750, Sacramento, CA 95814 (counsel  
6 to the Retirees Committee); (e) Debra A. Dandeneau, Weil, Gotshal & Manges LLP, 767 Fifth  
7 Avenue, New York, NY 10153 (counsel to NPF); (ef) Jeffrey E. Bjork, Sidley Austin LLP, 555  
8 West Fifth Street, Los Angeles, CA 90013 (counsel to Assured Guaranty); and (fg) David  
9 Dubrow, Arent Fox LLP, 1675 Broadway, New York, NY 10019-5820 (counsel to Ambac); and  
10 (h) William W. Kannel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial  
11 Center, Boston, MA 02111 (counsel to the Indenture Trustee). Objections that are not timely  
12 filed and served may not be considered by the Bankruptcy Court. *Please refer to the*  
13 *accompanying notice of the Confirmation Hearing for specific requirements regarding the*  
14 *form and nature of objections to confirmation of the Plan.*

15 ///

16  
17 **D. Important Notices and Cautionary Statements.**

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

26 <sup>2</sup> To locate the CAFR go to [http://www.stocktongov.com/files/2011\\_CAFR.pdf](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 Clerk, City Hall, 425 N. El Dorado Street, Stockton, CA 95202.  
The City's reproduction fee schedule will apply to any such request. 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  
2 ***The City's professional advisors have not independently verified the financial***  
3 ***information provided in this Disclosure Statement, and, accordingly, make no representations***  
4 ***or warranties as to its accuracy.*** Moreover, although reasonable efforts have been made to  
5 provide accurate information, the City does not warrant or represent that the information in this  
6 Disclosure Statement, including any and all financial information and projections, is without  
7 inaccuracy or omissions, or that actual values or distributions will comport with the estimates set  
8 forth herein.

9 ***No entity may rely upon the Plan or this Disclosure Statement or any of the***  
10 ***accompanying exhibits for any purpose other than to determine whether to vote in favor of or***  
11 ***against the Plan.*** Nothing contained in such documents constitutes an admission of any fact or  
12 liability by any party, and no such information will be admissible in any proceeding involving the  
13 City or any other party, nor will this Disclosure Statement be deemed evidence of the tax or other  
14 legal effects of the Plan on holders of claims in the Chapter 9 Case. This Disclosure Statement is  
15 not intended to be a disclosure communication to the public capital markets and should not be  
16 relied upon by investors as such in determining whether to buy, hold, or sell any securities of the  
17 City or related entities.

18 Certain information included in this Disclosure Statement and its exhibits contains  
19 forward-looking statements. The words "believe," "expect," "anticipate," and similar expressions  
20 identify such forward-looking statements. The forward-looking statements are based upon  
21 information available when such statements are made and are subject to risks and uncertainties  
22 that could cause actual results to differ materially from those expressed in the statements. A  
23 number of those risks and uncertainties are described below. Readers therefore are cautioned not  
24 to place undue reliance on the forward-looking statements in this Disclosure Statement. The City  
25 undertakes no obligation to publicly update or revise any forward-looking statements, whether as  
26 a result of new information, future events, or otherwise.

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

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1  
2 **E. Additional Information.**

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

16 **II. BACKGROUND INFORMATION**

17 **A. The City.**

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

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

24 Over the past several years, the City has struggled with massive budget deficits. These  
25 deficits have been the result of a combination of plummeting revenues and increasing costs. In  
26 the wake of the Great Recession, housing prices plunged while unemployment skyrocketed,  
27 which led to substantial declines in the City's property tax and sales tax revenues. Stockton has  
28 been among the top-ranked American cities in terms of foreclosures and declines in home prices  
for the past several years. The median home price has dropped from \$397,000 in 2006 to

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1 \$109,000 as of 2012, a decline of 72%. This collapse in property values and the flood of  
2 foreclosures reduced the City's gross property tax collections by roughly 29%, from \$61.1 million  
3 in fiscal year 2007-08 to \$43.6 million in fiscal year 2012-13. Because of California tax laws  
4 under Proposition 13, embodied in article 13A of the California Constitution, changes in  
5 ownership that occurred at the bottom of the market due to foreclosures and short sales will  
6 suppress property values for many years into the future. Adverse economic conditions also  
7 caused a drop in the City's income from assessments and development fees.

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

15 In addition, the fiscal crisis had an impact on public safety. As Judge Klein recounted,  
16 "[i]n 2010, Stockton's violent crime rate bucked a nationwide drop and rose to rank it 10th  
17 nationally, with 13.81 violent crimes per 1,000 residents. Homicides were at an all-time record."  
18 *In re City of Stockton, California*, 493 B.R. 772, 780 (Bankr. E.D. Cal. 2013). Yet, while  
19 homicides increased from 28 in 2008 to 71 in 2012, budget reductions carved away the Stockton  
20 Police Department: 99 police officers, 50 civilian positions, 40 part-time positions, and the  
21 narcotics unit have been eliminated since 2009.<sup>3</sup> In response, in 2012 the City began the planning  
22 process for the "Marshall Plan": [\*\*Violence Reduction Strategy, Stockton, California,\*\*](#) written  
23 [\*\*by David M. Bennett and Donna D. Lattin and adopted by the City Council \(the "Marshall\*\*](#)  
24 [\*\*Plan"\)\*\*](#). Named after the original Marshall Plan that guided Europe's economic recovery after  
25 World War II, the City's Marshall Plan aims to reduce homicides and gun violence in the City.  
26 One of the Marshall Plan's recommendations is to increase the Stockton Police Department

27 <sup>3</sup> 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/CouncilAgenda\\_2013\\_4\\_02\\_item\\_15\\_01\\_MarshallPlan.pdf](http://www.stocktongov.com/files/CouncilAgenda_2013_4_02_item_15_01_MarshallPlan.pdf).

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1 staffing ratio of sworn officers to population, which is well below the average for cities of its  
2 size.<sup>4</sup> However, implementation of the Marshall Plan, including the hiring of additional police  
3 officers, will require new funding.

4 While the City's revenues have been dwindling, its expenses have either remained  
5 constant or increased as a result of the City's population boom. Between 2000 and 2007, the  
6 City's population grew from roughly 243,000 to 285,000, an increase of around 17%. Since  
7 2007, there has been a more moderate increase to approximately 300,000 today. Not only did the  
8 additional number of residents put an increased demand on existing City services during that  
9 period, but the City also took on substantial financial obligations to expand infrastructure, civic  
10 amenities, and essential public services. Moreover, as discussed above, the City is also subject to  
11 significant ongoing obligations in the form of pensions, health care, compensation, and other  
12 benefits for its current and former employees.

13 ///

14 A large part of the City's current economic difficulties are the result of imprudent fiscal  
15 decisions and poor accounting practices during better economic times. When the City was flush  
16 with cash, it made financial decisions and commitments based on the assumption that its  
17 economic growth would continue indefinitely. These commitments included unsustainable labor  
18 costs, retiree health benefits, and public debt. Past inadequate accounting practices also obscured  
19 the severity of the City's impending financial difficulties and in some cases resulted in additional  
20 unrecognized liabilities to the City's General Fund. As a result, when the Great Recession hit, the  
21 City found its financial obligations quickly outpacing its revenues. Compounding these economic  
22 challenges, the City—like all California cities—is limited by law in its ability to generate new  
23 revenues. Under California law, the City was unable to increase tax revenues without voter  
24 approval. As described herein, by placing on November 5, 2013, Stockton voters passed  
25 Measure A, a 3/4 cent sales tax measure ~~on the November 5, 2013 ballot, that~~ the City is  
26 attempting placed on the ballot to generate necessary revenues that will enable it to both continue  
27 to provide services to its residents and to fund its obligations to its employees and creditors.

28 <sup>4</sup> *Id.* at 53-54.

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1  
2 **C. The City's Pension Obligations.**

3 As noted elsewhere herein, the City has negotiated compensation reductions and staff  
4 reductions that in turn have reduced the City's obligations to fund contributions to the pension  
5 plans of the City's employees (although overall compensation costs and pension obligations will  
6 once again rise with the hiring of additional police officers contemplated by the Marshall Plan).  
7 Even assuming it were legally possible for the City to further reduce its pension obligations by  
8 unilaterally trimming its funding of employee pensions through CalPERS (while somehow  
9 providing City employees the level of pension benefits specified in its various labor agreements),  
10 the City does not believe underfunding of its CalPERS pension obligations would be in the best  
11 interests of either the City or its employees.

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 years 2008-09 through 2010-11,  
15 before the City's pension reforms were fully implemented, averaged 13.3% of total General Fund  
16 expenditures. By comparison, the City has forecast that its pension obligations from fiscal year  
17 2011-12 through fiscal year 2020-21 (including the CalPERS portion of costs from additional  
18 staffing under the Marshall Plan for improved public safety services) will average 15.5% of total  
19 General Fund expenditures.<sup>5</sup> A CalPERS defined benefit pension is the industry standard for city  
20 employees throughout California. Over 97% of California cities contract with CalPERS for  
21 pension benefits, and more than 99% of California city employees are covered by CalPERS or a  
22 similar defined benefit plan. Additionally, all county employees in California receive a defined  
23 benefit plan from CalPERS or another similar system, and all state employees receive a CalPERS  
24 pension. Moreover, of the 26 new cities created in California since 1990, approximately 92%  
25 have contracted with CalPERS or a similar plan. When it comes to public employee pensions in  
26 California, CalPERS is the primary, and often only, option. This has provided a consistent  
27 pension benefit package available to persons employed in public-sector jobs.

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

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1 The City has no ready, feasible, and cost-effective alternative to the CalPERS system. The  
2 City believes that its obligations to CalPERS constitute an executory contract between the two.  
3 Under bankruptcy law, executory contracts can only be assumed or rejected (absent some  
4 consensual restructuring of the obligations of the executory contract). CalPERS's position is that,  
5 under the California statutes governing its activities and operations, it does not have any legal  
6 authority to negotiate changes to the pension plans authorized by the California State Legislature  
7 to provide reduced benefits, different payment structures for the City, or other modification that  
8 would provide material financial relief to the City. Thus, the City believes it has two paths to  
9 pursue: assumption of the CalPERS contract or rejection of the CalPERS contract. Under the  
10 Plan, the City assumes the CalPERS contract.

11 City leadership believes that rejecting its CalPERS contract would impose a significant  
12 reduction in the City's pension benefits to current retirees—by approximately two-thirds,  
13 according to CalPERS. This is in addition to the previously mentioned reductions. This would  
14 result in many retirees receiving benefits below the poverty level. Meanwhile, current employees  
15 would likely lose approximately two-thirds of their current-to-date earned benefit. Moreover,  
16 such pension cuts would be in addition to the elimination of retiree health benefits that the City  
17 has already imposed: the City has completely eliminated retiree health benefits for those  
18 approximately 1,100 retirees who were receiving retiree health benefits. The elimination of  
19 City-paid health benefits for current retirees and their dependents on average amounted to 30% of  
20 their total postemployment benefits (the loss of City-paid health benefits given up by current  
21 employees will reduce their future total postemployment benefits 28-41%). Thus, unless the City  
22 were in a position to immediately restore approximately two-thirds of the pension benefits of all  
23 of its employees, a rejection of the CalPERS contract would violate the City's contracts with its  
24 nine labor organizations. Given the City's finances, it is no position to immediately fund  
25 two-thirds of the pension benefits of all of its employees.

26 The City believes that the only means of obtaining relief from its obligation to make  
27 contributions to CalPERS to fund the pension plans of its employees is through direct  
28 negotiations with the employees and their union representatives, which the City already has

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

7 The City believes that the compensation changes made over the last three years, along  
8 with the changes in pension benefits for new hires, have eliminated the excesses in its  
9 compensation/pension system. Through changes in labor agreements as well as changes in state  
10 law, the City has reduced the pension and health benefits for new hires after January 1, 2013 by  
11 50-70% for all new employees and higher for some types of new hires. The major compensation  
12 reductions that have occurred in the last three years will also reduce employee pensions from what  
13 they would have been due to reductions in pensionable income.

14 In light of the severe cuts that City employees and retirees already have experienced, the  
15 City believes that any further significant reduction in pension benefits would almost certainly lead  
16 to a mass exodus of City employees, as well as leaving the City hampered in its future recruitment  
17 of new employees—especially experienced police officers—on account of the noncompetitive  
18 compensation package it would be offering new hires. Moreover, due to recent changes in  
19 California law, the exodus of City employees would be massive and sudden. In order to preserve  
20 their pension benefit levels under new state law, Stockton employees would need to leave the  
21 City's employ and obtain employment with another public agency with CalPERS or County  
22 Employees Retirement Act of 1937 benefits within six (6) months of the rejection of the City's  
23 CalPERS contract. Such a sudden loss of trained and experienced staff would be catastrophic and  
24 would seriously jeopardize the City's ability to provide even the most basic of essential public  
25 protections.

26 The City is unwilling to further reduce or eliminate pensions thereby defaulting on its  
27 contracts with its nine labor organizations, and, in effect, roll the dice to see if employees flee. In  
28 addition to critically impairing the City's ability to recruit new employees, were the City to reject

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1 its CalPERS contract, California state law provides that such rejection would also trigger a  
2 termination penalty, which CalPERS calculates at \$946 million. Even then, the City would still  
3 have to fund and operate an alternate pension plan providing market-level benefits in order to  
4 remain a competitive employer. The City believes that even if it could locate or establish such a  
5 plan, it could not do so at a cost materially lower than the cost of remaining in the CalPERS plan.  
6 Additionally, because the City has not participated in the federal Social Security program since  
7 1978, City employees receive no federal pension benefits from that source, and their CalPERS  
8 pension is the only “retirement” provided by the City.

9 The City thus cannot unilaterally abandon the CalPERS system without incurring  
10 additional obligations and seriously jeopardizing its ability to recruit qualified employees. The  
11 current CalPERS benefits are 85-90% funded according to CalPERS and can be contrasted to the  
12 City’s retiree health program, which was 0% funded before being terminated.

13  
14 **D. The City’s Attempts to Avoid Insolvency.**

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

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

27  
28 <sup>6</sup> 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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Despite these heroic efforts, however, the City continued to project annual deficits in the tens of millions of dollars. Revenues remained low, and labor costs, though markedly reduced, were still higher than the City could afford to pay, and were expected to increase. And after four consecutive years of reducing employee staffing, the City could not continue to make additional service reductions without jeopardizing the health, safety, and welfare of its residents. As a result, the City was forced to take further radical steps to balance its budget for fiscal year 2011-12, which included sweeping its remaining available unrestricted funds into its General Fund (thereby depleting critical funds such as workers compensation reserves, liability insurance reserves, equipment replacement funds, and the like), suspending some payments to separating employees, and electing not to pay over \$2 million in debt service owed between March 2012 and June 2012. These measures were necessary for the City to maintain sufficient liquidity to continue to operate through June 30, 2012 (the end of fiscal year 2011-12). Even with such measures, however, as of the June 28, 2012, filing of its bankruptcy petition, the City effectively had no remaining reserves, and was facing a projected budget shortfall of almost \$26 million in fiscal year 2012-13.

///

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

Pursuant to Assembly Bill 506 (“**AB 506**”), codified at California Government Code section 53760 *et seq.*, the City participated in a “neutral evaluation process” with most of its largest creditors prior to seeking bankruptcy relief. These negotiations occurred over a three-(3)-month span, from March 27, 2012 through June 25, 2012, and were conducted under the auspices of the Honorable Ralph Mabey, a former bankruptcy judge and highly accomplished bankruptcy lawyer and mediator. Judge Mabey was selected jointly by the City and its creditors.

While the City was unable to avoid insolvency and bankruptcy through the mediation process, the City was able to reach agreements with almost all of its labor unions. The nine labor unions with which the City conducted negotiations are: (1) Operating Engineers 3 (“**OE3**”)—Operations and Maintenance Unit (“**O&M**”); (2) OE3—Water Supervisory Unit; (3) OE3—Trades and Maintenance Unit (“**STAMA**”); (4) IAFF Stockton Firefighters Local

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1 456—Fire Unit; (5) IAFF Stockton Firefighters Local 456—Fire Management Unit, (6) Stockton  
2 Police Officers’ Association (“**SPOA**”); (7) Stockton Police Management Association  
3 (“**SPMA**”); (8) Stockton City Employees’ Association (“**SCEA**”); and (9)  
4 Mid-Management/Supervisory Level Unit (“**B&C**”).<sup>7</sup>

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

### 11 **III. ADMINISTRATION OF THE CHAPTER 9 CASE**

#### 12 **A. Pendency Plans.**

13 On June 26, 2012, the City Council adopted a “Pendency Plan” budget based on the  
14 assumption that it would file its chapter 9 petition prior to the start of the 2012-13 fiscal year less  
15 than a week later. The Pendency Plan provided for balanced General Fund expenditures in fiscal  
16 year 2012-13, but only by unilaterally modifying the City’s financial obligations in ways that,  
17 outside of bankruptcy, would otherwise violate the City’s contractual obligations or state law.  
18 Specifically, the City was able to impose further cuts in health care benefits and payments to  
19 retirees, as well as suspend General Fund payments on some of its bonds. While these cuts  
20 allowed the City to continue operating under a “balanced” budget, the effectiveness of the  
21 reductions made under the Pendency Plan ultimately depend upon the confirmation of a plan of  
22 adjustment. The City has continued to operate under subsequent versions of the Pendency Plan  
23 during the Chapter 9 Case.

#### 24 **B. Eligibility Litigation.**

25 On June 5, 2012, the City Council voted to authorize the City to file a petition for relief  
26 under chapter 9 of the Bankruptcy Code in the event that its pre-bankruptcy negotiations did not  
27

28 <sup>7</sup> 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 enable it to avoid insolvency. Following the conclusion of the pre-bankruptcy negotiations, the  
2 City filed its chapter 9 petition on June 28, 2012.

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

14  
15 **C. Post-Bankruptcy Negotiations Conducted by Judge Elizabeth L. Perris.**

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

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

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1 Judge Perris brokered the settlements between Ambac and the City and between Assured  
2 Guaranty and the City, the terms of which are reflected in the Plan.

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

7  
8 **D. Formation of an Official Committee to Represent Retirees.**

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

17 ///

18 Since its appointment, the Retirees Committee has met with the City and discussed the  
19 claims of its constituencies. The overwhelming majority of such claims in dollar amount relate to  
20 two categories of claims: (1) health benefits promised by the City and then reduced in the first  
21 Pendency Plan for fiscal year 2012-13 and eliminated for the following fiscal year and thereafter  
22 (which the City and the Retirees Committee estimate to amount to approximately \$545 million for  
23 the approximately 1,100 retirees eligible for health benefits); and (2) pension benefits paid  
24 through the CalPERS Pension Plan. As discussed below, the Plan proposes to pay \$5.1 million  
25 on the Effective Date in full satisfaction of the health benefit claims, and the Plan assumes the  
26 City’s obligations to CalPERS, preserving in full the pension benefits of the approximately 2,400  
27 current recipients thereof and of current employees who are participating in CalPERS. The  
28 Retirees Committee has agreed to support the Plan and recommends that retirees vote to accept  
the Plan.

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

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

15 Several motions requesting relief from the automatic stay have been filed by plaintiffs in  
16 lawsuits pending in other courts in which damages have been sought based on allegations of civil  
17 rights violations and other General Liability Claims. The City stipulated to relief from the stay  
18 being granted in those cases in which the movant agreed to liquidate its claims in another forum,  
19 agreed not to enforce any claim so liquidated against City assets or property, agreed to look  
20 exclusively to insurance proceeds, or agreed to proceed with its underlying lawsuit but seek  
21 further leave of the court should it obtain a monetary award (but only in cases in which the  
22 continuance of the underlying action would not impose a burden on the Office of the City  
23 Attorney). The City has not opposed relief from the automatic stay for parties with claims strictly  
24 against City Restricted Funds, which are not a part of the Chapter 9 Case (*e.g.*, Preston Pipelines,  
25 Dkt. Nos. 1045, 1092). Nor has the City opposed relief from the automatic stay for the Indenture  
26 Trustee to distribute funds it has collected acting pursuant to a state court receivership order [Dkt.  
27 Nos. 506, 533, 695, 721, 1080, 1097]. The City has also not opposed the commencement or  
28 continuation of actions challenging certain political processes, on the grounds that such actions  
are not within the scope of the automatic stay (Ralph Lee White [Dkt. No. 560], Dean Andal [Dkt.

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No. 1035]). The Bankruptcy Court agreed with the City’s position on such cases in an opinion rendered in connection with the Dean Andal motion [Dkt. No. 1110]. The City has successfully opposed other motions for relief from the automatic stay, including motions brought in *Hittle*, the Association of Retired Employees of the City of Stockton (*see Association of Retired Employees of the City of Stockton v. City of Stockton, California (In re City of Stockton, California)*), 478 B.R. 8 (Bankr. E.D. Cal. 2012)), Greg and Beverly Kent [Dkt. No. 892], and Salvador Benavides [Dkt. No. 622].

**IV. THE CITY’S LIABILITIES AND ASSETS**

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

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**A. Liabilities.**

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

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

The Creditors’ List represents obligations of the City’s General Fund as well as obligations of the City’s designated special use funds, for example the Municipal Water Utility Fund. Such obligations are included on the Creditors’ List for purposes of full disclosure. The City maintains that California or federal law prohibits the use of such special use funds to pay General Fund obligations. Moreover, certain of such obligations are payable only

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from such special use funds. Thus, such special use funds are beyond the scope of this chapter 9 case pursuant to Bankruptcy Code §§ 903 and 904.

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

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

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

On October 16, 2013, the City filed an Amended List of Creditors and Claims Pursuant to 11 U.S.C. §§ 924 and 925 (Retiree Health Benefit Claims) ("Amended Creditors' List"). [Dkt. No. 1150]. The Amended Creditors' List constitutes the list of Retiree Health Benefit Claims and represents the City's obligations to Retiree Health Benefit Claimants on the Retiree Health Benefit Claims.

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, November 26, 2013, which was established by an order filed on October 7, 2013 [Dkt.  
5 No. 1126], 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 Approximately 12 proofs of claim were filed by governmental units prior to the September  
18 30, 2103 bar date applicable to governmental units. Altogether, the proofs of claim filed by  
19 governmental units assert approximately \$38.3 million in claims.

20 Approximately [ ] proofs of claim were filed by claimants prior to the November 26,  
21 2013 bar ~~dated~~ date for claims applicable to the loss of retiree healthcare benefits. Altogether, the  
22 proofs of claim filed by these claimants assert approximately \$[ ] in claims.

23 In furtherance of its continuing claims analysis and resolution process, the City will be  
24 filing a series of omnibus objections and specific objections to various classes of Claims. Such  
25 ///  
26 objections will be both on the merits as well as to claims based on obligations for which the City  
27 contends it is not liable.  
28

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

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

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

Through August 16, 2013, a total of 104 proofs of claim were filed as General Unsecured Claims. The General Unsecured Claims include, but are not limited to: (1) the Retiree Health Benefit Claims; (2) the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (3) the Leave Buyout Claims; ~~(4) the Price Claims;~~ and (54) Other Postpetition Claims.

By its analysis and calculations, the City believes that the Allowed amount of General Unsecured Claims in Class 12 will aggregate approximately \$550 million to \$575 million. This estimate is comprised of Claims for (1) loss of retiree healthcare benefits of approximately \$545 million; (2) approximately \$806,000 related to leave buyouts; (3) approximately \$10 million for lease rejection claims for the Golf Course/Park leases, as capped by ~~Bankruptcy Code~~ section 502(b)(6); and (4) miscellaneous other claims.

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

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

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2                   **5.     Priority Unsecured Claims.**

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

5                   The City believes that most, if not all, of these claims are properly characterized as  
6 General Unsecured Claims and treats them as such in this Disclosure Statement. Moreover,  
7 because chapter 9 incorporates only those administrative claims allowed under section 507(a)(2),  
8 as discussed in Section V(A)(1)(a) below, the City submits that virtually all Claims filed as  
9 priority Claims are not entitled to priority status under chapter 9. Accordingly, the City intends to  
10 object to the characterization of virtually every Claim filed as a priority Claim. The City expects  
11 that this objection and reclassification will substantially reduce the priority claim pool, if not  
12 eliminate it altogether.

13                   **6.     Secured Claims.**

14                   The City has categorized one proof of claim as a Secured Claim: the SCC 16 Claims.  
15 SCC 16 asserts a Secured Claim against the City in the amount of \$455,123.99. The City has not  
16 yet verified the balance of the SCC 16 Claims as of the Petition Date or as of the date hereof.

17                   The SCC 16 Claims relate to any Claim of SCC 16 arising out of the Construction  
18 Agreement, to the extent of any right to offset from any monies owing from SCC 16 to the City  
19 pursuant to the Construction Agreement. In the event the Parking Structure Lease Back is  
20 terminated, the Master Lease between the City and SCC 16, dated as of February 26, 2008 (as  
21 amended and supplemented) likewise, will terminate, and the Claim by SCC 16 will be treated as  
22 a General Unsecured Claim.

23                   **7.     Workers Compensation Liabilities.**

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

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

4                   **a.     Background.**

5           The City has a number of outstanding General Fund financing lease obligations. The lease  
6 financing transactions involving Ambac, Assured Guaranty, and NPFG as insurers of the related  
7 bond issues have been compromised and settled during the case (the terms of which are  
8 incorporated in the Plan), one will be assumed and thus will be Unimpaired, and the financing  
9 leases involving Franklin as the sole holder of the related bonds will be rejected.

10           In general, the financing lease obligations have a similar structure: a lease out of  
11 City-owned property to either the Financing Authority or the **Redevelopment**Successor Agency,  
12 and the simultaneous lease back of the same property to the City by the Financing Authority or the  
13 **Redevelopment**Successor Agency. The lease out generally involved pre-paid rent for the entire  
14 term of the lease or a token payment of rent plus delivery of the related bond proceeds to the  
15 Financing Authority or the **Redevelopment**Successor Agency. The lease back involved the City  
16 paying rent semi-annually for the leased premises.

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

26           For transactions involving certificates of participation, the lease payments are divided into  
27 “principal components” and “interest components,” the sum of which in each rental period make  
28 up the rent payable for that rental period. This allocation is required in order for the interest  
components to be treated as tax-exempt under federal tax law. The sum of the principal

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1 components is referred to as the principal amount of the transaction. Transactions such as the  
2 ones into which the City entered are structured this way to comply with the so-called “lease  
3 exception” to the indebtedness limitations in article 16, section 18 of the California Constitution,  
4 as described in *City of Los Angeles v. Offner*, 19 Cal. 2d 483 (1942) and *Dean v. Kuchel*, 35 Cal.  
5 2d 444 (1950), the California Supreme Court cases that establish the lease exception. These types  
6 of leases are often referred to as “Offner-Dean” leases (referred to herein as financing leases).<sup>8</sup>

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

11  
12 **b. 2003 Fire/Police/Library Leases.**

13 The Ambac Settlement Agreement restructures the City’s obligations with respect to the  
14 2003 Fire/Police/Library Certificates (defined below) and provides additional liquidity for  
15 the City. The Plan does not modify, amend, or alter the amounts due to the holders of the  
16 2003 Fire/Police/Library Certificates or the obligations of Ambac to pay principal or  
17 redemption price of, or interest on the 2003 Fire/Police/Library Certificates as and when  
18 such amounts become due under the 2003 Fire/Police/Library Certificates ~~and provides~~  
19 ~~additional liquidity for the City~~ Trust Agreement, which payments shall be made by Ambac in  
20 accordance with, and subject to, the terms of the Ambac Insurance Policy.

21 *(i) Financial Instruments Involved.*

22 The financial instruments involved in this transaction are the City of Stockton Certificates  
23 of Participation (Redevelopment Housing Projects) Series 2003A, issued on June 27, 2003, in the  
24 original principal amount of \$1,160,000 (the “2003A Fire/Police/Library Certificates”) and the  
25 Certificates of Participation (Redevelopment Housing Projects) Taxable Series 2003B, issued on  
26 June 27, 2003, in the original principal amount of \$12,140,000 (the “2003B Fire/Police/Library  
27 Certificates”, and together with the 2003A Fire/Police/Library Certificates, the “2003

28 <sup>8</sup> Were the obligations to stretch over more than one year, they would require voter approval as per article 16, section 18.

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1 **Fire/Police/Library Certificates**). Wells Fargo is the trustee under the 2003 Fire/Police/Library  
2 Certificates Trust Agreement (together with any successor trustee, the **“2003 Fire/Police/Library**  
3 **Certificates Trustee**”). A reserve fund exists for the 2003A Fire/Police/Library Certificates with  
4 a balance as of September 1, 2013 of \$59,746.48 ~~70,976.58~~ and for the 2003B  
5 Fire/Police/Library Certificates with a balance as of September 1, 2013 of  
6 \$706,781.35 ~~695,634.51~~ (together, the **“2003 Fire/Police/Library Certificates Reserve Fund**”).  
7 The funds in the 2003 Fire/Police/Library Certificates Reserve Fund are pledged to support  
8 payment of the lease payments under the Fire/Police/Library Lease Out evidenced and represented  
9 by the 2003 Fire/Police/Library Certificates. The 2003 Fire/Police/Library Certificates are insured  
10 by Ambac. The City also entered into a Reimbursement Agreement, dated as of June 1, 2003 (the  
11 **“2003 Fire/Police/Library Certificates Reimbursement Agreement**”), with the City, acting  
12 solely in its capacity as Successor Agency, as successor in interest to the former  
13 Redevelopment Agency of the City of Stockton (the **“Former Redevelopment Agency**”). ~~The~~  
14 ~~City, as successor (the “Successor Agency”)~~ pursuant to the Former Redevelopment Agent-  
15 per provisions of California Assembly Bill AB x1 26 (2011-12), which dissolved California’s  
16 redevelopment agencies as of February 1, 2012, ~~is successor in interest to the Former~~  
17 ~~Redevelopment Agency under the 2003 Fire/Police/Library Certificates Reimbursement~~  
18 ~~Agreement.~~ 2012. Pursuant to the terms of the 2003 Fire/Police/Library Certificates  
19 Reimbursement Agreement, the Successor Agency is obligated to reimburse the City for lease  
20 payments the City makes under the Fire/Police/Library Lease Bank (as defined below) from  
21 Housing Set-Aside Amounts (as defined in the 2003 Fire/Police/Library Certificates  
22 Reimbursement Agreement).

23 (ii) *Leased Properties.*

24 As described in more detail below, the properties that are involved in this transaction are  
25 three fire stations, the City’s Main Police Facility, and the Maya Angelou Southeast Branch  
26 Library (collectively, the **“Fire/Police/Library Properties**”). In order to facilitate the financing  
27 to be provided by the 2003 Fire/Police/Library Certificates, the City, as owner of the  
28 Fire/Police/Library Properties, leased the properties to the Financing Authority pursuant to that

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1 certain Site and Facility Lease dated as of June 1, 2003, for a term ending on June 1, 2033, with a  
2 possible extension of the term to the date upon which the 2003 Fire/Police/Library Certificates are  
3 paid in full (the “**Fire/Police/Library Lease Out**”). Pursuant to section 510 of the City Charter,  
4 the term of the Fire/Police/Library Lease Out cannot extend for more than 55 years or to May 31,  
5 2058. The City contemporaneously leased the Fire/Police/Library Properties back from the  
6 Financing Authority for the same number of years pursuant to the terms of a Lease Agreement  
7 dated as of June 1, 2003 (the “**Fire/Police/Library Lease Back**”). Thus, the City is the lessor  
8 and the Financing Authority is the tenant under the Fire/Police/Library Lease Out, and the  
9 Financing Authority is the lessor and the City is the tenant in the Fire/Police/Library Lease Back.

10 As tenant under the Fire/Police/Library Lease Out, the Financing Authority paid rent for  
11 the entire lease term in a lump sum payment in the amount of \$11,838,678.30, being the net  
12 proceeds of the 2003 Fire/Police/Library Bonds. As tenant under the Fire/Police/Library Lease  
13 Back, the City agreed to make payments, including certain semi-annual rental payments in  
14 varying amounts (the “**Fire/Police/Library Lease Back Rental Payments**”). The Financing  
15 Authority assigned to the 2003 Fire/Police/Library Certificates Trustee its rights, other than  
16 certain retained rights, under the Fire/Police/Library Lease Back, including the rights to enforce  
17 the lease after default by the City, and including the stream of Fire/Police/Library Lease Back  
18 Rental Payments from the City, to support the repayment of the 2003 Fire/Police/Library  
19 Certificates. The repayment obligation is non-recourse to the Financing Authority, and the 2003  
20 Fire/Police/Library Certificates are payable solely from the 2003 Fire/Police/Library Certificates  
21 Reserve Fund and the Fire/Police/Library Lease Back Rental Payments.

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

- 26 • **Fire Stations.** The City owns 13 fire stations, of which 12 are operating. Fire  
27 Stations No. 1, 5, and 14 were built in 1995-96. Each station primarily serves the  
28 neighborhood in which it is located and occupies a half-acre site with a building of

1 approximately 5,000 square feet. Station No. 1 is located in the south area of the  
2 City in the South Stockton Redevelopment Project Area; it was closed as a result  
3 of budget cuts. Station No. 5 is located in the south area off Interstate 5 in the  
4 Weston Ranch Subdivision. Station No. 14 is located in the north area in a newer  
5 residential community commonly referred to as Spanos Park located off Interstate  
6 5 and Eight Mile Road.

7 ///

- 8 • **Main Police Facility.** The Main Police Facility is located in the downtown area of  
9 the City. It was built in 1970 on a two-acre site and includes approximately 44,000  
10 square feet of building space with 140 parking spaces.
- 11 • **Library.** The Maya Angelou Southeast Branch Library is located in the south area  
12 of the City. It was built in 1996 on a 1.8-acre site and includes approximately  
13 20,000 square feet of building space. The library serves the residents of both the  
14 City and San Joaquin County in multiple South Stockton neighborhoods and is one  
15 of 12 libraries that comprise the Stockton-San Joaquin County Public Library  
16 System.

17 (iii) *Ambac Settlement Agreement.*

18 On February 26, 2013, the City filed a motion with the Bankruptcy Court in which it  
19 requested the Bankruptcy Court to enter an order approving the Ambac Settlement Agreement  
20 [Dkt. No. 723]. A copy of the Ambac Settlement Agreement is attached as Exhibit A to the  
21 Declaration of Robert Deis in Support of the City of Stockton's Motion Under Bankruptcy Rule  
22 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed on February 26,  
23 2013 [Dkt. No. 725]. On April 24, 2013, the Bankruptcy Court entered its order granting the  
24 Ambac Settlement Agreement Motion in its entirety and approving the Ambac Settlement  
25 Agreement in its entirety [Dkt. No. 888].

26 Pursuant to the Ambac Settlement Agreement, Ambac and the 2003 Fire/Police/Library  
27 Certificates Trustee will forbear from exercising their rights under the 2003 Fire/Police/Library  
28 Certificates in exchange for payment of their attorneys' fees, certain General Fund Payments (as

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1 defined in the Ambac Settlement Agreement) towards the principal of and interest on the  
2 Certificates, the assignment to the 2003 Fire/Police/Library Certificates Trustee of the City's  
3 rights under the Certificates, the collateral assignment and pledge to the 2003 Fire/Police/Library  
4 Certificates Trustee of all of the City's rights, title and interest under the 2003 Fire/Police/Library  
5 Certificates Reimbursement Agreement, including its right to the Housing Set-Aside Amounts  
6 (the "**2003 Housing Set-Aside Rights**"), the further assignment of the 2003 Housing Set-Aside  
7 Rights by the 2003 Fire/Police/Library Certificates Trustee to Ambac if and when required by the  
8 terms of the 2003 Fire/Police/Library Certificates Supplemental Trust Agreement (as defined  
9 below), and the sale of certain City and Successor Agency properties for proceeds that will be  
10 paid toward the principal of and interest on the Certificates. It also requires that the 2003  
11 Fire/Police/Library Certificates Reserve Fund be distributed toward the principal of and interest  
12 on the Certificates. Finally, the agreement requires that Ambac support and vote in favor of the  
13 Plan so long as it is consistent with the agreement approved by the Bankruptcy Court.

14  
15 **c. 2004 Arena Leases.**

16 The Plan does not modify, amend, or alter the ~~payment of principal of, or payment of~~  
17 ~~interest on, the~~ 2004 Arena Bonds (defined below) or the obligations of NPFG to pay principal  
18 or redemption price of, or interest on the 2004 Arena Bonds as and when such amounts  
19 become due under the 2004 Arena Bond Indenture, which payments shall ~~continue to~~ be made  
20 by NPFG in accordance with, and subject to, the terms of the ~~applicable policy issued by~~  
21 ~~NPFG~~ 2004 Arena Bond Insurance Policy. Pursuant to the terms of the NPFG Arena Settlement  
22 and the Plan, the City will assume the Arena Lease Out and the Arena Lease Back as modified by  
23 the NPFG Arena Settlement.

24 *(i) Financial Instruments Involved.*

25 The financial instruments involved in this transaction are the Redevelopment Agency of  
26 the City of Stockton Revenue Bonds, Series 2004, (Stockton Events Center – Arena Project)  
27 issued on March 16, 2004, in the aggregate principal amount of \$47,000,000 (the "**2004 Arena**  
28 **Bonds**"). Wells Fargo is the indenture trustee under the 2004 Arena ~~Bonds~~ Bond Indenture  
(together with any successor trustee, the "**2004 Arena Bond Trustee**"). A reserve fund exists for

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1 the 2004 Arena Bonds with a balance as of September 1, 2013, of \$3,511,392.02 (the “**2004**  
2 **Arena Bond Reserve Fund**”). The funds in the 2004 Arena Bond Reserve Fund are pledged to  
3 support repayment of the 2004 Arena Bonds. The 2004 Arena Bonds are insured by NPFPG.

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

18 As tenant under the Arena Lease Out, the **Redevelopment** **Successor** Agency paid rent for  
19 the entire lease term in the amount of \$1.00. The **Redevelopment** **Successor** Agency agreed under  
20 the Arena Lease Back to allow the City to use the proceeds of the 2004 Arena Bonds to construct  
21 the Arena facilities. As tenant under the Arena Lease Back, the City agreed to make payments,  
22 including certain semi-annual rental payments in varying amounts (\$2,570,687 for fiscal year  
23 2012-13, \$2,621,346 for fiscal year 2013-14, \$2,673,221 for fiscal year 2014-15, etc.) (the  
24 “**Arena Lease Back Rental Payments**”). The **Redevelopment** **Successor** Agency assigned its  
25 rights under the Arena Lease Back, including the rights to enforce the lease after default by the  
26 City, and including the stream of Arena Lease Back Rental Payments from the City, to support the  
27 repayment of the 2004 Arena Bonds. In addition, pursuant to the terms of that certain Pledge  
28 Agreement between the City as pledgor and the **Redevelopment** **Successor** Agency as pledgee

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1 dated as of March 1, 2004 (the “Arena Pledge Agreement”), the City pledged certain  
2 incremental tax revenues (the “Pledged Tax Increment”) expected to be collected from the West  
3 End Urban Renewal Project No. 1, a former development project area consisting of 642 acres  
4 surrounding and including the Arena, located in the heart of downtown Stockton, just north of the  
5 City’s Crosstown Freeway and east of Interstate 5, containing a mix of commercial, industrial,  
6 and residential uses (the “West End Project Area”). As a result of the enactment of Assembly  
7 Bill X1 26 (“AB 26”) as modified by Assembly Bill 1484 (“AB 1484”), amending certain  
8 sections of the California Health and Safety Code, which together effected the dissolution of  
9 redevelopment agencies in the State of California, certain other tax increment monies formerly  
10 allocated to the former redevelopment agencies have been transferred to their successor agencies  
11 (in this case, the City acting in that capacity) and are available in addition to pledged revenues to  
12 pay enforceable obligations such as the Arena Pledge Agreement (the “Additional Tax  
13 Increment Revenues”). No other revenues or assets are pledged to support the repayment of the  
14 2004 Arena Bonds, the repayment obligation is non-recourse to the RedevelopmentSuccessor  
15 Agency, and the 2004 Arena Bonds are payable solely from the 2004 Arena Bond Reserve Fund,  
16 the Arena Lease Back Rental Payments, the Pledged Tax Increment, and the Additional Tax  
17 Increment Revenues.

18 (ii) *Leased Property.*

19 The subject property is the land described as Parcel 4, as shown on the Parcel Map filed  
20 for record in the office of the Recorder of the County of San Joaquin, State of California, on  
21 March 4, 2003, in Book 23 of Maps, Page 15, and the Arena located thereon, an indoor facility  
22 capable of hosting events such as ice hockey, indoor football, indoor soccer, concerts, boxing  
23 events, rodeos, and other such indoor events, and located at 248 West Fremont Street in  
24 downtown Stockton. The Arena includes officials’ facilities, media facilities, food services  
25 facilities, 24 luxury suites for approximately 288 patrons, the Record Press Club Level with 344  
26 Club Seats, 5,000 square feet of conference space, and ample backstage amenities. The Arena can  
27 be configured for 8,600 to 12,000 seats, based upon the nature of the event. The Arena sports an  
28 85 by 200 foot ECHL regulation ice sheet and is home to the Stockton Thunder ice hockey team.

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1 The Arena is part of the Stockton Events Center project (the “**Events Center Project**”),  
2 which also includes a baseball stadium with a seating capacity of approximately 5,000 people, the  
3 University Plaza Waterfront Hotel and University Lofts, the Stockton Events Center Parking  
4 Structure, and approximately 60,000 square feet of retail/commercial space. The Events Center  
5 Project, including the Arena, is located in downtown Stockton on approximately 24 acres  
6 immediately north of and adjacent to the Stockton Channel and within the West End Project Area.

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

9 ///

10 (iii) *NPFG Arena Settlement.*

11 The City has reached an agreement with NPFG ~~and the 2004 Arena Bond Trustee~~  
12 regarding the Arena Lease Out, the Arena Lease Back, and the Pledged Tax Increment. The terms  
13 are contained in the NPFG Arena Settlement; the NPFG Settlement Term Sheet is attached  
14 hereto as Exhibit C. In general, with respect to the Arena, the NPFG Arena Settlement provides  
15 that, subject to the modification of the payment terms of the Arena Lease Back in accordance with  
16 the terms of the NPFG Arena Settlement, on the Effective Date, the City will assume the Arena  
17 Lease Back (as modified), and as a result, the City will continue to remain in possession, custody,  
18 and control of the Arena.

19 d. **2004 Parking Structure Leases.**

20 The Plan does not modify, amend, or alter the ~~payment of principal of, or payment of~~  
21 ~~interest on, the~~ 2004 Parking Bonds (defined below) or the obligations of NPFG to pay  
22 principal or redemption price of, or interest on the 2004 Parking Bonds as and when such  
23 amounts become due under the 2004 Parking Bond Indenture, which payments shall ~~continue~~  
24 ~~to be made~~ by NPFG in accordance with, and subject to, the terms of the ~~applicable policy issued~~  
25 ~~by NPFG~~ 2004 Parking Bond Insurance Policy. Pursuant to the terms of the NPFG Parking  
26 Settlement and the Plan, the City will assume the Parking Structure Lease Out and the Parking  
27 Structure Lease Back as modified by the NPFG Parking Settlement.

28 (i) *Financial Instruments Involved.*

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1 The financial instruments involved in this transaction are the Stockton Public Financing  
2 Authority Lease Revenue Bonds, Series 2004, (Parking and Capital Projects) issued on June 25,  
3 2004, in the aggregate principal amount of \$32,785,000 (the “**2004 Parking Bonds**”). Wells  
4 Fargo is the indenture trustee under the 2004 Parking ~~Bonds~~**Bond** Indenture (together with any  
5 successor trustee, the “**2004 Parking Bond Trustee**”). A reserve fund exists for the 2004  
6 Parking Bonds with a balance as of September 1, 2013, of \$78,693.23 (the “**2004 Parking Bond**  
7 **Reserve Fund**”). The funds in the 2004 Parking Bond Reserve Fund are pledged to support  
8 repayment of the 2004 Parking Bonds. The 2004 Parking Bonds are insured by NPMG.

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

23 As tenant under the Parking Structure Lease Out, the Financing Authority paid rent for the  
24 entire lease term in the amount of \$1.00. Pursuant to the Parking Structure Lease Back, the  
25 Financing Authority agreed to provide to the City the net proceeds of the 2004 Parking Bonds  
26 (with gross proceeds equal to \$32,785,000), which were used by the City to fund the construction  
27 of the Edmund S. Coy Parking Structure (described below) and other capital improvements. As  
28 tenant under the Parking Structure Lease Back, the City agreed to make payments, including

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1 certain semi-annual rental payments in varying amounts (\$1,960,916 for fiscal year 2012-13) (the  
2 **“Parking Structure Lease Back Rental Payments”**). The Financing Authority assigned its  
3 rights under the Parking Structure Lease Back, including the rights to enforce the lease after  
4 default by the City, and including the stream of Parking Structure Lease Back Rental Payments  
5 from the City, to support the repayment of the 2004 Parking Bonds. No other revenues or assets  
6 are pledged to support the repayment of the 2004 Parking Bonds, the repayment obligation is  
7 non-recourse to the Financing Authority, and the 2004 Parking Bonds are payable solely from the  
8 Parking Structure Lease Back Rental Payments.

9 Even before filing the Chapter 9 Case, due to a lack of revenues generated by the Parking  
10 Structure Properties, and as a result of the deteriorating finances of the City, the City defaulted in  
11 the payment of the Parking Structure Lease Back Rental Payments. As a result of these  
12 circumstances, the 2004 Parking Bond Trustee filed suit to enforce the Parking Structure Lease  
13 Back, with the result that the Superior Court of the State of California for the County of San  
14 Joaquin issued two decisions on April 19, 2012, one granting the 2004 Parking Bond Trustee  
15 “Judgment of Possession After Unlawful Detainer” and also appointing a receiver for the Parking  
16 Structure Properties under an “Order Appointing Receiver.” *See Wells Fargo Bank, National*  
17 *Association v. City of Stockton*, Superior Court of the State of California, County of San Joaquin,  
18 case no. 39-2012-00277622-CU-UD-STK. The Judgment of Possession found the City to be  
19 in unlawful detainer of the Parking Structure Properties and awarded possession of the  
20 Parking Structure Properties to the 2004 Parking Bond Trustee. Under the Judgment of  
21 Possession, the 2004 Parking Bond Trustee can operate and re-let the Parking Structure  
22 Properties for the account of the City. The Judgment of Possession also entitles the 2004  
23 Parking Bond Trustee to reimbursement of its costs for the unlawful detainer proceeding,  
24 as well as reimbursement of its attorney fees and expenses under the Parking Structure  
25 Lease Back.

26 (ii) *Leased Properties.*

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

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

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

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

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

(c) **Market Street Garage.**

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

(iii) *NPFG Parking Settlement.*

The City has reached an agreement with NPFG ~~and the 2004 Parking Structure Bond Trustee~~ regarding the Parking Structure Lease Out and the Parking Structure Lease Back. The

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1 terms are contained in the NPFPG Parking Settlement; the NPFPG Settlement Term Sheet is  
2 attached hereto as Exhibit C. In general, with respect to the Parking Structure Properties, the  
3 NPFPG Parking Settlement provides that the City will create a new parking authority for the City  
4 that will be comprised of the Parking Structure Properties plus other downtown parking structures  
5 and lots, and downtown parking meters and parking enforcement revenues; that revenues from the  
6 newly created parking authority will be pledged to the 2004 Parking Bond Trustee to make  
7 payments from the revenues of the parking authority; and that the City's General Fund will have  
8 no liability for the modified payment schedule.

9 The effectiveness of the NPFPG Parking Settlement is contingent upon the entry into the  
10 SCC 16 Settlement Agreement. In the event the parties are unable to agree to the terms of such  
11 settlement that is acceptable to NPFPG, then the City, at the request or direction of the 2004  
12 Parking Bond Trustee or NPFPG, shall take such actions (if any) that may be required by the 2004  
13 Parking Bond Trustee or NPFPG to terminate the Parking Structure Lease Back as part of an  
14 alternative arrangement that is acceptable to the City and the 2004 Parking Bond Trustee that is  
15 ///  
16 not conditioned on the occurrence of such settlement. As a result, the parking authority will  
17 obtain possession, custody, and control of the Parking Structure Properties.

18  
19 **e. 2006 SEB Leases.**

20 The Plan does not modify, amend, or alter the ~~payment of principal of, or payment of~~  
21 ~~interest on, the~~ 2006 SEB Bonds (defined below) or the obligations of NPFPG to pay principal  
22 or redemption price of, or interest on the 2006 SEB Bonds as and when such amounts  
23 become due under the 2006 SEB Bond Indenture, which payments shall ~~continue to~~ be made  
24 by NPFPG in accordance with, and subject to, the terms of the ~~applicable policy issued by~~  
25 NPFPG 2006 SEB Bond Insurance Policy. On the Effective Date, pursuant to the NPFPG SEB  
26 Settlement, the City will assume the SEB Lease Back and the SEB Lease Out under section  
27 365(a).

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

The financial instruments involved in this transaction are the Stockton Public Financing

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1 Authority 2006 Lease Revenue Refunding Bonds, Series A, issued on April 6, 2006, in the  
2 aggregate principal amount of \$13,965,000 (the “**2006 SEB Bonds**”). Wells Fargo is the  
3 indenture trustee under the 2006 SEB ~~Bonds~~Bond Indenture (together with any successor trustee,  
4 the “**2006 Bond Trustee**”). A reserve fund exists for the 2006 SEB Bonds in an amount equal to  
5 the initial reserve requirement funded by a surety policy for the reserve fund issued by NPFG,  
6 which such initial reserve requirement equals \$919,093.75 (the “**2006 SEB Bond Reserve**  
7 **Fund**”). The funds in the 2006 Bond Reserve Fund are pledged to support repayment of the 2006  
8 SEB Bonds. Payment of principal of and interest on the 2006 SEB Bonds is insured by NPFG  
9 pursuant to the terms of ~~an insurance policy with respect to~~ the 2006 SEB ~~Bonds~~Bond Insurance  
10 Policy.

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

22 As tenant under the SEB Lease Out, the Financing Authority paid rent for the entire lease  
23 term in the amount of \$1.00. As tenant under the SEB Lease Back, the City agreed to make payments, including certain  
24 payments, including certain semi-annual rental payments in varying amounts (\$907,494 for  
25 fiscal year 2012-13, \$906,194 for fiscal year 2013-14, \$909,194 for fiscal year 2014-15, etc.) (the  
26 “**SEB Lease Back Rental Payments**”). The Financing Authority assigned to the 2006 SEB Bond  
27 Trustee its rights under the SEB Lease Back, including the rights to enforce the lease after default  
28 by the City, and including the stream of SEB Lease Back Rental Payments from the City, to

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1 support the repayment of the 2006 SEB Bonds. No other revenues or assets are pledged to  
2 support the repayment of the 2006 SEB Bonds, the repayment obligation is non-recourse to the  
3 Financing Authority, and the 2006 SEB Bonds are payable solely from the 2006 Bond Reserve  
4 Fund and the SEB Lease Back Rental Payments. The City is not in default under the SEB Lease  
5 Back, and to date all amounts due on the 2006 SEB Bonds have been paid in full and on time.

6 (ii) *Leased Properties.*

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

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

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

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

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

24 (iii) *Lease Assumption; NCFG SEB Settlement.*

25 The City has determined that the SEB Properties constitute mission-critical facilities for  
26 the continued operations of City departments housed in the SEB Properties, and that rejection of  
27 the SEB Lease Back and the SEB Lease Out and the resulting need for the City to provide  
28 alternative facilities for the City departments located at the SEB Properties, would result in

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1 serious jeopardy to the uninterrupted provision of essential services to the citizens of the City, and  
2 would cause the City to incur significant relocation expenses and alternative facility expenses. As  
3 a result, the City has decided to assume the SEB Lease Back and the SEB Lease Out under section  
4 365(a).

5 The City has reached an agreement with NPFG ~~and the 2006 SEB Bond Trustee~~ regarding  
6 the SEB Lease Out and the SEB Lease Back. The terms are contained in the NPFG SEB  
7 Settlement; the NPFG Settlement Term Sheet is attached hereto as Exhibit C. In general,  
8 with respect to the SEB Properties, the NPFG SEB Settlement provides that the City will assume  
9 the SEB Lease Back, and as a result, the City will continue to remain in possession, custody and  
10 control of the SEB Properties.

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

13 The Plan does not alter ~~the~~ payment of principal of, or payment of interest on, the 2007  
14 Office Building Bonds (defined below), which payments shall ~~continue to~~ be made by Assured  
15 Guaranty in accordance with, and subject to, the terms of the ~~applicable policy issued by Assured~~  
16 Guaranty 2007 Office Building Bond Insurance Policy.

17 *(i) Financial Instruments Involved.*

18 The financial instruments involved in this transaction are the Stockton Public Financing  
19 Authority Variable Rate Demand Lease Revenue Bonds, 2007 Series A (Building Acquisition  
20 Financing Project), issued on November 29, 2007, in the aggregate principal amount of  
21 \$36,500,000 (the "2007 Series A Bonds") and the Stockton Public Financing Authority Taxable  
22 Variable Rate Demand Lease Revenue Bonds, 2007 Series B (Building Acquisition Financing  
23 Project), issued on November 29, 2007, in the aggregate principal amount of \$4,270,000 (the  
24 "2007 Series B Bonds") and together with the 2007 Series A Bonds, the "2007 Office Building  
25 Bonds"). Wells Fargo is the indenture trustee under the 2007 Office Building ~~Bonds~~ Bond  
26 Indenture (together with any successor trustee, the "2007 Office Building Bond Trustee"). The  
27 2007 Office Building Bonds are insured by Assured Guaranty.

28 As described in more detail below, the property that is involved in this transaction is an  
office building that was purchased with the net proceeds of the 2007 Office Building Bonds and

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

13 As tenant under the Office Building Lease Out, the Financing Authority paid rent for the  
14 entire lease term in the amount of \$1.00. Pursuant to the Office Building Lease Back, the  
15 Financing Authority agreed to provide to the City the net proceeds of the 2007 Office Building  
16 Bonds (with gross proceeds equal to \$40,355,000), which the City then used to acquire the 400 E.  
17 Main Office Building Property. As tenant under the Office Building Lease Back, the City agreed  
18 to make payments, including certain annual rental payments in the amount of interest accruing  
19 on the 2007 Office Building Bonds plus principal amortization specified in the Office Building  
20 Lease Back (such principal amortization is scheduled as \$155,000 due on September 1, 2012,  
21 \$165,000 due on September 1, 2013, and \$175,000 due on September 1, 2014, etc.) (the “**Office**  
22 **Building Lease Back Rental Payments**”). The Financing Authority assigned its rights under the  
23 Office Building Lease Back, including the rights to enforce the lease after default by the City, and  
24 including the stream of Office Building Lease Back Rental Payments from the City, to support the  
25 repayment of the 2007 Office Building Bonds. No other revenues or assets are pledged to support  
26 the repayment of the 2007 Office Building Bonds, the repayment obligation is non-recourse to the  
27 Financing Authority, and the 2007 Office Building Bonds are payable solely from the Office  
28 Building Lease Back Rental Payments. Even before filing its Chapter 9 Case, due to a lack of

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1 revenues generated by the 400 E. Main Office Building Property, and as a result of the  
2 deteriorating finances of the City, the City defaulted in the payment of the Office Building Lease  
3 Back Rental Payments. As a result, the 2007 Office Building Bond Trustee filed suit to enforce  
4 the Office Building Lease Back, with the result that the Superior Court of the State of California  
5 for the County of San Joaquin entered a Judgment of Possession on May 31, 2012 authorizing  
6 Main Street Stockton LLC, as designee of the 2007 Office Building Bond Trustee, to enter into  
7 possession of the 400 E. Main Office Building Property. See Judgment of Possession, filed May  
8 31, 2012, *Wells Fargo Bank, National Association v. City of Stockton*, Superior Court of  
9 California, County of San Joaquin, case no. 39-2012-00280741-CU-UD-STK. Under the  
10 Judgment of Possession, the 2007 Office Building Bond Trustee can operate and re-let the  
11 400 E. Main Office Building Property for the account of the City, but cannot cause the fee  
12 interest or the leasehold interest of the City in the 400 E. Main Office Building Property to  
13 be sold. The Judgment of Possession also entitles the 2007 Office Building Bond Trustee to  
14 reimbursement of its costs for the unlawful detainer proceeding, as well as reimbursement  
15 of its attorney fees and expenses under the Office Building Lease Back.

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

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1 payment by the City of the amounts due under the Office Building Lease Back. As a result of the  
2 announcement of the commencement of the AB 506 process, the occurrence of the default, and  
3 the filing of the Chapter 9 Case, all of the 2007 Office Building Bonds were tendered for purchase  
4 and were unable to be remarketed (the final tender date for the 2007 Series A Bonds is February  
5 29, 2012, and the final tender date for the 2007 Series B Bonds is September 14, 2012).

6 Accordingly, Dexia Assured Guaranty purchased the 2007 Office Building Bonds and is now the  
7 sole holder thereof. As Bank Bonds, the 2007 Office Building Bonds now bear interest at the  
8 Default Rate under the Office Building Standby Agreement, which is equal to the Base Rate plus  
9 3% (currently, 6.25%).<sup>9</sup> In addition, the Bank Bonds are subject to mandatory early redemption  
10 over a seven-year period, and Assured Guaranty is obligated to insure payment of such early  
11 redemption amounts pursuant to its bond insurance policy.

12 (ii) *Leased Property.*

13 The 400 E. Main Office Building Property is located at 400 East Main Street, Stockton. It  
14 consists of a Class A, eight-story, steel-framed office building totaling approximately 246,541  
15 square feet. The office building is situated on a 2.07-acre site, which is a square block fronting on  
16 East Main Street, Market Street, South California Street, and South Sutter Street. The building  
17 has an “H”-shaped floor plate with office wings flanking a central lobby on the first floor. The  
18 lower three floors step back successively to form terraces extending around the building at Floors  
19 2, 3, and 4, while the tower above Floor 4 has planar walls. The building’s exterior consists of  
20 polished granite walls with tinted single-pane glass window and painted bronze aluminum  
21 sections. It was constructed in 1988 and is supported by a foundation of cast-in-place concrete  
22 pile in the form of a two-floor subterranean parking garage, which offers a parking ratio of  
23 approximately 2.1 per 1,000 square feet, for a total of approximately 518 stalls. The 400 E. Main  
24 Office Building Property continues to be owned by the City (subject to the Office Building Lease  
25

26 <sup>9</sup> As defined in the Office Building Standby Agreement, Default Rate “means a rate per annum equal to the Base  
27 Rate plus an amount equal to three hundred basis points (3.00%).” Base Rate “means the higher of (a) the  
28 fluctuating rate per annum equal to the ‘prime rate’ listed daily in the ‘Money Rate’ section of *The Wall Street Journal*, or if *The 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 Out to the Financing Authority and the Office Building Lease Back from the Financing  
2 Authority).

3 The City entered into the Office Building Lease Back in the expectation of making the 400  
4 E. Main Office Building Property its new City Hall—replacing the outdated and crumbling City  
5 Hall built over 100 years ago. While the 400 E. Main Office Building Property did not become  
6 the new City Hall, the City did move certain of its operations there, including its information  
7 technology, and invested several million dollars in upgrades to provide the necessary cabling and  
8 chillers for its main computer servers and related equipment.

9 Because of this investment, after the 2007 Office Building Bond Trustee took possession  
10 of the 400 E. Main Office Building Property, the City and the 2007 Office Building Bond Trustee  
11 entered into a short-term lease pursuant to which the City occupies the fourth floor of the building  
12 (the “**Fourth Floor Lease of 400 E. Main**”). As described in the Assured Guaranty Settlement  
13 Term Sheet, [attached hereto as Exhibit D](#), the Fourth Floor Lease of 400 E. Main, will be  
14 superseded by the New 400 E. Main Lease. The City currently occupies (and pays above market  
15 rent for) only the fourth floor of the 400 E. Main Office Building Property. Including the City’s  
16 occupancy, the 400 E. Main Office Building Property ~~is~~[was](#) approximately 60% vacant as of  
17 September 2013, and barely breaks even on an operating basis before debt service. [Under the  
18 New 400 E. Main Lease, however, the City will enjoy exclusive use of approximately 65,000  
19 square feet of rentable space and joint use of the common areas and will be relieved of the  
20 \[///\]\(#\)  
21 \[approximately \\\$1.8 million cost of relocating its information technology operations. In  
22 addition, its rent will be below market.\]\(#\)](#)

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

25 The City has reached an agreement with ~~the 2007 Office Building Bond Trustee and~~  
26 Assured Guaranty regarding the treatment under the Plan of the Claims arising out of the Office  
27 Building Lease Back Transaction (as well as the Pension Obligation Bonds). The terms are  
28 contained in the Assured Guaranty Settlement. In general, with respect to the 400 E. Main

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1 Property, the Assured Guaranty Settlement provides that the Office Building Lease Out and Lease  
2 Back will be terminated. The City will transfer fee title, and Main Street Stockton, LLC will  
3 transfer possessory interest, in the 400 E. Main Office Building Property to Assured Guaranty  
4 or its designee at Assured Guaranty's election, subject to the New 400 E. Main Lease. Assured  
5 Guaranty may elect to keep the property or sell it at some future date to another purchaser, subject  
6 to the New 400 E. Main Lease. Assured Guaranty shall be entitled to all rent and profits of the  
7 property after the transfer, and to all of the sales proceeds of the property should Assured  
8 Guaranty elect to sell the property. The City shall be released from any and all liability with  
9 respect to the 2007 Office Building Bonds and the terminated Office Building Lease Out and  
10 Lease Back and other related bond documents.

11 Further, the Assured Guaranty Settlement provides that the New 400 E. Main Lease shall  
12 include the terms set forth in the Assured Guaranty Term Sheet, including without limitation the  
13 following: the initial term shall begin on the Effective Date and end on June 30, 2022; the City  
14 shall enjoy exclusive use of the City Space (as defined in the Assured Guaranty Term Sheet); the  
15 City shall make monthly rent payments as specified in the Assured Guaranty Term Sheet; the  
16 New 400 E. Main Lease supersedes the Fourth Floor Lease of 400 E. Main.

17 Main Street Stockton, LLC is currently in possession, custody and control of the 400  
18 E. Main Property, and will remain in possession, custody and control of the 400 E. Main  
19 Property through the Effective Date. The parties may later agree that a receiver will be put  
20 in possession, custody and control of the 400 E. Main Property, and that Assured Guaranty  
21 will be granted an option to purchase. From and after the Effective Date, the Assured  
22 Guaranty Settlement Documents will dictate and control which entity shall continue in  
23 possession, custody and control of the 400 E. Main Property.

24  
25 **g. 2009 Golf Course/Park Leases.**  
26 (i) *Financial Instruments Involved.*

27 The financial instruments involved in this transaction are the Stockton Public Financing  
28 Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects), issued on  
September 9, 2009, in the aggregate principal amount of \$35,080,000 (the "**2009 Golf**

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

9 (ii) *Leased Properties.*

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

24 As tenant under the Golf Course/Park Lease Out, the Financing Authority paid rent for the  
25 entire lease term in a lump sum payment in the amount of \$1.00. Pursuant to the terms of the  
26 Golf Course/Park Lease Back, the Financing Authority agreed to provide the net proceeds of the  
27 2009 Golf Course/Park Bonds (with gross proceeds equal to \$35,080,000) to the City for the  
28 purpose of financing various capital projects. As tenant under the Golf Course/Park Lease Back,

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

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

16  
17 **(a) Oak Park.**

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

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

28 This property was opened in 1952 and is located on approximately 219 acres at 6803  
Alexandria Place. Swenson Golf Course features a classic championship 18-hole, par 72 course;

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1 a nine-hole executive, par three course; a 15-station driving range; two putting greens and a  
2 practice bunker; and paved cart paths. Also located on this property is a clubhouse, an  
3 approximately 2,000-square-foot pro shop, an approximately 5,000-square-foot maintenance and  
4 storage facility, and an approximately 2,500-square-foot café with seating.  
5

6 (c) **Van Buskirk Golf Course.**

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

15 All three properties are zoned for their current use, and it would be unlikely that the  
16 zoning could be changed for commercial development, even assuming that commercial  
17 development of any of the properties would be economically viable given Stockton's current real  
18 estate market. As owner of the fee interest in the property, the City would have to approve any  
19 application for a zoning change.

20 ///

21 ///

22 ///

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

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

27 The table below lists revenues, expenses, and operating deficits for the two golf courses:<sup>10</sup>

28 <sup>10</sup> 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](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 (\$)
<b>Revenues</b>			
Swenson Golf Course	1,126,374	1,260,192	1,073,415
Van Buskirk Golf Course	532,091	597,066	495,366
<b>Expenses</b>			
Swenson Golf Course	1,195,093	1,390,097	1,289,120
Van Buskirk Golf Course	802,591	816,755	702,248
<b>Operating Deficit</b>			
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 unpledged 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 nominal tenant pursuant to the assignment from the Financing Authority of all of ~~its~~the rights of the Authority under the Golf Course/Park Lease Out, may have the option under section 365(h) to remain intake possession of the Golf Course/Park Properties for the balance of

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1 the term of the Golf Course/Park Lease Out so long as the rent is paid and other amounts to be  
2 paid by it under the Golf Course/Park Lease Out are paid (and the City reserves its rights to  
3 contest or place limitations upon such election), or to treat the rejection of the Golf Course/Park  
4 Lease Out as a termination of the same and thereby allow possession and control of the Golf  
5 Course/Park Properties to remain with the City. Should the 2009 Golf Course/Park Bond Trustee  
6 succeed in ~~remaining in~~taking possession and control of the Golf Course/Park Properties from  
7 the City, the City would be relieved of the obligation under the Golf Course/Park Lease Back to  
8 pay for expenses associated with the Golf Course/Park Properties, including utilities, insurance,  
9 and maintenance expenses, all of which would instead be borne by the 2009 Golf Course/Park  
10 Bond Trustee. The rent under the Golf Course/Park Lease Out was paid in a lump sum from the  
11 proceeds of the 2009 Golf Course/Park Bonds, so no further rent would be due and owing.

12 The City would have an interest, however, ~~continue to ensure~~in ensuring that the Golf  
13 Course/Park Properties are run in a responsible, safe and professional manner.

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

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1 down, which would obligate Franklin to pay all of the closure, maintenance, security and other  
2 holding costs of the Golf Course/Park Properties without realizing any revenue at all from the  
3 operation of the properties.

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

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

17 Should the 2009 Golf Course/Park Bond Trustee/Franklin decide to and be successful in  
18 ~~remaining in~~ taking possession of the Golf Course/Park Properties from the City, at the end of  
19 the term of the Golf Course/Park Lease Out, possession, custody and control of the Golf  
20 Course/Park Properties will revert to the City as the owner of the Golf Course/Park Properties.

21 ///

22 ///

23 (v) Limits/Restrictions Upon the Right of the Golf  
24 Course/Park Bond Trustee/Franklin to Take Over Possession of the Golf Course/Park  
25 Properties.

26 As a result of the lease/leaseback transaction described herein, the City is currently  
27 in possession, custody and control of the Golf Course/Park Properties, but section 365(h)  
28 may provide the Golf Course/Park Bond Trustee/Franklin the right to enter into possession

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1 and control of the Golf Course/Park Properties. However, the Golf Course/Park Lease Out  
2 states in section 5 thereof, entitled “Purpose”: “The Authority shall use the Site and the  
3 Facility solely for the purpose of leasing the Site and the Facility to the City, pursuant to the  
4 Lease Agreement . . .” Thus, the Golf Course/Park Bond Trustee/Franklin (having  
5 succeeded to the rights of the Authority by assignment) may not have any rights to the Golf  
6 Course/Park Properties other than to lease them to the City, and specifically may not have  
7 the right to operate the Golf Course/Park Properties for their own account. The City is still  
8 considering the merits of such an argument.

9 Further, the Golf Course/Park Bond Trustee/Franklin is not currently in possession  
10 of the Golf Course/Park Properties and if they wished to invoke section 365(h), the  
11 changeover in possession and control from the City to the Golf Course/Park Bond  
12 Trustee/Franklin would not be nearly as straightforward and uncomplicated as the typical  
13 situation in which a commercial tenant merely remains in possession of its existing leased  
14 premises. The City would have an ongoing and continuing interest in ensuring that the golf  
15 courses and the park would continue to be operated in a responsible, safe and professional  
16 manner so as not to endanger the citizens of Stockton and not let the properties go into  
17 disrepair or worse, abandonment. Finally, the Golf Course/Park Properties are subject to  
18 use restrictions that mandate that the properties be used only for the existing activities and  
19 uses.

20  
21 (a) Rather Than Maintaining the Status Quo, a Takeover by  
22 Franklin Would Interrupt the Status Quo and Require Planning, Transition, and  
23 Coordinated Implementation

24 Should the Golf Course/Park Bond Trustee/Franklin decide, for some reason, to take  
25 over the operations at the Golf Course/Park Properties, there will be a fairly massive  
26 change to the operations of the Golf Course/Park Properties. In order to plan for such a  
27 takeover, and in the absence of agreement with the Golf Course/Park Bond  
28 Trustee/Franklin on such issues, the City would request that the Court enter an order  
outlining a process and timelines for the decision-making process (e.g., when would the Golf  
Course/Park Bond Trustee/Franklin need to make a final decision about whether to take

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1 over such operations? When would the changeover of possession occur? Which vendors  
2 would the Golf Course/Park Bond Trustee/Franklin like to retain and which vendors would  
3 they terminate (assuming they could even do so)?), as well as protections for the City to  
4 ensure the responsible, safe and professional operation of the facilities throughout the years  
5 of the Golf Course/Park Lease Out term (liability insurance satisfactory to the City would  
6 need to be maintained, adequate measures for security at all three facilities would need to  
7 be in place or in prospect, measures to ensure that access to all three facilities by members  
8 of the public would not be interrupted, changeover in billing arrangements for utilities such  
9 as water, gas, electricity, and telephone would need to be in place, arrangements with any  
10 new vendors would need to be in place, arrangements satisfactory to the City for the  
11 maintenance and upkeep and replacement of obsolete or non-functional equipment located  
12 at the facilities and maintenance and capital improvements of the facilities themselves  
13 would need to be in place, arrangements for allowing City personnel to access  
14 infrastructure and other public facilities located on the subject properties would need to be  
15 in place, etc.). The City would want to be protected from the uncertainty of not knowing  
16 when or if the Golf Course/Park Bond Trustee/Franklin would decide to enter into  
17 possession of the Golf Course/Park Properties. The City would want protection from  
18 Franklin attempting to provide the public with the idea that the City and the citizens of the  
19 City would lose access to and the use of the Golf Course/Park Properties unless Franklin's  
20 payment demands are met. The City would want protection from Franklin taking  
21 possession of the Golf Course/Park Properties to simply cease operations at the facilities, or  
22 worse, operate the facilities in an unsafe manner or allow the facilities to fall into disrepair  
23 and neglect. And, the City would want protection from the chaos and public confusion that  
24 could result if there are not guidelines and timetables for the transition from City-operated  
25 properties to privately-operated properties.

26 ///

27 ///

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1  
2 (b) The Golf Courses Must Continue to Be Operated as Golf  
3 Courses, and Oak Park Must Continue to Be Operated as a Park

4 Should the Golf Course/Park Bond Trustee/Franklin decide, for some reason, to take  
5 over the operations at the Golf Course/Park Properties, the current usage of the facilities  
6 could not be altered by the Golf Course/Park Bond Trustee/Franklin, to say, construction of  
7 residential housing or construction of office or retail buildings.

8 Van Buskirk Golf Course, Swenson Golf Course, and Oak Park are all designated  
9 "Parks and Recreation" by the 2035 Stockton General Plan. According to the General  
10 Plan, "Allowed Uses" under the Parks and Recreation designation include "City and county  
11 parks, golf courses, marinas, community centers, public and quasi-public uses, and other  
12 similar and compatible uses". Pages 3-7 of the Goals and Policies Report, December 2007.

13 These three properties are designated PF (Public Facilities) by the Stockton  
14 Development Code (Zoning Ordinance). The PF Zoning District includes not just parks,  
15 but City facilities throughout the City. As such, the list of permissible land uses is  
16 somewhat broader, with provisions for auditoriums, libraries, and similar civic uses.  
17 However, very few of these land uses are permitted without a discretionary permit from  
18 either the Community Development Director or the Planning Commission. With each  
19 discretionary permit, the review authority must make a written finding that the request is  
20 consistent with the General Plan. Referring back to the "Parks and Recreation" General  
21 Plan designation and its limited list of acceptable uses, the review authority would be  
22 precluded from making this finding for any proposed non-conforming use and, therefore,  
23 could not approve any of these additional uses. Instead, the only permissible uses would be  
24 those listed in the General Plan.

25 In addition, the Van Buskirk Golf Course is subject to a restrictive condition upon  
26 title providing that if the property is not used for public purposes, the property reverts to  
27 the prior owner of the property.

28 (vi) Adversary Proceeding

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1  
2 On October 14, 2013, the 2009 Golf Course/Park Bond Trustee, Franklin High Yield  
3 Tax-Free Income Fund, and Franklin California High Yield Municipal Fund commenced  
4 an adversary proceeding against the City by filing a Complaint for Declaratory Relief in the  
5 Bankruptcy Court. [Dkt. No. 1181, commencing Adversary Case 13-2315] (the “Franklin  
6 Re-characterization Adversary Proceeding”). In this complaint, the plaintiffs seek a  
7 declaration: (1) that the Golf Course/Park Lease Out and the Golf Course/Park Lease Back  
8 are not in fact true leases of nonresidential real property under section 365 and therefore  
9 cannot be rejected by the City; (2) that their claims with respect to the Golf Course/Park  
10 Lease Out and the Golf Course/Park Lease Back are instead secured claims under section  
11 506(a) secured by an interest in the Golf Course/Park Properties; and (3) in the alternative,  
12 if the Bankruptcy Court concludes that the Golf Course/Park Lease Out and the Golf  
13 Course/Park Lease Back are in fact true leases under section 365, that all rent payable  
14 under them from the Petition Date through the effective date of rejection is an  
15 administrative expense payable under sections 365(d)(3) and 503.

16 The City believes that there is no merit to the Franklin Re-characterization  
17 Adversary Proceeding and plans to vigorously defend the same. The City further believes  
18 that even if the plaintiffs are successful in re-characterizing the Golf Course/Park Lease Out  
19 transaction as a secured loan obligation, the security for such loan would be the remaining  
20 term of the leasehold interest in the Golf Course/Park Properties, and that such leasehold  
21 interest has little or no value. As discussed above, given the current zoning and use  
22 restrictions, the subject properties would need to be operated, after foreclosure on the  
23 leasehold interests by the plaintiffs, as golf courses and a park, which operations have  
24 historically been cash flow negative, that is, subsidized by the City because the direct costs  
25 of the operations far exceed the gross revenues generated by the Golf Course/Park  
26 Properties.

27 **9. Pension Obligation Bonds.**

28 The ~~Pension Obligation Bonds~~ Plan does not modify, amend, or alter the Pension  
Obligation Bonds (defined below) or the obligations of Assured Guaranty to pay principal

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or redemption price of, or interest on Pension Obligation Bonds as and when such amounts become due under Pension Obligation Bond Indenture, which payments shall be made by Assured Guaranty in accordance with, and subject to, the terms of the Pension Obligation Bond Insurance Policy.

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The financial instruments involved in this transaction are the City of Stockton 2007 Taxable Pension Obligation Bonds issued on April 5, 2007 in the aggregate principal amount of \$125,310,000 ~~pursuant in part to~~ (the “Pension Obligation Bonds”) pursuant to articles 10 and 11 (commencing with section 53570) of chapter 3 of part 1 of division 2 of title 5 of the Government Code of the State of California and an Indenture of Trust, dated as of April 1, 2007, by and between the City and ~~the~~ Wells Fargo, as indenture trustee (together with any successor trustee, the “Pension Obligation Bonds Bond Trustee”), to refinance a portion of the obligation of the City to make payments to CalPERS for retirement benefits accruing to the City’s employees and retirees. The Pension Obligation Bonds are insured by Assured Guaranty. As of the Petition Date, the unpaid principal balance of the Pension Obligation Bonds is approximately \$124,280,000 plus accrued and unpaid interest and costs due to Assured Guaranty.

The City has reached an agreement with ~~the Pension Obligation Bonds Trustee and~~ Assured Guaranty regarding the treatment under the Plan of the Claims arising out of the Pension Obligation Bonds (as well as the Office Building Lease Back Transaction). The terms are contained in the Assured Guaranty Settlement. In general, with respect to the Pension Obligation Bonds, this agreement provides as follows:

- The City agrees to make non-contingent payments on the Pension Obligation Bonds in each fiscal year equal to the sum of the 2007 Lease Ask Payments, Special Fund Payments, and Supplemental Payments (all as defined in the Assured Guaranty Term Sheet) on the dates and in the amounts set forth in the Assured Guaranty Term Sheet. The City has historically allocated a portion of the debt service on the Pension Obligation Bonds to its various restricted funds to account for those funds’ allocable share of pension costs, based on a

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variable allocation methodology that in some years would result in a higher or lower allocation of such debt service that the amount of the Special Fund Payments. Such allocated amounts are treated as operation and maintenance costs under the documents governing the obligations listed in Class 10. The City believes that the change in allocation method reflected in the Special Fund Payments does not alter the status of the Special Fund Payments as operation and maintenance costs under the documents governing the obligations listed in Class 10; however, in the event for any reason that such Special Fund Payments are determined not to be properly treated as operation and maintenance costs, the Assured Guaranty Settlement will provide that such payments shall be paid from the restricted revenues associated with each of the Class 10 obligations only to the extent permitted by the Class 10 documents and applicable law but the City shall otherwise remain obligated to make such payments in accordance with the Assured Guaranty Settlement.

- Assured Guaranty (and if Assured Guaranty has defaulted on its obligations with respect to the Pension Obligation Bonds, the Pension Obligation Bond Trustee) shall also be entitled to Contingent Payments in accordance with the City's Contingent Payment Model, a copy of which is attached to the Assured Guaranty Term Sheet as Exhibit A. If the City does not exceed its baseline financial projections in the upcoming years, Assured Guaranty would receive no Contingent Payments. However, if the City were to exceed its financial projections over the years—which the City and Assured Guaranty believe may be achievable—Assured Guaranty would receive Contingent Payments until Assured Guaranty has received payment in full on the Pension Obligation Bond Class 6 Claims; *provided*, that the last date a Contingent Payment is required to be paid is June 1, ~~2052~~, 2052, unless any Contingent Payments have been suspended pursuant to the terms of the Assured Guaranty Settlement Documents, in

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which event such Contingent Payments shall be paid in accordance with the Assured Guaranty Settlement Documents.

Contingent Payments will be based upon the City's budget in each year, subject to adjustment following year-end audit.

- Contingent Payments on the Pension Obligation Bonds for each fiscal year shall be paid on June 1 of such fiscal year, commencing June 1, 2018 and ending on June 1, 2052, subject to adjustment based on audits as mentioned above.

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This settlement structure may result in Assured Guaranty receiving payment in full on account of the Pension Obligation Bonds depending on the level and timing of future Core Revenue growth of the City.

**10. Statement Regarding Liabilities.**

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

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

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2 **B. Assets.**

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

4 The City owns numerous and varied capital assets, including buildings, roads,  
5 infrastructure and utility improvements, parks, undeveloped real property and service vehicles  
6 (such as fire trucks, police cars and street equipment). Virtually all of these municipal assets are  
7 used daily in the performance of public functions and cannot be easily liquidated, particularly in  
8 current market conditions. They are valued in the City's books and records at depreciated  
9 historical cost, which does not represent the cash value that could be recognized by the City in a  
10 voluntary sale. California law does not permit the levy on or sale of a city's assets in order to  
11 satisfy a court judgment. CAL. GOV'T CODE § 900 *et seq.* Thus, the City has not sought a valuation  
12 of or attempted to sell its necessary capital assets. It has valued its structures for insurance  
13 purposes. Such values, however, do not and cannot reflect the value to the City and its residents  
14 of, for example, fire and police stations or libraries.

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

25 The City's property broker, CBRE, Inc., has provided broker's opinions of value for the  
26 City-owned surplus properties approved for sale. The aggregated broker's opinions of value total  
27 from \$2.3 million to \$3 million. The City has sold one of these City-owned surplus properties  
28 for \$65,000. Five of the City-owned surplus properties, valued collectively at \$973,500, were  
transferred as part of the City's settlement with Marina Towers, LLC, pursuant to which Marina-

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Towers, which settled the eminent domain action known as *City of Stockton v. Marina Towers LLC et al.*, San Joaquin Superior Court, case no. CV022054, and related litigation.<sup>11</sup>

Pursuant to the settlement, Marina Towers LLC agreed to withdraw its proof of claim for \$1,875,000. The settlement with Marina Towers; LLC puts these five properties back on the tax roll in the hands of a capable developer. In addition, it resolves a legal issue of first impression regarding the interplay between eminent domain and bankruptcy law.

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

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

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

Judge Perris has successfully mediated negotiations between the City and Ambac, Assured Guaranty, and NCFG. Judge Perris also mediated negotiations with representatives of Franklin, but to date a settlement with this creditor has not been forthcoming. Although the City cannot discuss in any detail the content of privileged settlement negotiations, it is clear to the City that reaching agreement with such parties on a consensual plan of adjustment will greatly increase the payments that must be made out of the General Fund in the coming years, ~~and should the City achieve its goal of reaching agreement on a consensual plan of adjustment with such creditors, the passage of Measure A would become even more important than under this Plan.~~

<sup>11</sup> By this eminent domain action, the City took two parcels of real property from Marina Towers LLC to develop the Stockton Event Center, a project that now includes a public ballpark and arena, public parking and related services. The east parcel was unimproved, and the west parcel was improved with a five-story office building that had been vacant since 1989. Extended state-court litigation over the City's right to take, pre-condemnation damages, valuation and other issues ensued from 2003 to 2010. The San Joaquin Superior Court entered a Judgment of Condemnation on October 13, 2006, but the defendants appealed. After a long procedural battle, the parties finally resolved the litigation by agreeing to the entry of a Stipulated Judgment in Condemnation, which the San Joaquin Superior Court entered on June 29, 2010. Subsequently, however, the City filed the Chapter 9 Case. The parties then commenced another series of negotiations, this time mediated by the Honorable Elizabeth L. Perris, which successfully resolved their disputes.

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

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

The City believes that ~~passage~~Measure A, which Stockton voters passed on November 5, ~~2013 of Measure A~~2013, will produce approximately \$28 million per year in new revenue from a 3/4 of one percent increase in sales taxes (from 8.25% to 9%), and that such revenue is critical to the viability of the Plan. ~~Measure A may be difficult for some Stocktonians to accept, but it is not unusual in California's current financial environment. According to California State Board of Equalization's website, www.boe.ca.gov:~~

- ~~18 California cities have higher sales tax rates than Stockton's proposed 9%.~~
- ~~125 California cities are already at 9%.~~ The Plan Financial Projections, attached hereto as Exhibit B, assume ~~that Measure A will pass. Simultaneously with Measure A, the voters of the City are being asked to vote on~~the approval of Measure A. Also on November 5, 2013, Stockton voters passed an advisory measure (Measure B); that advises the City Council to use approximately 65% of the revenue generated by Measure A over time to enhance depleted police services under the Marshall Plan; and the remainder to fund the City's ongoing expenses, including the cost of implementing the Plan. ~~Conversely, as discussed in the "Risk Factors" below and in the graphs included with the Plan Financial Projections, the failure of Measure A would mean that the City would continue to incur a substantial structural operating deficit even if the additional hires of police and other safety officers contemplated by the Marshall Plan do not take place. Moreover, the City would be incapable of fulfilling its obligations under the Plan, and the City would be required to make significant additional cuts to existing City services, including cuts to the fire department, and to renegotiate or change the treatment of creditors under the Plan. The City cannot~~

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~~predict whether it would be able to continue to function under such a scenario and does not have detailed plans in place at this point to deal with such across-the-board additional staffing and service reductions.~~

~~Assuming the cram-down level of savings envisioned by adoption of this Plan, without the tax and without the Marshall Plan expenditures, the City would have to reduce annual projected General Fund expenditures by \$11 million on an ongoing basis effective with fiscal year 2014-15 in order for a minimal level of balance averaging 1.4% to be maintained through fiscal year 2020-21.~~

~~In addition, at the time of preparation of this Disclosure Statement, the City hopes to resume negotiations with Franklin, is still involved in negotiations with other creditors, and is hopeful that those negotiations will culminate in agreements with such creditors on the terms of a consensual plan of adjustment that would retain City control of its assets. However, no such plan will be financially feasible unless additional funds flow to the General Fund through Measure A.~~

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

## V. SUMMARY OF THE PLAN OF ADJUSTMENT

The discussion of the Plan set forth below is qualified in its entirety by reference to the more detailed provisions set forth in the Plan and its exhibits, the terms of which are controlling. Holders of claims and other interested parties are urged to read the Plan and its exhibits, filed concurrently herewith, in their entirety so that they may make an informed judgment regarding the Plan.

The Plan 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

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1 former employees and various other claims. While the Plan permits the City to continue to  
2 maintain minimally acceptable levels of vital municipal services for its residents and businesses,  
3 and while it devotes substantial resources to the repayment of the City's creditors, it nevertheless  
4 further defers infrastructure maintenance as well as the optimal staffing of City service units such  
5 as police and fire.

6 The Plan significantly impairs the interests of former employees and retirees with respect  
7 to health benefits. Outside of the Plan, retirement benefits for current and future employees  
8 already have been impacted by negotiated changes in the City's labor agreements. Retiree health  
9 benefits worth approximately \$1 billion for current employees have been eliminated as a result of  
10 negotiated agreements. This loss of retiree health benefits constitutes an approximate reduction in  
11 pension benefits, which along with certain compensation changes for these employees amounts to  
12 a 30-50% reduction from what they otherwise would have received. Additionally, pension  
13 benefits for new employees hired after January 1, 2013 have been reduced by approximately  
14 50-70% (including lost retiree health benefits) for all employees and in some cases higher for  
15 certain types of employees as a result of changes in state law and changes in labor agreements that  
16 the City has negotiated. New hires are also required to pay a greater share of their future pension  
17 benefits. Additionally, because of compensation reductions of up to 30% in pensionable income  
18 negotiated in 2011 and 2012, the future pensions of employees will be lower than they otherwise  
19 would have been, though no further reduction is imposed by the Plan. Such reductions in  
20 compensation to City employees have the effect of lowering the costs of pension benefits funded  
21 by the City. The City intends to fully fund the contributions to be made for the reduced pension  
22 benefits of City employees. Such pension contributions will continue to be made to CalPERS in  
23 its capacity as trustee for the City's pension trust for its retired workers and their dependents who  
24 are the beneficiaries of this trust, as well as for current employees and their beneficiaries (the City  
25 has one contract with CalPERS, but there are three contract groups: police, fire, and  
26 miscellaneous).

27 Payment to holders of General Unsecured Claims—which holders include, but are not  
28 limited to, ~~institutions that are exposed to bondholders for any shortfall in the payment by the City~~

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1 of certain bond issuances holders of lease rejection claims, the Retiree Health Benefit Claimants,  
2 and the holders of Leave Buyout Claims—shall receive cash payment on the Effective Date in an  
3 amount equal to a set percentage of the Allowed amount of such Claims. The percentage of the  
4 Allowed amount paid on such claims will be the Unsecured Claim Payout Percentage (unless the  
5 amount of the Retiree Health Benefit Claims changes, that percentage will be  
6 \$5,100,000/\$545,000,000 = 0.93578%) or such other amount as is determined by the Bankruptcy  
7 Court before confirmation of the Plan to constitute a pro-rata payment on such other General  
8 Unsecured Claims. While the City regrets that it cannot pay a higher dividend to holders of  
9 General Unsecured Claims, the fact is that the City lacks the revenues to do so if it is to maintain  
10 an adequate level of municipal services such as the provision of fire and police protection, the  
11 maintenance and repair of the City’s streets and other public facilities, and the continued  
12 availability of important municipal services such as library, recreation, and parks.

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

18  
19 **A. Classification and Treatment of Claims.**

20 **1. Unclassified Claims.**

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

23 **a. Administrative Claims.**

24 Administrative Claims, as defined in the Plan, are dealt with in Section II(A) of the Plan.  
25 Throughout the course of the Chapter 9 Case, the City has endeavored to satisfy postpetition  
26 expenses as they became due. Accordingly, the City believes that most claims that otherwise  
27 would constitute Allowed Administrative Claims previously have been or will be satisfied in the  
28 ordinary course of business prior to and after the Effective Date.

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(i) *Treatment of All Other Administrative Claims Other Than*

*Professional Claims.*

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

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

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

The fees described in the preceding paragraph **are not** Professional Fees because they have been paid prior to the Effective Date. Nor are such fees subject to Bankruptcy Court review or approval, as sections 326 *et seq.* do not apply in chapter 9 cases. As of the date of this Disclosure Statement, the City is not aware of any Claims for Professional Fees.

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

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

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

13 **2. Classified Claims**

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

16 Ambac's Claims shall receive the treatment set forth in the Ambac Settlement Agreement,  
17 which is attached as Exhibit A to the Declaration of Robert Deis in Support of the City of  
18 Stockton's Motion under Bankruptcy Rule 9019 for Approval of Its Settlement with Ambac  
19 Assurance Corporation, filed in the Chapter 9 Case on February 26, 2013 [Dkt. No. 725]. **The**  
20 **Plan does not modify, amend, or alter the amounts due to the holders of the 2003**  
21 **Fire/Police/Library Certificates or the obligations of Ambac to pay principal or redemption**  
22 **price of, or interest on, the 2003 Fire/Police/Library Certificates as and when such amounts**  
23 **become due under the 2003 Fire/Police/Library Certificates Trust Agreement, which**  
24 **payments shall be made by Ambac in accordance with, and subject to, the terms of the**  
25 **Ambac Insurance Policy. Ambac, as the holder of the Class 1A Claims, is entitled to vote to**  
26 **accept or reject the Plan in accordance with the Plan Solicitation Order.**

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

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. **The deemed holder of the Class**

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2 **1B Claims is Ambac, who, as the deemed holder of the Class 1B Claims, is entitled to vote to**  
3 **accept or reject the Plan in accordance with the Plan Solicitation Order.**

4 c. **Class 2 – SEB Claims of the 2006 SEB Bond Trustee/NPFG –**  
5 **2006 SEB Bonds.**

6 **The deemed holder of the Class 2 Claims is NPFG.** On the Effective Date, the City will  
7 assume the SEB Lease Back and the SEB Lease Out under section 365(a) pursuant to the NPFG  
8 SEB Settlement. The finding by the Bankruptcy Court that the Plan is feasible shall constitute  
9 adequate assurance of future performance of the SEB Lease Back and the SEB Lease Out. **The**  
10 **Plan does not modify, amend, or alter the 2006 SEB Bonds or the obligations of NPFG to**  
11 **pay principal or redemption price of, or interest on, the 2006 SEB Bonds as and when such**  
12 **amounts become due under the 2006 SEB Bond Indenture, which payments shall be made**  
13 **by NPFG in accordance with, and subject to, the terms of the 2006 SEB Bond Insurance**  
14 **Policy. Class 2 is not Impaired by the Plan since the treatment of this Class will not affect**  
15 **the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly,**  
16 **NPFG, as the deemed holder of the Class 2 Claims, is not entitled to vote to accept or reject**  
17 **the Plan in accordance with the Plan Solicitation Order.**

18 **///**

19 **///**

20 d. **Class 3 – Arena Claims of the 2004 Arena Bond Trustee/NPFG**  
21 **– 2004 Arena Bonds.**

22 The **deemed holder of the Class 3 Claims is NPFG.** The treatment of the Class 3  
23 Claims will be as set forth in the NPFG Arena Settlement **Documents**, which should be consulted  
24 for the precise terms of the treatment. In summary, with respect to these Claims, after  
25 modification of the payment terms of the Arena Lease Back, as provided in the NPFG Arena  
26 Settlement, on the Effective Date, the City will assume the Arena Lease Back (as modified), and  
27 as a result, the City will continue to remain in possession, custody, and control of the Arena. **The**  
28 **Plan does not modify, amend, or alter the 2004 Arena Bonds or the obligations of NPFG to**  
**pay principal or redemption price of, or interest on the 2004 Arena Bonds as and when such**

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amounts become due under the 2004 Arena Bond Indenture, which payments shall be made by NPFPG in accordance with, and subject to, the terms of the 2004 Parking Bond Insurance Policy. NPFPG, as the deemed holder of the Class 3 Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

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

The deemed holder of the Class 4 Claims is NPFPG. The treatment of the Class 4 Claims will be as set forth in the NPFPG Parking Settlement Documents, which should be consulted for the precise terms of the treatment. In summary, with respect to these Claims, the City will create a new parking authority for the City and will transfer ownership and control of the Parking Structure Properties, other downtown parking structures and lots, and downtown parking meters, as well as parking enforcement revenues, to the parking authority. The City Council members will sit *ex officio* as the board members of the new parking authority. Revenues from the newly created parking authority will be pledged to the 2004 Parking Bond Trustee in support of a new schedule of installment payments to NPFPG in exchange for (i) transfer of the possessory interest currently held by the 2004 Parking Bond Trustee on behalf of NPFPG and the bondholders to the new parking authority and (ii) a forbearance agreement on the part of NPFPG and the 2004 Parking Bond Trustee with respect to remedies for default on the Parking Structure Lease Back. The General Fund will have no liability for such new installment payments schedule, nor any obligation to make payments under the Parking Structure Lease Back.

The effectiveness of the NPFPG Settlement is contingent upon the entry into the SCC 16 Settlement Agreement. In the event the parties are unable to agree to the terms of such settlement that is acceptable to NPFPG and the 2004 Parking Bond Trustee, then the City, at the request or direction of the 2004 Parking Bond Trustee or NPFPG shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPFPG 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 on the occurrence of such settlement.

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The Plan does not modify, amend, or alter the 2004 Parking Bonds or the obligations of NPFPG to pay principal or redemption price of, or interest on, the 2004 Parking Bonds as and when such amounts become due under the 2004 Parking Bond Indenture, which payments shall be made by NPFPG in accordance with, and subject to, the terms of the 2004 Parking Bond Insurance Policy.

NPFPG, as the deemed holder of the Class 4 Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

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

The holder of the Class 5 Claims is Assured Guaranty. The treatment of the Class 5 Claims will be as set forth in the Assured Guaranty Settlement Documents, which should be consulted for the precise terms of the treatment. A summary of the treatment follows:

- The Office Building Lease Out and Lease Back will be terminated, and the City shall have no obligations under the same. The City will transfer fee title, and Main Street Stockton, LLC will transfer possessory interest, in the 400 E. Main Office Building Property to Assured Guaranty or its designee at Assured Guaranty's election, subject to the New 400 E. Main Lease. Assured Guaranty may elect to keep the property or to sell it at some future date, subject to the New 400 E. Main Lease. Assured Guaranty shall be entitled to all net rent and profits of the property after the transfer and to all of the sales proceeds of the property should Assured Guaranty elect to sell the property, and Assured Guaranty shall be obligated to pay all costs of operation and maintenance of the property. The City shall be released from any and all liability with respect to the 2007 Office Building Bonds and associated documents and the terminated Office Building Lease Out and Lease Back and other related bond documents.
- The New 400 E. Main Lease shall include the terms set forth in the Assured Guaranty Term Sheet, including without limitation the following: the initial term shall begin on the Effective Date and end on June 30, 2022; the City shall enjoy

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1 exclusive use of the City Space (as defined in the Assured Guaranty Term Sheet);  
2 the City shall make monthly rent payments as specified in the Assured Guaranty  
3 Term Sheet; the New 400 E. Main Lease supersedes the Fourth Floor Lease of 400  
4 E. Main.

- 5 • The Plan does not modify, amend, or alter the 2007 Office Building Bonds or  
6 the obligations of Assured Guaranty to pay principal or redemption price of,  
7 or interest on the 2007 Office Building Bonds as and when such amounts  
8 become due under the 2007 Office Building Bond Indenture, which payments  
9 shall be made by Assured Guaranty in accordance with, and subject to, the  
10 terms of the 2007 Office Building Bond Insurance Policy.

11 Assured Guaranty, as the holder of the Class 5 Claims, is entitled to vote to accept or  
12 reject the Plan in accordance with the Plan Solicitation Order.

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14 g. Class 6 – Pension Obligation Bonds Claims ~~of Assured~~  
15 Guaranty The deemed holder of the Class 6 Claims is Assured Guaranty. The treatment of the  
16 Class 6 Claims will be as set forth in the Assured Guaranty Settlement Documents, which should  
17 be consulted for the precise terms of the treatment. A summary as it relates to these Claims  
18 follows.

- 19 • The City agrees to make non-contingent payments on the Pension Obligation  
20 Bonds in each fiscal year equal to the sum of the 2007 Lease Ask Payments,  
21 Special Fund Payments, and Supplemental Payments (all as defined in the  
22 Assured Guaranty Term Sheet) on the dates and in the amounts set forth in the  
23 Assured Guaranty Term Sheet. The City has historically allocated a portion of  
24 the debt service on the Pension Obligation Bonds to its various restricted  
25 funds to account for those funds' allocable share of pension costs, based on a  
26 variable allocation methodology that in some years would result in a higher or  
27 lower allocation of such debt service that the amount of the Special Fund  
28 Payments. Such allocated amounts are treated as operation and maintenance

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costs under the documents governing the obligations listed in Class 10. The City believes that the change in allocation method reflected in the Special Fund Payments does not alter the status of the Special Fund Payments as operation and maintenance costs under the documents governing the obligations listed in Class 10; however, in the event for any reason that such Special Fund Payments are determined not to be properly treated as operation and maintenance costs, the Assured Guaranty Settlement will provide that such payments shall be paid from the restricted revenues associated with each of the Class 10 obligations only to the extent permitted by the Class 10 documents and applicable law but the City shall otherwise remain obligated to make such payments in accordance with the Assured Guaranty Settlement.

- Assured Guaranty (or in the event Assured Guaranty has defaulted on its obligations under the Pension Obligation Bond Insurance Policy, the Pension Obligation Bonds Trustee) shall also be entitled to Contingent Payments in accordance with the City’s Contingent Payment Model, a copy of which is attached to the Assured Guaranty Term Sheet as Exhibit A. If the City does not exceed its baseline financial projections in the upcoming years, Assured Guaranty would receive no Contingent Payments. However, if the City were to exceed its financial projections over the years—which the City and Assured Guaranty believe may be achievable—Assured Guaranty would receive Contingent Payments until Assured Guaranty has received payment in full on the Pension Obligation Bond Class 6 Claims; *provided*, that the last date a Contingent Payment is required to be paid is June 1, ~~2052~~, 2052, unless any Contingent Payments have been suspended pursuant to the terms of the Assured Guaranty Settlement Documents, in which event such Contingent Payments shall be paid in accordance with the Assured Guaranty Settlement Documents. Contingent Payments will be based

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upon the City's budget in each year, subject to adjustment following year-end audit.

- Contingent Payments on the Pension Obligation Bonds for each fiscal year shall be paid on June 1 of such fiscal year, commencing June 1, 2018 and ending on June 1, 2052, subject to adjustment based on audits as mentioned above.

• The Plan does not modify, amend, or alter the Pension Obligation Bonds or the obligations of Assured Guaranty to pay principal or redemption price of, or interest on Pension Obligation Bonds as and when such amounts become due under Pension Obligation Bond Indenture, which payments shall be made by Assured Guaranty in accordance with, and subject to, the terms of the Pension Obligation Bond Insurance Policy.

Assured Guaranty, as the deemed holder of the Class 6 Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

**h. Class 7 – Claims of DBW.**

The DBW Construction Loan Claim, defined and described below, is a Claim against the City. The DBW Marina Planning Report Loan Claim, also defined and described below, is a claim against the Successor Agency and is discussed herein for information only.

As evidenced by that certain Stockton Waterfront Marina \$13,300,000 Loan Contract dated as of June 21, 2004 (as amended, the “Marina Construction Loan Agreement”), DBW made a loan to the City in the amount of \$13,300,000 (the “Marina Construction Loan”), bearing interest at 4.5% per year with interest and principal payments due annually on August 1 of each year for thirty (30) years commencing on the August 1 after the final disbursement of loan proceeds, secured by a Collateral Assignment of Rents and Leases for the Project Area

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respectively). This loan was made for the stated purpose of construction of the “Marina Project” (as defined and described in the Marina Construction Loan Agreement).

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

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As evidenced by that certain Stockton Waterfront Marina \$180,000 Planning Loan Contract (also titled the Planning Study Contract, Stockton Waterfront Marina Study Loan) dated as of September 13, 1996, DBW made an unsecured loan to the Successor Agency in the amount of \$280,000, bearing interest at 4.5% per year with a repayment term of ten (10) years, with equal annual installment payments due on August 1 of each year commencing on August 1, 2003 (as amended from time to time (the “Marina Planning Report Loan”). DBW has asserted a Claim under the Marina Planning Report Loan (the “DBW Marina Planning Report Loan Claim”). This claim is an unsecured claim against

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<sup>12</sup> See *In re County of Orange v. Fuji Securities Inc.*, 31 F. Supp. 2d 768 (C.D. Cal. 1998).

<sup>13</sup> The obligation to pay the Marina Construction Loan from revenues of the Marina Project—as opposed to the 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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the Successor Agency, is not a claim against the City, and is included herein for information only.

Under the Plan, the General Fund will not be required to pay debt service on ~~this obligation~~ the DBW Construction Loan Claim, or to reimburse operating expenses to DBW should DBW take over operations of the Marina Project. DBW will retain its pledge of rents and leases generated from the Marina Project. However, the pledge of gross revenues will be converted to a pledge of revenues net of all reasonable and direct operating expense of the Marina Project, calculated on a fiscal year basis ending June 30 of each year pursuant to section 928(b). Should DBW decide to take over operations of the Marina Project, DBW will be responsible for payment of all operating expenses of the Marina Project, and the City will have the right to ensure that the Marina Project is operated in a responsible and safe manner, including providing adequate security, and the City shall have the right to compel DBW to alter its manner of operations if such operations pose a threat to the public welfare or if such operations abet a public nuisance. The General Fund shall have no liability, directly or indirectly, for the Claims of DBW, and the City may decide at any time to cease subsidizing the operating deficits of the operation of the Marina Project. DBW has stated to the City an interest in exercising its remedy of taking possession of the Marina Project. The real property that is the subject of the Marina Project shall be that real property described in Exhibit A to the Plan, and should DBW exercise its remedy of taking possession of the Marina Project, DBW shall succeed to possession and control only over the real property set forth in Exhibit A to the Plan.

**i. Class 8 – SCC 16 Claims.**

To the extent SCC 16 has any offset rights arising under the Construction Agreement or the Disposition and Development Agreement, SCC 16 shall apply any such offsets against amounts owing under the SCC 16 Promissory Note. ~~To the extent SCC 16 has an Unsecured Claim, it will be entitled to the treatment of General Unsecured Claims in Class 12.~~

**j. Class 9 – Thunder Claims.**

The treatment of the Class 9 Claims will be as set forth in the Thunder Settlement. The Thunder Settlement is summarized as follows (the Thunder Settlement Term Sheet, attached

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hereto as Exhibit E, should be consulted for the precise terms of the Thunder Settlement; any further documentation of the Thunder Settlement will be attached to the Plan Supplement):

- The Base Rent payable to the City will be increased by \$2,000 per regular season home game. Base Rent for pre-season and playoff games remains unchanged.
- Catering Services Adjusted Gross Revenue paid to the team will be reduced from 30% to 10%.
- The team will have the exclusive right to sell team merchandise, will retain 100% of revenues from the same and bear the expenses of the same.
- The team will purchase the use of five luxury suites from the City each year for a total cost of \$150,000, adjusted annually for any increases in the costs of other luxury suites sold by the City. The team shall have the right to sublease the luxury suites (but not to current luxury suite lessees of the City or prospective lessees—as specified in the Thunder Settlement Term Sheet). Revenues received on account of such leases shall be subject to the existing sharing formula of 65% to the City and 35% to the team.
- Additional payments to the City shall be made once certain performance benchmarks of paid attendees and advertising are reached.

**k. Class 10 – Claims of Holders of Restricted Revenue Bond and Note 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 incurred by the General Fund to provide the facility or enterprise-related services and are allocated to the enterprises on a reasonable basis in accordance

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1 with the City's accounting and allocation policies and pursuant to the provisions of the relevant  
2 documents related to the Restricted Revenue Bonds and Notes Payable Obligations. Such  
3 transfers are treated by the facility or enterprise as operation and maintenance expenses. The City  
4 will continue to apply restricted revenues to pay the Restricted Revenue Bond and Notes Payable  
5 Obligations as required by the terms of such obligations.

6  
7 **i. Class 11 – Claims of Holders of Special Assessment and Special Tax Obligations.**

8 Class 11 consists of Claims of the holders of Special Assessment and Special Tax  
9 Obligations ~~that,~~ **which** are secured by special and restricted sources of revenues consisting of  
10 specific levies on real property within certain financing districts created by the City ~~and are not~~  
11 ~~payable from the General Fund.~~

12 Special Assessment and Special Tax Obligations. The Special Assessment and Special  
13 Tax Obligations are secured by certain special assessments and special taxes levied on specific  
14 real property within the respective districts for which these obligations were issued. These special  
15 assessment and special tax revenues are legally restricted to the payment of debt service on the  
16 Special Assessment and Special Tax Obligations under California statutes and the California  
17 Constitution, are "special revenues" as defined in section 902(2), and cannot be used for any other  
18 purpose or be transferred to the General Fund. The General Fund is not obligated to pay debt  
19 service on the Special Assessment and Special Tax Obligations. The City will continue to apply  
20 revenues from the applicable special assessments and special taxes to pay the Special Assessment  
21 and Special Tax Obligations as required by the terms of such obligations.

22  
23 **m. Class 12 – General Unsecured Claims.**

24 The ~~major claims~~ **Claims** in this Class include without limitation: **(i)** the Retiree Health  
25 Benefit Claims; **(ii)** the Golf Course/Park Claims of the 2009 Golf Course/Park Bond  
26 Trustee/Franklin; **(iii)** the Leave Buyout Claims; ~~(4) the Price Claims;~~ and **(iv)** Other  
27 Postpetition Claims.

28 The Retiree Health Benefit Claims are held by approximately 1,100 of the City's former employees. The Retirees Committee maintains that the aggregate amount of the Retiree Health

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1 Benefit Claims is approximately \$545,000,000.<sup>H14</sup> Pursuant to the Retirees Settlement, on the  
2 Effective Date, the City will pay the Retirees an aggregate amount of \$5,100,000 in full  
3 satisfaction of Allowed Retiree Health Benefit Claims, and no other retiree health benefits will be  
4 provided by the City. If required by state or federal law, the City will withhold from the aggregate  
5 \$5,100,000 payment any taxes or other deductions to be withheld from the individual payment to  
6 each Retiree Health Benefit Claimant. The individual recipient is responsible for any tax liability  
7 for this payment, and the City will not provide any advice to any recipient as to the taxable impact  
8 of this payment.

9 All other General Unsecured Claims shall receive cash on the Effective Date in the  
10 amount equal to a percentage of the Allowed Amount of such Claims, which ~~such~~ percentage  
11 equals the Unsecured Claim Payout Percentage, or such other amount as is determined by the  
12 Bankruptcy Court before confirmation of ~~this~~ the Plan to constitute a pro-rata payment on such  
13 other General Unsecured Claims; *provided, however*, the dollar amount to be paid on account of  
14 General Unsecured Claims other than the Retiree Health Benefit Claims on the Effective Date  
15 shall not exceed \$500,000. If the amounts to be paid exceed \$500,000, then such excess amounts  
16 shall be made in two (2) equal annual installments on the first and second anniversary of the  
17 Effective Date, together with simple interest accruing from and after the Effective Date at five  
18 percent (5%) per annum. Such excess amounts may be prepaid at the option of the City.

19  
20 **n. Class 13 – Convenience Class Claims.**

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

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

24 The SIR Claim Portion of each Allowed General Liability Claim will be paid on the  
25 Effective Date from the Risk Management Internal Service Fund, and will receive the same  
26 percentage payment on the dollar of Allowed Claim as will the holders of Allowed Class 12

27  
28 <sup>H14</sup> 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 memoranda of understanding negotiated in 2012.

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1 Claims. The Insured Portion of each Allowed General Liability Claim is not Impaired, and shall  
2 be paid by the applicable excess risk-sharing pool.

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6 **p. Class 15 – Claims Regarding City’s Obligations to Fund**  
7 **Employee Pension Plan Contributions to CalPERS, as Trustee under the CalPERS Pension**  
8 **Plan for the Benefit of CalPERS Pension Plan Participants.**

9 In order to be both clear and transparent, the Plan designates the CalPERS contract in a  
10 separate Class. ~~The Plan expressly provides that~~ CalPERS will continue as the ~~Trustee~~trustee  
11 for the City’s pension plan for its employees, and ~~that the contract~~CalPERS Pension Plan will be  
12 assumed by the City.

13 The City will continue to honor its obligations to its employees and retirees to fund  
14 employee retirement benefits under the CalPERS Pension Plan, and CalPERS as trustee and the  
15 CalPERS Pension Plan Participants retain all of their rights and remedies under applicable  
16 nonbankruptcy law. Thus, CalPERS and the CalPERS Pension Plan Participants will be entitled  
17 to the same rights and benefits to which they are currently entitled under the CalPERS Pension  
18 Plan.<sup>4215</sup> CalPERS, pursuant to the CalPERS Pension Plan, will continue to be made available to  
19 provide pension benefits for participants in the manner indicated under the provisions of the  
20 CalPERS Pension Plan and remedies under applicable nonbankruptcy law.

21 **q. Class 16 – Claims of Equipment Lessors.**

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

25 **r. Class 17 – Workers Compensation Claims.**

26 The City must pay Allowed SIR Claim Portions related to Workers Compensation Claims

27 <sup>4215</sup> As a result of negotiated labor contracts that changed certain pension provisions, as well as changes in state law,  
28 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.

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

5  
6 **s. Class 18 – SPOA Claims.**

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

10 Specifically, the SPOA MOU provides as follows:

11 2. SPOA's Claims. SPOA alleges that its members have claims in the  
12 bankruptcy case against the City relating to the City's modification of its 2009  
13 Memorandum of Understanding ("2009 MOU"), pursuant to Declarations of  
14 Fiscal Emergency beginning on or about May 26, 2010 and continuing in effect  
15 thereafter, and in connection with the treatment of the claims of SPOA and its  
16 members under the Pendency Plan (collectively, the "Claims"), and that, in the  
17 aggregate, the Claims exceed thirteen million dollars (\$13,000,000). The City  
18 disputes the Claims and contends that the Claims would not be allowed in the  
19 chapter 9 case. It further asserts that, if the Claims were allowed, they would be  
20 allowed in an amount aggregating less than thirteen million dollars (\$13,000,000).

21 In consideration of resolving the above differences and agreement on the  
22 MOU, the City agrees that the Claims shall be provided for in the Plan as follows:

23 (a) The Claims will be deemed allowed in the chapter 9 case in the  
24 aggregate amount of eight million, five hundred thousand dollars (\$8,500,000)  
25 (the "Allowed Claims"). In consideration for the reduction in the amount of the  
26 Claims SPOA members employed during fiscal year 2010-2011 and/or 2011-2012  
27 shall be credited, upon final approval of the MOU by the Parties and, if necessary,  
28 by the Bankruptcy Court, twenty-two (22) additional hours of paid leave in fiscal  
year 2012-2013. These additional hours of paid leave 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. Only those employees who were employed  
during some portion of the period July 1, 2010 and July 1, 2012 and who were  
still current employees upon the effective date of this Agreement shall be entitled  
to this treatment.

(b) The Allowed Claims shall be satisfied under the Plan by the City by  
crediting SPOA members employed during fiscal year 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

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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 be allowed as specified herein, and both SPOA and the City agree that the Claims will be considered unresolved, with each Party reserving the right to assert or contest the Claims; provided, however, that the monetary equivalent of any paid leave hours taken pursuant to this Article shall serve as a credit against the Claims.

SPOA MOU at 55-56.

**t. Class 19 – Price Claims**

On May 2, 2002, Richard Price, five other low-income individuals who were displaced from single-room-occupancy housing units in downtown Stockton in connection with the City’s code-enforcement activities, and the Interfaith Council of San Joaquin (formerly Stockton Metro Ministry Inc.) (collectively, the “Price Judgment Creditors”) filed an action against the City, the Successor Agency, and other parties, captioned as *Price, et al. v. City of Stockton, et al.*, United States District Court for the Eastern District of California, case no. 2:02-cv-00065-LKK-KJM. In their complaint, the Price Judgment Creditors alleged that the defendants had violated certain state and federal redevelopment, relocation assistance, and fair housing laws. The parties settled the action pursuant to a settlement agreement, dated as of January 9, 2006. See Exhibit B to Declaration of Hilton S. Williams in Support of Motion for Relief from Stay, filed in the Chapter 9 Case on November 29, 2012 [Dkt. No. 628]. On January 12, 2006, the District Court entered judgment against the defendants pursuant to this settlement agreement. See Exhibit C to Declaration of Hilton S. Williams in Support of Motion for Relief from Stay, filed on November 29, 2012 in the

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Chapter 9 Case [Dkt. No. 628]. Among other things, the judgment obligated the City to construct low-income housing and to establish a restricted fund in the amount of approximately \$1.45 million for distribution by a special master over a five-year period to persons displaced by the City's activities.

The treatment of the Class 19 Claims will be as set forth in the Price Settlement, which should be consulted for the precise terms of the treatment.

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

**1. Generally.**

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

A debtor’s assumption of an executory contract or unexpired lease means that it will and must continue to honor its obligations under such agreement. In other words, as to such agreement, it is business as usual. **As described in the next section, the City will assume almost all of its executory contracts and unexpired leases except for a number of financing leases, which it will reject.** Rejection of an executory contract or unexpired lease constitutes a prepetition breach of such agreement, excusing the debtor’s future performance but creating a claim for the breach.

**2. Assumption.**

The City is a party to hundreds of executory contracts and unexpired leases. Significant agreements include: (1) its collective bargaining agreements with its nine unions, most of which were reached before or not long after the Petition Date; (2) numerous equipment and vehicle leases; (3) agreements with contractors and other vendors to the City; (4) the City’s obligations to CalPERS in its capacity as trustee for the City’s pension trust for the City’s employees and retired workers and their dependents who are the beneficiaries of this trust (the City has one contract with CalPERS, but there are three contract groups: police, fire, and

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1 miscellaneous); and (5y) the financing leases. Save for the financing leases, which are discussed  
2 separately below, the City has elected to assume virtually all of its executory contracts and  
3 unexpired leases, and will do so pursuant to the Assumption Motion. The City will not seek to  
4 assign any of the agreements that it assumes and has no current intention to assign such  
5 agreements in the future.

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

### 12 13 3. Rejection.

14 The City will file the Rejection Motion, pursuant to section 365(a), to seek approval and  
15 authorization for the rejection of those executory contracts and unexpired leases that it does not  
16 elect to assume. Such agreements are those that the City, in the exercise of its business judgment,  
17 deems burdensome. The City anticipates rejecting few executory contracts or unexpired leases.  
18 As described above, the City will reject all of its financing leases except for the (i)  
19 Fire/Police/Library Lease Out, the Fire/Police/Library Lease Back, and any other executory  
20 contracts related to the 2003A Fire/Police/Library Certificates, which shall be subject to the  
21 treatment as set forth in the Ambac Settlement Agreement, (ii) the Arena Lease Out, the  
22 Arena Lease Back, ~~the Office Building Lease Out, the Office Building Lease Back,~~ and any other  
23 executory contracts related to the 2004 Arena Bonds, which shall be subject to the  
24 treatment as set forth in the NCFG Settlement, (iii) the Parking Structure Lease Out, the  
25 Parking Structure Lease Back, and any other executory contracts related to the 2004 Parking  
26 Bonds, which shall be subject to the treatment as set forth in the NCFG Settlement, (iv) the  
27 SEB Lease Out, and the SEB Lease Back, and any other executory contracts related to the  
28 2006 SEB Bonds, which shall be subject to the treatment as set forth in the NCFG  
Settlement, and (v) the Office Building Lease Out, the Office Building Lease Back, and any

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other executory contracts related to the 2007 Office Building Bonds, which shall be subject to the treatment as set forth in the Assured Guaranty Settlement. As to the Parking Structure Lease Back, as provided in the NPFPG Settlement, upon the occurrence of certain circumstances, the City, at the request or direction of the 2004 Parking Bond Trustee or NPFPG shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPFPG 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.

///

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

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

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

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

Except as otherwise set forth in the Plan, the Plan provides that the City retains all of its claims, causes of action, rights of recovery, rights of offset, recoupment rights to refunds, and similar rights after the Effective Date. The failure to list in this Disclosure Statement any

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1 potential or existing Right of Action retained by the City is not intended to and shall not limit the  
2 rights of the City to pursue any such action. Unless a Right of Action is expressly waived,  
3 relinquished, released, compromised, or settled in the Plan, the City expressly reserves all Rights  
4 of Action for later adjudication and, as a result, no preclusion doctrine, including the doctrines of  
5 res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable,  
6 or otherwise), or laches, shall apply to such Rights of Action upon or after the confirmation or  
7 consummation of the Plan or the Effective Date. In addition, the City expressly reserves the right  
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9 to pursue or adopt against any other entity any claims alleged in any lawsuit in which the City is a  
10 defendant or an interested party.

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12 **D. Distributions.**

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

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17 **1. Delivery of Distributions.**

All distributions to any holder of an Allowed Claim shall be made at the address of such  
18 holder as set forth in the books and records of the City or its agents, unless the City has been  
19 notified by such holder in a writing that contains an address for such holder different from the  
20 address reflected in the City's books and records. All such notifications of address changes and all  
21 address confirmations should be mailed to: Rust Consulting/Omni Bankruptcy, 5955 DeSoto  
22 Avenue, Suite 100, Woodland Hills, CA 91367. All distributions made on account of the  
23 Pension Obligation Bonds Claims shall be made to Assured Guaranty or the Indenture  
24 Trustee, subject to and in accordance with the Assured Guaranty Settlement Documents.

25 All distributions to the Indenture Trustee shall be made in accordance with the relevant indenture,  
26 as applicable.

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2. ~~Undeliverable~~ Distributions of Unclaimed Property.

a. ~~Holding of Undeliverable Distributions.~~

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

b. ~~Unclaimed Property.~~ Any unclaimed distributions shall be set aside and held in a segregated account to be maintained by the City pursuant to the terms of the Plan.

3. ~~Notification and Forfeiture of Unclaimed Property.~~ No later than sixty (60) days after the date of the first distributions under the Plan, the City ~~will~~ shall file with the Bankruptcy Court a list of ~~Unclaimed Property~~ unclaimed distributions, together with a schedule that identifies the name and last-known ~~address~~ addresses of ~~the~~ the holders of ~~the Unclaimed Property; the City otherwise will~~ any unclaimed distributions. ~~The City shall~~ The City shall not be required to ~~make any further~~ make any further attempt to locate ~~the holders of any such entity.~~ On the 60th day ~~unclaimed distributions.~~ Any distribution under the Plan that remains unclaimed after ninety (90) days following the date of the first distributions ~~made under the Plan, all remaining Unclaimed Property and~~ under the Plan (including, without limitation, because the distribution made to the last known address is returned as undeliverable), shall be deemed not to have been made and, together with any accrued interest or dividends earned thereon ~~will,~~ shall be ~~remitted~~ transferred to and vest in the City for any ~~such~~ use as the City sees fit. The City shall not be obligated to make any further distributions on account of the Claim with respect to which such distribution was made, and such Claim shall be treated as a Disallowed Claim. Nothing contained herein shall affect the discharge of the Claim with respect to which such distribution was made, and the holder of such Claim shall be forever barred from enforcing such Claim against the City or its assets, estate, properties, or interests in property.

3. ~~4.~~ Distributions of Cash.

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

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**4. ~~5.~~ Timeliness of Payments.**

Any payments or distributions to be made pursuant to the Plan shall be deemed to be timely made if made within **fourteen (14)** days after the dates specified in the Plan. Whenever any distribution to be made under the Plan shall be due on a day that is ~~a Saturday, Sunday, or legal holiday~~ **not a Business Day**, such distribution instead shall be made, without interest **on such distribution**, on the immediately succeeding ~~day that is not a Saturday, Sunday, or legal holiday~~ **Business Day**, but shall be deemed to have been **timely** made on the date due.

**5. ~~6.~~ Compliance with Tax, Withholding, and Reporting Requirements.**

The City shall comply with all tax, withholding, reporting, and like requirements imposed on it by any government unit, including without limitation, payments related to CalPERS's required pension obligations, and all distributions pursuant to ~~this~~ **the** Plan shall be subject to such withholding and reporting requirements. In connection with each distribution with respect to which the filing of an information return (such as Internal Revenue Service Forms W-2, 1099, or 1042) or withholding is required, the City shall file such information return with the Internal Revenue Service and provide any required statements in connection therewith to the recipients of such distribution, or effect any such withholding and deposit all moneys so withheld to the extent required by law. With respect to any entity from whom a tax identification number, certified tax identification number, or other tax information which is required by law to avoid withholding has not been received by the City, the City at its sole option may withhold the amount required and distribute the balance to such entity or decline to make such distribution until the information is received.

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

Checks issued by the City on account of Allowed Claims will be null and void if not negotiated within **ninety (90)** days from and after the date of issuance thereof. Requests for reissuance of any check shall be made directly to the City by the holder of the Allowed Claim with respect to which such check originally was issued. Any claim in respect of such a voided check must be made on or before the second anniversary of the Effective Date. After such date,

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1 all Claims in respect of voided checks will be discharged and forever barred and the City will  
2 retain all moneys related thereto.

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4 **7. ~~8.~~ No De Minimis Distributions.**

5 Notwithstanding any other provision of the Plan, no payment of less than \$~~10.00~~10 will be  
6 made by the City on account of any Allowed Claim.

7 **8. ~~9.~~ No Distributions on Account of Disputed Claims.**

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

13 **9. ~~10.~~ No Postpetition Accrual.**

14 Unless otherwise specifically provided in the Plan or Allowed by order of the Bankruptcy  
15 Court, the City will not be required to pay to any holder of a Claim any interest, penalty, or late  
16 charge accruing with respect to such claim on or after the Petition Date. This provision does not  
17 apply to holders of the 2003 Fire/Police/Library Certificates, the 2004 Arena Bonds, the 2004  
18 Parking Bonds, the 2006 SEB Bonds, the 2007 Office Building Bonds, and the 2009 Golf  
19 Course/Park Bonds, which bonds are not themselves obligations of the City and therefore are not  
20 Claims. Therefore, the holders of such bonds and certificates will retain all of their rights to  
21 postpetition interest, penalties, and late charges. This provision also does not apply to Assured  
22 Guaranty, as the deemed holder of the Pension Obligation Bonds Claims, which shall  
23 receive interest on any payments required of the City by the Assured Guaranty Settlement  
24 Documents on account of such Pension Obligation Bonds Claims due on June 1, 2013, which  
25 payments are delayed by a failure to satisfy or waive the conditions to the Effective Date.  
26 Any such delayed payments shall accrue interest at the rate specified in the Assured  
27 Guaranty Settlement Documents.

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2 **E. Disputed Claims.**

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

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

10 **2. Reserves, Payments, and Distributions with Respect to Disputed**  
11 **Claims.**

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

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

21 The Plan provides for the Bankruptcy Court to retain jurisdiction over a broad range of  
22 matters relating to the Chapter 9 Case, the Plan, and other related items. Readers are encouraged  
23 ///  
24 to review the Plan carefully to ascertain the nature of the Bankruptcy Court's continuing  
25 post-Effective Date jurisdiction.

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

27 **Because the law with respect to confirmation of a plan of adjustment is complex,**  
28 **creditors concerned with issues regarding confirmation of the Plan should consult with their**  
**own attorneys and financial advisors.** The following discussion is intended solely for the

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1 purpose of providing basic information concerning certain confirmation issues. The City cannot  
2 and does not represent that the discussion contained below is a complete summary of the law on  
3 this topic.

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

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

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

14 Any party in interest may support or object to the confirmation of the Plan. Even entities  
15 who may not have a right to vote (e.g., entities whose claims are classified into an Unimpaired  
16 Class [and/or beneficial holders of bonds and/or securities in Classes of claims where the](#)  
17 [applicable insurer is deemed the holder entitled to vote the Class](#)) may still have a right to  
18 support or object to confirmation of the Plan. (See Section I(C)(2) for information regarding the  
19 applicable deadlines for objecting to confirmation of the Plan).

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

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

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**Section I(A) of the Plan to determine whether they may be entitled to vote on, and/or receive distributions under, the Plan.**

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

The holders of the following types of claims are not entitled to vote on the Plan: (a) Claims that have been disallowed; (b) Claims that are subject to a pending objection and which have not been allowed for voting purposes; (c) Claims that are not Impaired; and (d) Administrative Expense Claims, since such Claims are not placed in Classes and are required to receive certain treatment specified by the Bankruptcy Code.

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

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

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

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**B. The “Best Interests” Test.**

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

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

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1  
2 In contrast, in the absence of the financial adjustments made in Plan, the City’s creditors  
3 would be left to “fend for themselves.” Individual creditor collection actions likely would  
4 aggregate, through lawsuits, attempts at attachments, and writs of mandate, to make continued  
5 operation of the City untenable. Massive litigation costs would burden the City, its creditors, and  
6 all parties in interest, although creditors financially equipped to pursue litigation most quickly  
7 (and thus win “the race to the courthouse”) would benefit disproportionately. And even the  
8 swiftest of creditors would likely find its ability to collect on a judgment stymied by the inability  
9 of the City to pay without violating provisions of California law by raiding Restricted Funds. For  
10 example, were retirees to sue collectively for the \$545 million of health benefits the City  
11 promised them for life, the result would be a judgment that could never be paid, even were the  
12 City to lock the doors of each City building, sell the building and any undeveloped real estate. If  
13 the City were to attempt to pay the proceeds to retirees, the City would still be unable to pay its  
14 CalPERS obligations, and the City’s obligations to CalPERS in its capacity as trustee for the  
15 City’s pension trust for the City’s retired workers and their dependents who are the beneficiaries  
16 of such trust would be terminated—resulting in a claim of over \$1 billion that CalPERS contends  
17 would be secured by a lien that primes existing liens pursuant to California Government Code  
18 section 20574. In short, the City cannot afford to pay its creditors absent the debt relief afforded  
19 by the Plan, and dismissal of the Chapter 9 Case likely would result in chaos, with few if any  
20 creditors emerging safely from the blizzard of inevitable litigation.

21 **C. Feasibility.**

22 To satisfy the requirement set forth in section 943(b)(7) that the Plan be feasible, the City  
23 must demonstrate the ability to make the payments required under the Plan and still maintain its  
24 operations at the level that it deems necessary to the continued viability of the City. The City  
25 submits that the Plan is feasible. The financial underpinning of the Plan, the City’s General Fund  
26 Long-Range Financial Plan (the “**Financial Plan**”), attached [hereto](#) as **Exhibit B**, constitutes a  
27 sustainable matching of revenues and expenses, including the expenses created by or modified in  
28 the Plan. The Plan Financial Projections, make certain assumptions regarding the effect of the

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1 rejection by the City of the financing leases to be rejected as noted therein and also assume  
2 ~~that~~ the approval of Measure A will pass, which Stockton voters passed on November 5, 2013.

3 The Financial Plan projects revenues and expenditures over a 30-year period and analyzes,  
4 among other things, the resulting unrestricted General Fund balance at the end of each fiscal year  
5 covered by the Financial Plan. The Financial Plan shows that, assuming confirmation of the Plan  
6 and passage of Measure A, the City will be able to maintain reserves at an average of 6.7% of  
7 General Fund expenditures from fiscal year 2013-14 through 2030-31, with fund balance  
8 achieving 15% of General Fund expenditures starting in fiscal year 2031-32.<sup>4316</sup> The Government  
9 Finance Officers Association recommends that cities maintain “an unrestricted fund balance in  
10 their general fund of no less than two (2) months of regular general fund operating revenues or  
11 regular general fund operating expenditures” (equivalent to 16.67% of total expenditures).<sup>4417</sup> ~~In~~  
12 ~~the event that Measure A does not pass, the Financial Plan will not be valid, and the City will be~~  
13 ~~required to make significant additional cuts to existing City’s services. (See “Risk Factors”~~  
14 ~~below).~~

15  
16 **D. Cramdown.**

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

24 The “fair and equitable” standard, also known as the “absolute priority rule,” requires,  
25 among other things, that unless a dissenting unsecured Class of claims receives payment in full  
26 for its allowed claims, no holder of allowed claims in any Class junior to that Class may receive

27 <sup>4316</sup> Of course, the further out the projections go, the less reliable they will be.  
28 <sup>4417</sup> 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](http://www.gfoa.org/index.php?option=com_content&task=view&id=1450).

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1 or retain any property on account of such claims. The “fair and equitable” standard also has been  
2 interpreted to prohibit any class senior to a dissenting Class from receiving more than 100% of its  
3 allowed claims under a plan. The City believes that the Plan satisfies the “fair and equitable”  
4 standard because, among other things, no classes junior to the classes of unsecured claims are  
5 receiving or retaining any property under the Plan.

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

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

14  
15 **E. Effective Date.**

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

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

23 The Effective Date will occur on the first Business Day after which the conditions set  
24 forth in Section XIII of the Plan are satisfied or waived; *provided* that the Effective Date must  
25 occur by no later than six (6) months after the Confirmation Date. For purposes of calculating  
26 various payments, the Effective Date was assumed to be [ \_\_\_\_\_ ]. However, because  
27 the  
28 ///  
Confirmation Hearing will not occur until [ \_\_\_\_\_ ], the City estimates that the

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Effective Date will occur in [ \_\_\_\_\_ ], so the calculations will be slightly altered.

## 2. Non-Occurrence of Effective Date.

The Plan provides that, if confirmation occurs but the Effective Date does not occur within six (6) months after the Confirmation Date, upon notification submitted by the City to the Bankruptcy Court: (ai) the Confirmation Order shall be vacated; (bii) no distributions under ~~this~~the Plan shall be made; (eiii) the City and all holders of Claims shall be restored to the *status quo* as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred; and (eiv) all of the City's obligations with respect to the Claims shall remain unchanged, and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against the City or any other entity or to prejudice in any manner the rights of the City or any entity in any further proceedings involving the City. The failure of the Effective Date to occur, however, will not affect the validity of any order entered in the Chapter 9 Case other than the Confirmation Order.

### F. Effect of Confirmation.

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

#### 1. Discharge of the City.

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

The rights afforded in the Plan and the treatment of holders of Claims, be they Claims Impaired or Unimpaired under the Plan, will be in exchange for and in complete satisfaction, discharge, and release of all Claims of any nature whatsoever arising on or before the Effective Date, known or unknown, including any interest accrued or expenses incurred thereon from and

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1 after the Petition Date, whether against the City or any of its properties, assets, or interests in  
2 property. Except as otherwise provided in the Plan, upon the Effective Date all ~~Claims against~~  
3 ~~the City that arose prior to the Confirmation Date (the “Pre-Confirmation Date Claims”)~~ will be  
4 and will be deemed to be satisfied, discharged, and released in full, be they Impaired or  
5 Unimpaired under the Plan.

## 6 7 **2. Injunction.**

8 The Plan provides that all entities who have held, hold, or may hold Pre-Confirmation  
9 Date Claims will be permanently enjoined, from and after the Confirmation Date from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect  
10 to any such Pre-Confirmation Date Claim against the City; (b) enforcing, attaching, collecting,  
11 or recovering by any manner or means any judgment, award, decree, or order against the City with  
12 respect to such Pre-Confirmation Date Claims; (c) creating, perfecting, or enforcing any lien or  
13 encumbrance of any kind against the City or its property or interests in property; and (d) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due to  
14 the City with respect to any such Pre-Confirmation Date Claim, except as otherwise permitted by  
15 section 553.

## 16 17 18 **3. Term of Existing Injunctions and Stays.**

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

## 22 **4. Exculpation.**

23 Except with respect to obligations specifically arising pursuant to or preserved in the  
24 Plan including but not limited to the Insurance Policies, no Exculpated Party shall have or  
25 incur, and each Exculpated Party is hereby released and exculpated from, any claim,  
26 obligation, cause of action or liability for any claim in connection with or arising prior to or  
27 on the Effective Date for any act taken or omitted to be taken in connection with, or related  
28 to, (i) the administration of the Chapter 9 Case, (ii) the negotiation, pursuit, confirmation,  
solicitation of votes for, consummation or implementation of the Plan, (iii) the

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1 administration of the Plan or property to be distributed under the Plan, (iv) the AB 506  
2 process, (v) any document, release, contract, or other instrument entered into in connection  
3 with, or relating to, the Plan or the settlements referenced within the Plan or (vi) any other  
4 transaction contemplated by, or entered into, in connection with the Plan; provided that  
5 nothing in this Section VI.F.4 shall be deemed to release or exculpate any Exculpated Party  
6 for its willful misconduct or gross negligence. In all respects, each Exculpated Party shall  
7 be entitled to reasonably rely upon the advice of counsel with respect to its duties and  
8 responsibilities pursuant to the Plan.

9  
10 5. Releases Among Releasing Parties and Released Parties.  
11 EFFECTIVE AS OF THE EFFECTIVE DATE, FOR GOOD AND VALUABLE  
12 CONSIDERATION PROVIDED BY EACH OF THE RELEASED PARTIES, THE  
13 ADEQUACY OF WHICH IS HEREBY CONFIRMED, TO THE FULLEST EXTENT  
14 PERMISSIBLE UNDER APPLICABLE LAW, (i) THE CITY AND EACH OF ITS  
15 RELATED PERSONS (COLLECTIVELY, THE “CITY RELEASING PARTIES”)  
16 SHALL, AND SHALL BE DEEMED TO, COMPLETELY, CONCLUSIVELY,  
17 ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY, AND FOREVER RELEASE,  
18 WAIVE, VOID, EXTINGUISH, AND DISCHARGE EACH AND ALL OF THE  
19 RELEASED PARTIES (AND EACH SUCH RELEASED PARTY SO RELEASED SHALL  
20 BE DEEMED FOREVER RELEASED, WAIVED AND DISCHARGED BY THE CITY  
21 RELEASING PARTIES) AND THEIR RESPECTIVE PROPERTIES AND RELATED  
22 PERSONS AND (ii) EACH OF NPGF, ASSURED GUARANTY, AMBAC, THE  
23 INDENTURE TRUSTEE IN ALL CAPACITIES EXCEPT AS THE 2009 GOLF/COURSE  
24 PARK BOND TRUSTEE (COLLECTIVELY WITH THE CITY RELEASING PARTIES,  
25 THE “RELEASING PARTIES”) SHALL, AND SHALL BE DEEMED TO,  
26 COMPLETELY, CONCLUSIVELY, ABSOLUTELY, UNCONDITIONALLY,  
27 IRREVOCABLY, AND FOREVER RELEASE, WAIVE, VOID, EXTINGUISH, AND  
28 DISCHARGE THE CITY (AND THE CITY SHALL BE DEEMED FOREVER  
RELEASED, WAIVED AND DISCHARGED BY SUCH RELEASING PARTIES), OF

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1 AND FROM ANY AND ALL OF THE FOLLOWING: CLAIMS, CAUSES OF ACTION,  
2 LITIGATION CLAIMS, AVOIDANCE ACTIONS AND ANY OTHER DEBTS,  
3 OBLIGATIONS, RIGHTS, SUITS, DAMAGES, ACTIONS, REMEDIES, JUDGMENTS,  
4 AND LIABILITIES WHATSOEVER (INCLUDING, WITHOUT LIMITATION, THE AB  
5 506 PROCESS AND THE ELIGIBILITY CONTEST), WHETHER KNOWN OR  
6 UNKNOWN, FORESEEN OR UNFORESEEN, LIQUIDATED OR UNLIQUIDATED,  
7 FIXED OR CONTINGENT, MATURED OR UNMATURED, EXISTING AS OF THE  
8 EFFECTIVE DATE OR THEREAFTER ARISING, IN LAW, AT EQUITY, WHETHER  
9 FOR TORT, CONTRACT, OR OTHERWISE, BASED IN WHOLE OR IN PART UPON  
10 ANY ACT OR OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE OR  
11 CIRCUMSTANCES EXISTING OR TAKING PLACE PRIOR TO OR ON THE  
12 EFFECTIVE DATE ARISING FROM OR RELATED IN ANY WAY IN WHOLE OR IN  
13 PART TO THE CITY OR ITS ASSETS AND PROPERTY, THE CHAPTER 9 CASE,  
14 THE DISCLOSURE STATEMENT, THE PLAN OR THE SOLICITATION OF VOTES  
15 ON THE PLAN THAT SUCH RELEASING PARTY WOULD HAVE BEEN LEGALLY  
16 ENTITLED TO ASSERT (WHETHER INDIVIDUALLY OR COLLECTIVELY) OR  
17 THAT ANY HOLDER OF A CLAIM OR EQUITY INTEREST OR OTHER ENTITY  
18 WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT FOR OR ON BEHALF OF  
19 SUCH RELEASING PARTY (WHETHER DIRECTLY OR DERIVATIVELY) AGAINST  
20 ANY OF THE RELEASED PARTIES OR THE CITY, AS APPLICABLE; PROVIDED,  
21 HOWEVER, THAT THE FOREGOING PROVISIONS OF THIS RELEASE SHALL NOT  
22 OPERATE TO WAIVE OR RELEASE (i) ANY CAUSES OF ACTION, CLAIMS OR  
23 AGREEMENTS EXPRESSLY SET FORTH IN AND/OR PRESERVED BY THE PLAN  
24 OR ANY PLAN SUPPLEMENT, INCLUDING BUT NOT LIMITED TO THE  
25 INSURANCE POLICIES; AND/OR (ii) THE RIGHTS OF SUCH RELEASING PARTY  
26 TO ENFORCE THE PLAN AND THE CONTRACTS, INSTRUMENTS, RELEASES,  
27 AND OTHER AGREEMENTS OR DOCUMENTS DELIVERED UNDER OR IN  
28 CONNECTION WITH THE PLAN OR ASSUMED PURSUANT TO THE PLAN OR

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**ASSUMED PURSUANT TO FINAL ORDER OF THE BANKRUPTCY COURT. THE FOREGOING RELEASE SHALL BE EFFECTIVE AS OF THE EFFECTIVE DATE WITHOUT FURTHER NOTICE TO OR ORDER OF THE BANKRUPTCY COURT, ACT OR ACTION UNDER APPLICABLE LAW, REGULATION, ORDER, OR RULE OR THE VOTE, CONSENT, AUTHORIZATION OR APPROVAL OF ANY PERSON.**

**6. Good Faith Compromise Pursuant to Bankruptcy Rule 9019 and in consideration for the distributions and other benefits provided under the Plan, the provisions of the Plan, including the exculpation and release provisions contained in this Article VI, constitute a good faith compromise and settlement of all Claims, causes of action or controversies relating to the rights that a holder of a Claim may have with respect to any Claim against the City, any distribution to be made pursuant to the Plan on account of any such Claim and any and all Claims or causes of action of any party arising out of or relating to the AB 506 Process or the Eligibility Contest. The entry of the Confirmation Order constitutes the Bankruptcy Court's approval, as of the Effective Date, of the compromise or settlement of all such Claims or controversies and the Bankruptcy Court's finding that all such compromises or settlements are in the best interests of the City and the holders of Claims, and are fair, equitable, and reasonable.**

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

Confirmation of the Plan and the occurrence of the Effective Date are not without risk to the City and its creditors in that the sources of revenue projected over the next 30 years in the General Fund's Long-Range Financial Plan could contract. The reality is that there are economic cycles over time that can negatively affect revenue growth, but the timing of these cycles is very difficult to predict. Thus, while the City devoted considerable time and effort in formulating the Plan Financial Projections, attached hereto as Exhibit B, there can be no guaranty that the predicted results will be achieved. For example, few California cities, if any, predicted the length and depth of the economic downturn that saw real property values (and thus real property tax revenues) plummet. Nor did city financial planners predict the high unemployment and

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1 underemployment that accompanied the burst of the housing bubble and reduced the amount of  
2 sales tax revenues to state and local governments. Conversely, while the General Fund  
3 expenditures projected in the Plan Financial Projections are the City's best and most reasoned  
4 estimate of costs, the occurrence of higher inflation, state or federal law changes that increase of  
5 shift costs to local government, or a natural or human-caused disaster—all of these could and  
6 likely would cause costs to rise, if not to spike. These risk factors should not, however, be  
7 regarded as constituting the only risks involved in connection with the Plan and its  
8 implementation.

9 Moreover, the Plan Financial Projections and the City's plans for ongoing operational and  
10 financial stability after confirmation of the Plan rely on the passage approval of Measure A,  
11 which Stockton voters passed on November 5, 2013 and which is estimated to produce  
12 approximately \$28 million per year in new revenue. ~~In the event that Measure A fails, not only~~  
13 ~~would the City be unable to fund the Marshall Plan and provide desperately needed additional~~  
14 ~~police services, but it would have to cut even more deeply into existing service levels. The City~~  
15 ~~cannot predict whether it would be able to continue to function under such a scenario, and does~~  
16 ~~not have detailed plans in place at this point to identify the draconian additional cuts that would~~  
17 ~~be required.~~

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

## 21 **VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

22 The implementation of the Plan may have federal, state, local and foreign tax  
23 consequences to the City and its creditors. No tax opinion has been sought or will be obtained  
24 with respect to any tax consequences of the Plan. However, because the City is a municipal  
25 corporation duly organized and existing under its Charter and the California Constitution, and is  
26 treated as a political subdivision of the State of California for federal income tax purposes, the  
27 City believes that it will not be subject to any federal income tax liability from implementation of  
28 the Plan. The City anticipates that, in conformity with past practice, it will not file any federal  
corporate income tax returns with respect to the periods in which the Plan is implemented nor

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1 report any income for federal income tax purposes as a result of implementing the Plan. The City  
2 may file certain tax returns associated with the restructuring of some of its tax-exempt bonds  
3 affected by the Plan, which returns may be required in order to maintain the exclusion from gross  
4 income of interest on the bonds for purposes of federal income taxes applicable to the holders  
5 thereof.

6 Because individual circumstances may differ, and the income tax consequence of a chapter  
7 9 case are complex and uncertain, this summary does not address the federal income tax  
8 consequences that may be relevant to the creditors of the City as a result of the Plan.  
9 Accordingly, the creditors should consult with their own tax advisors regarding the income tax  
10 consequences of the Plan to them, including the effect, if any, the Plan may have on prior  
11 outstanding obligations the interest components of which the creditors were treating as excludable  
12 from gross income for federal income tax purposes.

13 **To ensure compliance with requirements imposed by the Internal Revenue Service,**  
14 **you are hereby notified that any discussion of tax matters contained herein (including any**  
15 **attachments) contained in this summary is not intended or written to be used by any**  
16 **taxpayer, and cannot be used by any taxpayer, for the purpose of avoiding tax-related**  
17 **penalties that otherwise may be imposed under the Internal Revenue Code on the taxpayer.**  
18 **Such discussion of tax matters was written in connection with the solicitation of votes in**  
19 **favor of the Plan. The City and its creditors should seek tax advice regarding the tax**  
20 **consequences to them of the Plan based on their particular circumstances from an**  
21 **independent tax advisor.**

22 **///**  
23 **///**  
24 **///**  
25 **///**  
26 **///**  
27 **///**  
28 **///**

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1  
2  
3  
4  
###  
###  
###

5 **IX. RECOMMENDATION AND CONCLUSION**

6 The City believes that confirmation and implementation of the Plan is preferable to all  
7 other available and feasible alternatives. Accordingly, **the City urges holders of Impaired**  
8 **claims to vote to accept the Plan by so indicating on their ballots and returning them as**  
9 **specified in this Disclosure Statement and on their ballots.**

10 DATED: ~~October 10~~, November\_\_\_\_, 2013 CITY OF STOCKTON, CALIFORNIA

11  
12 By: \_\_\_\_\_  
13 ~~Robert Deis~~ Kurt O. Wilson  
14 Interim City Manager

15 Submitted By:

16 ORRICK, HERRINGTON & SUTCLIFFE LLP

17 By: /s/ Marc A. Levinson  
18 Marc A. Levinson  
19 Norman C. Hile  
20 Jeffery D. Hermann  
Patrick B. Bocash  
John A. Farmer

21 Attorneys for the City of Stockton, California

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**EXHIBITS TO DISCLOSURE STATEMENT WITH RESPECT TO  
~~THE~~ FIRST AMENDED PLAN FOR THE ADJUSTMENT OF DEBTS OF  
CITY OF STOCKTON, CALIFORNIA (~~OCTOBER 10,~~ NOVEMBER 15,  
2013)**

Exhibit A      First Amended Plan For The Adjustment Of Debts Of City Of Stockton,  
California (~~October 10,~~ November 15, 2013)

Exhibit B      Long-Range Financial Plan of City of Stockton

Exhibit C      NPFG Term Sheet

Exhibit D      Assured Guaranty Term Sheet

Exhibit E      Thunder Settlement Term Sheet

Document comparison by Workshare Compare on Friday, November 15, 2013  
7:15:55 PM

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Description	#754914796v6<USA> - Stockton Disclosure Statement - FIRST AMENDED
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Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
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Deletions	521
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	1066

115.....Workshare Compare comparison of  
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interwovenSite://NCUSADMS01/USA/754914796/6. Performed on 11/15/2013.

# Exhibit 2

## 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 proposed 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 Attachments A and A1. 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%

(\$ 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	173,819	184,702	190,450	202,611	210,492	214,599	220,371	226,519	231,835
Net Annual After Baseline	1,013	(13,163)	(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	(13,163)	(25,184)	(48,092)	(61,547)	(62,729)	(62,175)	(63,995)	(66,006)	(67,444)
Total Restructuring	653	20,362	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%

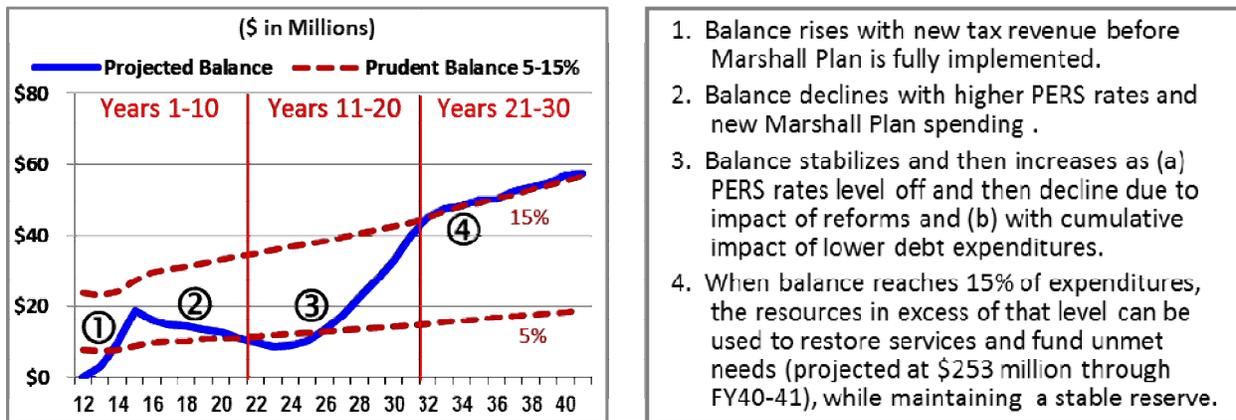


Table 1C. Long-Range Financial Plan With Restructuring Savings (FY31-32 to FY 40-41)

(\$ in 000)	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.

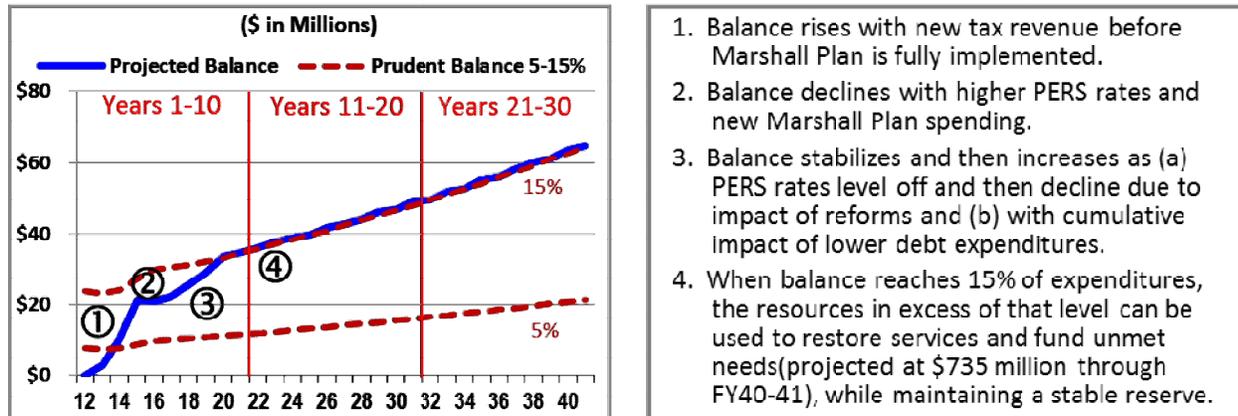
Figure 1. General Fund Balance with Revenue Growth as Forecasted



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)



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 \$735 million through FY40-41), while maintaining a stable reserve.

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

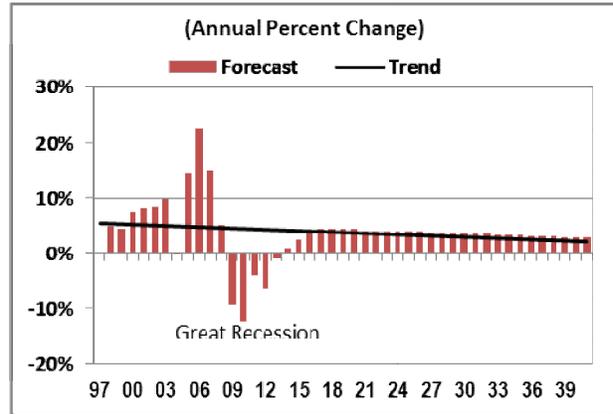
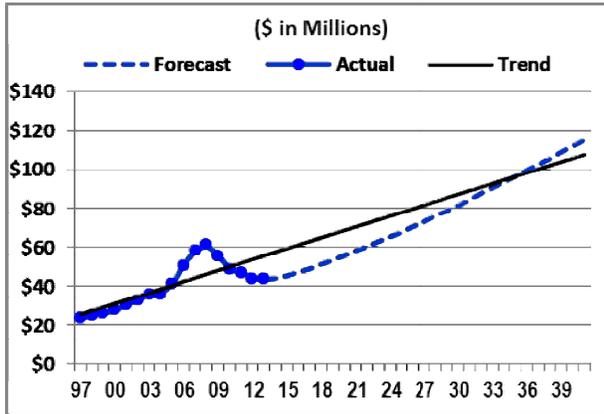
### Major Revenue Trends

**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 2<sup>nd</sup> to 4<sup>th</sup> 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

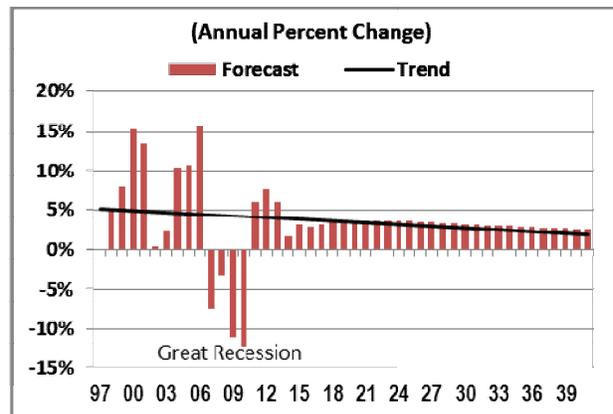
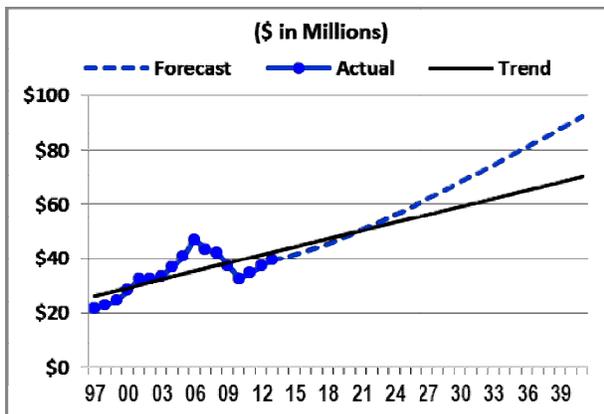


Sales Tax – This tax comprises 24.6% of total FY13-14 General Fund revenue, and includes the 0.75% local tax rate, the 0.25% “triple flip” tax rate paid by the state through the annual property tax remittance from the county, and the Prop 172 public safety sales tax. (Not included here are the current 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

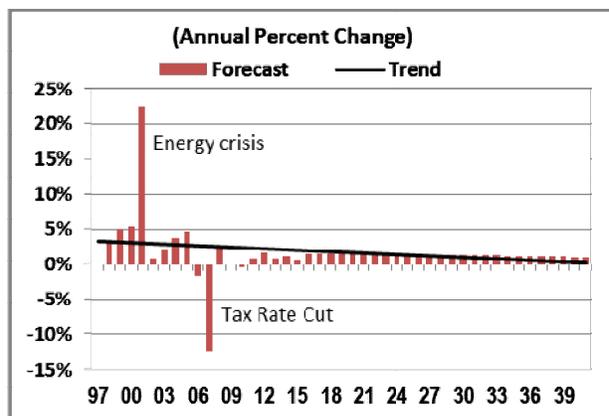
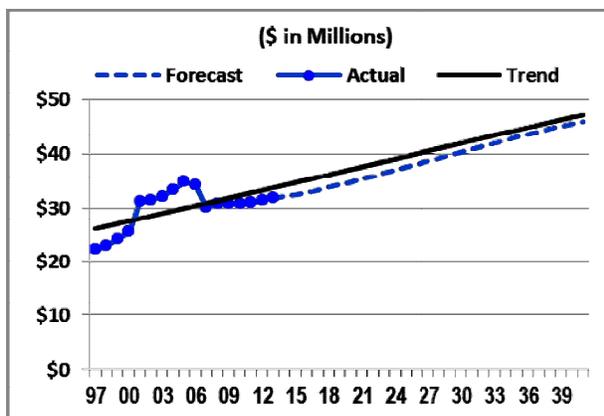


Utility Users Tax – The General Fund’s third largest revenue source is the 6% utility users tax on gas, electric, telecommunications, cable TV and water. This tax raises \$32.2 million in FY13-14 (19.8% of General Fund revenue), and remains 7.8% below its peak year of \$34.9 million in FY04-05. Estimates 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

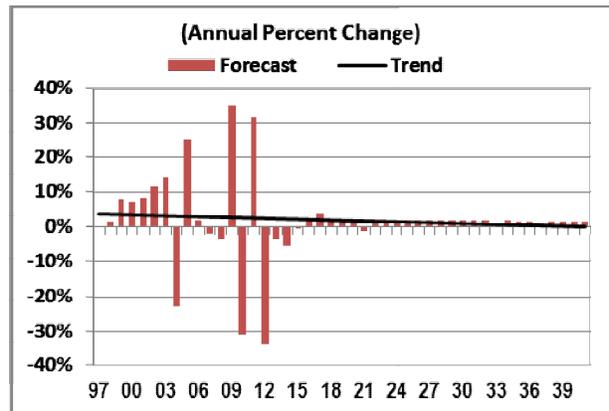
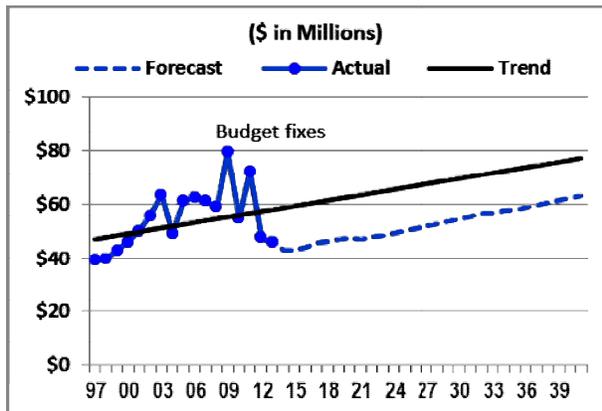
permits, code enforcement and miscellaneous revenue. Composite long-term growth is projected at 1.1%.

- 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



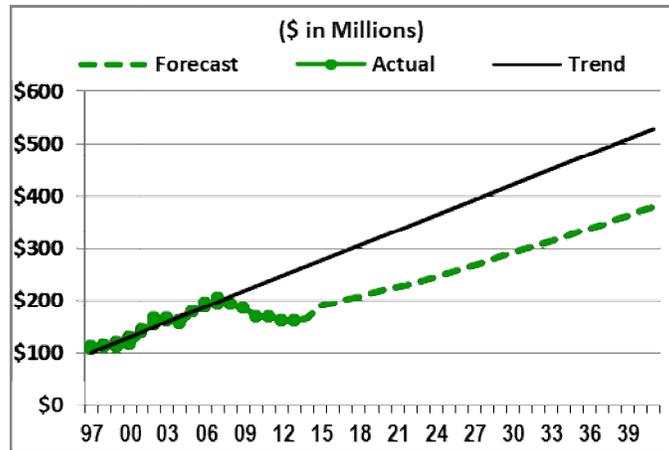
Revenue Gap

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

(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	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	<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.

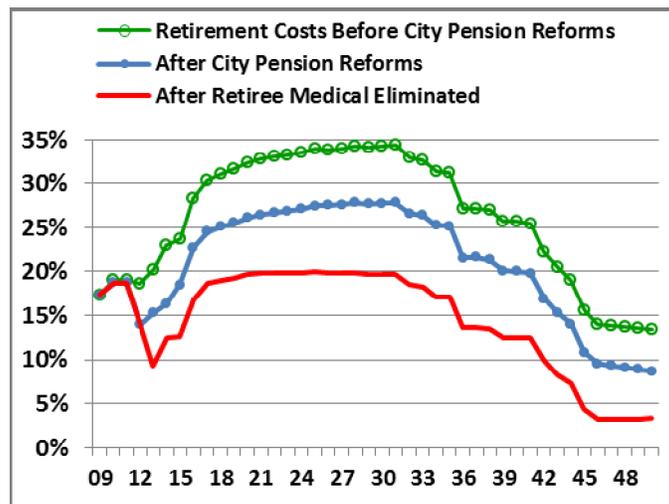
- Employees agreed to pay 100% of the employee's share of PERS (7% of salary for miscellaneous employees and 9% for safety employees) which results in immediate savings. This also had the impact that the legal "spiking" of pension benefits through the Employer-Paid Member Contribution (EPMC) benefit 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 costs<sup>1</sup> 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 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.<sup>2</sup>

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



<sup>1</sup> 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.

<sup>2</sup> 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 16.

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.

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, until the balance exceeds the dollar amount equal to 15% of total expenditures<sup>3</sup>, 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 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

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

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 NPMG, the bond insurer for this issuance, along with agreements on the other bonds insured by NPMG relating to the parking garages and the SEB facility. Based on our preliminary agreement with NPMG 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. NPMG 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. NPMG 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. The City has reached a preliminary agreement with the creditor to restructure this debt obligation. Under the proposed agreement the creditor would be entitled to both contingent and non-contingent payments. The non-contingent annual payments would be limited to monies that were programmed under the Ask for a restructured payment on the 2007 Variable Rate Demand Bonds, payments legally allocable to solvent special funds (those not supported by the General Fund) and an annual payment of \$250,000 from the General Fund from FY22-23 through FY41-42, increasing to \$350,000 from FY42-43 through FY51-52. This would constitute only partial payment of the debt obligation. Any contingent payments would be made only after the City's fiscal performance exceeds that expected in our financial model. In such circumstances the creditor would be able to share in some limited amount of the "upside" revenue growth. We can recommend such a sharing only because essential core services and the Marshall Plan come first and are protected under the baseline budget model assumptions. Any contingent payments will depend on revenue growth, but would come from revenue not currently counted upon. A negotiated solution would spare the City the expense, time and uncertainty associated with continued litigation. More details are included in the discussion below concerning 400 E. Main debt obligations because the negotiations essentially considered these two bond debts as a package.
- 2007 Variable Rate Demand Bonds (VRDOs) – Under the umbrella of the negotiated settlement discussed above the City essentially pays the obligation by allowing the creditor to sell the building. It is worth less than the outstanding bonds, but is still a very attractive Class A office building. In addition, the City would agree to lease 65,000 square feet in the building for a period of 8 to 12 years at a discounted rate. Further, the City would pay what was proposed in the Ask for restructuring this debt towards the pension obligation bond debt. In the Ask the City proposed a restructuring of debt with five years' grace period, followed by interest-only payments of \$1.3 million for five years, followed by restructured payments of \$2.5 million annually for 30 years. This was included in our budget model and in this agreement the payment would simply be reprogrammed from paying this debt to paying the pension debt. This would be the vast majority of non-contingent payments made to Assured from the General Fund and is therefore affordable to the City because it was included in the Ask, and funded in the budget model. By agreeing to lease space in the building the City helps make the building marketable and by allowing Assured to sell the building they are able to get paid some portion of the outstanding obligation. Since the City needs temporary office space anyway (so it can renovate City

Hall) the discounted lease has value to the community. It also allows the City to avoid the costs of relocating the IT Department function from 400 E. Main, to the SEB, and frees that space for an alternative use. Because provision was made in our budget model for both this move and for rental payments the cost is within our budget model. Overall we believe the tentative agreement with Assured will be workable for the City because it essentially restructures payment on the pair of obligations to an amount which is approximately equivalent to what we had proposed to pay under our original Ask. In addition, Assured benefits from the ability to sell the office building (putting in back on the tax roll) and from the City agreeing to lease space at a discounted rate.

- 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. 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)	<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>
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	<u>25,311</u>	<u>26,270</u>	<u>27,177</u>	<u>27,605</u>	<u>26,843</u>	<u>26,825</u>	<u>27,991</u>	<u>28,545</u>
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	<u>32,114</u>	<u>57,249</u>	<u>58,954</u>	<u>61,668</u>	<u>61,979</u>	<u>63,073</u>	<u>65,391</u>	<u>65,855</u>

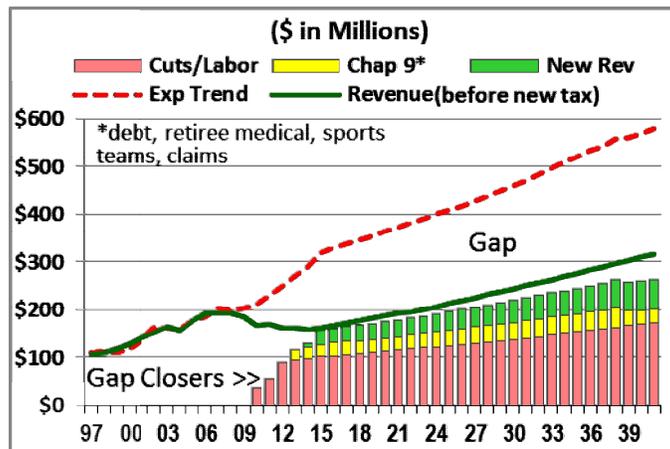
  

(\$ in 000)	<u>13-14</u>	<u>14-15</u>	<u>15-16</u>	<u>16-17</u>	<u>17-18</u>	<u>18-19</u>	<u>19-20</u>	<u>20-21</u>
Retiree Medical Reductions	9,903	10,751	11,653	11,887	12,674	13,360	14,195	15,029
Debt Reductions	13,841	13,451	13,454	13,646	12,094	11,701	12,029	11,747
Other Reductions	1,440	1,940	1,940	1,940	1,940	1,627	1,627	1,627
Subtotal Chap 9 Restructuring	<u>25,184</u>	<u>26,141</u>	<u>27,046</u>	<u>27,472</u>	<u>26,707</u>	<u>26,688</u>	<u>27,851</u>	<u>28,403</u>
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	<u>31,987</u>	<u>57,120</u>	<u>58,823</u>	<u>61,535</u>	<u>61,843</u>	<u>62,936</u>	<u>65,251</u>	<u>65,713</u>

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.

**ATTACHMENT A**

**CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN**

**BASELINE FORMAT**  
**HIGHLIGHTING DECISIONS ON**  
**FISCAL STABILIZATION AND RESTRUCTURING**

**Attachment A displays the Long-Range Financial Plan, starting with a Baseline revenues and expenditures section (the status quo), followed by a Fiscal Stabilization section (changes to the status quo needed to make the budget sustainable over time), followed by a “Restructuring” section (expenditure reductions realized through changes enacted pursuant to chapter 9 and from new revenue sources).**

**The following Attachment A1 provides an alternate format for displaying the Long-Range Financial Plan, by integrating all revenue items under one section, and all expenditures under another section. For example, the costs of the new Marshall Plan on Crime are allocated among various expenditure line items rather than being highlighted using a single line under Fiscal Stabilization.**

## ATTACHMENT A - 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
<b>1 General Revenues</b>										
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
<b>29 Program Revenues</b>										
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
<b>38 Interfund Reimbursements</b>										
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
<b>44 Total General Fund Revenues</b>	<b>160.27</b>	<b>160.66</b>	<b>159.52</b>	<b>161.35</b>	<b>165.59</b>	<b>170.45</b>	<b>175.46</b>	<b>180.59</b>	<b>185.92</b>	<b>191.11</b>
45										
<b>46 Salaries &amp; Benefits</b>										
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

<b>GENERAL FUND (cont.)</b>	<b>11-12</b>	<b>12-13</b>	<b>13-14</b>	<b>14-15</b>	<b>15-16</b>	<b>16-17</b>	<b>17-18</b>	<b>18-19</b>	<b>19-20</b>	<b>20-21</b>
<b>61 Services &amp; Supplies</b>										
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>
<b>70 Program Support for Other Funds</b>										
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>
<b>83 Debt - Bonds/Other</b>										
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	1.01	(13.66)	(25.18)	(29.10)	(37.02)	(40.04)	(39.14)	(39.78)	(40.60)	(40.73)
98										
<b>99 Fiscal Stabilization</b>										
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										
<b>109 Restructuring (Labor included in Baseline)</b>										
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 Srvc 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	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	<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%
<b>GENERAL FUND (cont.)</b>	<b>11-12</b>	<b>12-13</b>	<b>13-14</b>	<b>14-15</b>	<b>15-16</b>	<b>16-17</b>	<b>17-18</b>	<b>18-19</b>	<b>19-20</b>	<b>20-21</b>

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

<b>GENERAL FUND</b>	<b>21-22</b>	<b>22-23</b>	<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>28-29</b>	<b>29-30</b>	<b>30-31</b>
<b>1 General Revenues</b>										
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
<b>29 Program Revenues</b>										
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
<b>38 Interfund Reimbursements</b>										
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
<b>44 Total General Fund Revenues</b>	<b>196.44</b>	<b>201.95</b>	<b>207.66</b>	<b>213.59</b>	<b>219.63</b>	<b>225.76</b>	<b>232.00</b>	<b>238.34</b>	<b>244.76</b>	<b>251.27</b>
45										
<b>46 Salaries &amp; Benefits</b>										
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
<b>61 Services &amp; Supplies</b>										
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
<b>70 Program Support for Other Funds</b>										
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
<b>83 Debt - Bonds/Other</b>										
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	8.01	8.08	7.17	7.27	7.37	7.46
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
<b>96 Total General Fund Baseline Expenditures</b>	<b>238.11</b>	<b>244.44</b>	<b>250.93</b>	<b>257.91</b>	<b>263.00</b>	<b>270.00</b>	<b>277.46</b>	<b>284.40</b>	<b>291.44</b>	<b>298.63</b>
<b>97 Surplus(Shortfall) After Baseline</b>	<b>(41.67)</b>	<b>(42.49)</b>	<b>(43.27)</b>	<b>(44.32)</b>	<b>(43.37)</b>	<b>(44.24)</b>	<b>(45.46)</b>	<b>(46.06)</b>	<b>(46.68)</b>	<b>(47.36)</b>
98										
<b>99 Fiscal Stabilization</b>										
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
<b>107 Surplus(Shortfall) After Fiscal Stabilization</b>	<b>(68.89)</b>	<b>(70.22)</b>	<b>(71.52)</b>	<b>(73.10)</b>	<b>(72.67)</b>	<b>(74.08)</b>	<b>(75.84)</b>	<b>(77.00)</b>	<b>(78.19)</b>	<b>(79.43)</b>
108										
<b>109 Restructuring (Labor included in Baseline)</b>										
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
<b>119 Surplus(Shortfall) After Restructuring</b>	<b>(1.02)</b>	<b>(1.19)</b>	<b>0.17</b>	<b>1.38</b>	<b>3.22</b>	<b>3.88</b>	<b>4.92</b>	<b>4.81</b>	<b>5.89</b>	<b>6.95</b>
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
<b>123 Ending Available Balance</b>	<b>10.02</b>	<b>8.82</b>	<b>9.00</b>	<b>10.37</b>	<b>13.60</b>	<b>17.48</b>	<b>22.40</b>	<b>27.21</b>	<b>33.10</b>	<b>40.05</b>
124 <b>Balance as % of Total Expenditures</b>	<b>4.3%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>4.1%</b>	<b>5.3%</b>	<b>6.6%</b>	<b>8.3%</b>	<b>9.8%</b>	<b>11.6%</b>	<b>13.7%</b>
125 <b>Vacancy Rate (% of Baseline+COLAs)</b>	<b>3.0%</b>									

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

<b>GENERAL FUND</b>	<b>31-32</b>	<b>32-33</b>	<b>33-34</b>	<b>34-35</b>	<b>35-36</b>	<b>36-37</b>	<b>37-38</b>	<b>38-39</b>	<b>39-40</b>	<b>40-41</b>
<b>1 General Revenues</b>										
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 <b>Total General Fund Revenues</b>	<b>257.85</b>	<b>263.43</b>	<b>270.05</b>	<b>276.60</b>	<b>283.32</b>	<b>289.68</b>	<b>296.52</b>	<b>303.40</b>	<b>310.21</b>	<b>317.21</b>
45										
46 <b>Salaries &amp; Benefits</b>										
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	217.91	223.90	227.36	233.56	230.36	236.51	242.58	245.90	252.05	258.39

<b>GENERAL FUND (cont.)</b>	<b>31-32</b>	<b>32-33</b>	<b>33-34</b>	<b>34-35</b>	<b>35-36</b>	<b>36-37</b>	<b>37-38</b>	<b>38-39</b>	<b>39-40</b>	<b>40-41</b>
<b>61 Services &amp; Supplies</b>										
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
<b>70 Program Support for Other Funds</b>										
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
<b>83 Debt - Bonds/Other</b>										
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
<b>95 Contingency</b>	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
<b>96 Total General Fund Baseline Expenditures</b>	<b>302.99</b>	<b>309.31</b>	<b>313.69</b>	<b>321.18</b>	<b>317.76</b>	<b>325.17</b>	<b>333.83</b>	<b>328.57</b>	<b>333.62</b>	<b>340.10</b>
<b>97 Surplus(Shortfall) After Baseline</b>	<b>(45.14)</b>	<b>(45.88)</b>	<b>(43.65)</b>	<b>(44.58)</b>	<b>(34.43)</b>	<b>(35.49)</b>	<b>(37.31)</b>	<b>(25.17)</b>	<b>(23.40)</b>	<b>(22.90)</b>
<b>98</b>										
<b>99 Fiscal Stabilization</b>										
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
<b>107 Surplus(Shortfall) After Fiscal Stabilization</b>	<b>(83.44)</b>	<b>(88.78)</b>	<b>(92.69)</b>	<b>(93.23)</b>	<b>(97.47)</b>	<b>(97.12)</b>	<b>(101.56)</b>	<b>(93.57)</b>	<b>(92.45)</b>	<b>(92.61)</b>
<b>108</b>										
<b>109 Restructuring (Labor included in Baseline)</b>										
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
<b>119 Surplus(Shortfall) After Restructuring</b>	<b>5.24</b>	<b>2.22</b>	<b>0.58</b>	<b>2.21</b>	<b>(0.14)</b>	<b>2.35</b>	<b>0.99</b>	<b>1.32</b>	<b>1.65</b>	<b>1.86</b>
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
<b>123 Ending Available Balance</b>	<b>45.29</b>	<b>47.51</b>	<b>48.09</b>	<b>50.30</b>	<b>50.16</b>	<b>52.51</b>	<b>53.50</b>	<b>54.82</b>	<b>56.47</b>	<b>58.34</b>
<b>124 Balance as % of Total Expenditures</b>	<b>15.0%</b>	<b>15.2%</b>	<b>15.0%</b>	<b>15.3%</b>	<b>14.8%</b>	<b>15.3%</b>	<b>15.1%</b>	<b>15.2%</b>	<b>15.3%</b>	<b>15.4%</b>
<b>125 Vacancy Rate (% of Baseline+COLAs)</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>3.0%</b>						

**ATTACHMENT A1**  
**CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN**

**ALTERNATE FORMAT**  
**SHOWING NET BUDGET AFTER RESTRUCTURING**

**Attachment A1 provides an alternate format for displaying the Long-Range Financial Plan, by integrating all revenue items under one section, and all expenditures under another section. For example, the costs of the new Marshall Plan on Crime are allocated among various expenditure line items rather than being highlighted using a single line under Fiscal Stabilization.**

**This differs from Attachment A, which starts with Baseline revenues and expenditures section (the status quo), followed by a Fiscal Stabilization section (changes to the status quo needed to make the budget sustainable over time), followed by a “Restructuring” section (expenditure reductions realized through changes enacted pursuant to chapter 9 and from new revenue sources).**

**The bottom line balance is the same under both formats.**

**ATTACHMENT A1 - CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN (FY11-12 to FY20-21, Dollars in Millions)**

<b>GENERAL FUND</b>	<b>11-12</b>	<b>12-13</b>	<b>13-14</b>	<b>14-15</b>	<b>15-16</b>	<b>16-17</b>	<b>17-18</b>	<b>18-19</b>	<b>19-20</b>	<b>20-21</b>
<b>1 General Revenues</b>										
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 Measure A	-	-	6.80	27.98	28.78	29.81	30.89	32.00	33.15	34.31
11 Subtotal Sales Taxes	37.30	39.54	46.97	69.39	71.37	73.72	76.37	79.12	81.97	84.84
12 Utility Users Tax										
13 Water	3.16	3.25	3.26	3.29	3.34	3.39	3.44	3.49	3.54	3.59
14 Electric & Gas	17.11	17.06	17.60	17.99	18.26	18.53	18.81	19.09	19.38	19.67
15 Cable	1.95	2.33	2.36	2.36	2.39	2.43	2.47	2.50	2.54	2.58
16 Telecommunications	9.29	9.15	8.98	8.80	8.93	9.06	9.20	9.34	9.48	9.62
17 Subtotal Utility Users Tax	31.50	31.79	32.19	32.43	32.92	33.41	33.91	34.42	34.94	35.46
18 Franchise Tax										
19 PG&E	1.86	1.84	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.19
20 Cable/Video	3.11	2.20	2.24	2.22	2.26	2.31	2.36	2.40	2.45	2.50
21 Waste Haulers	7.50	7.55	7.52	7.63	7.79	7.94	8.10	8.26	8.43	8.60
22 Subtotal Franchise Tax	12.46	11.60	11.67	11.80	12.04	12.28	12.52	12.77	13.03	13.29
23 Other General Revenues										
24 Business License Tax	8.92	9.13	8.99	9.08	9.22	9.35	9.49	9.64	9.78	9.93
25 Hotel/Motel Tax	1.93	1.98	1.95	1.97	1.99	2.01	2.03	2.05	2.07	2.09
26 Document Transfer Tax	0.60	0.46	0.50	0.51	0.51	0.52	0.53	0.54	0.54	0.55
27 Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
28 Interest Income	0.05	0.02	0.02	0.28	0.35	0.31	0.30	0.28	0.26	0.24
29 Subtotal Other General Revenues	11.65	11.73	11.61	11.99	12.21	12.34	12.49	12.65	12.81	12.96
<b>30 Program Revenues</b>										
31 Fire Contracts	4.79	3.34	3.33	3.26	3.29	3.32	3.36	3.39	3.43	3.46
32 Code Enforcement	4.04	2.82	2.95	3.01	3.04	3.07	3.10	3.13	3.16	3.19
33 Charges for Services	1.91	1.87	1.83	1.84	1.86	1.88	1.90	1.92	1.94	1.96
34 Fines & Forfeitures	1.73	1.27	1.30	1.31	1.34	1.37	1.39	1.42	1.45	1.48
35 Revenues from Other Agencies	0.78	0.85	0.68	0.66	0.66	0.66	0.66	0.66	0.66	0.66
36 Licenses & Permits	0.40	0.38	0.37	0.37	0.38	0.39	0.40	0.40	0.41	0.42
37 Misc Other Revenues	(0.38)	3.03	(0.14)	0.44	0.44	1.19	1.19	1.19	1.19	(0.06)
38 Subtotal Program Revenues	13.27	13.56	10.31	10.90	11.01	11.88	12.00	12.11	12.24	11.11
<b>39 Interfund Reimbursements</b>										
40 Indirect Cost Allocation	5.11	4.85	4.72	4.49	4.68	5.14	5.34	5.49	5.67	5.86
41 Refunds & Reimbursements	0.87	0.45	1.33	0.25	0.26	0.26	0.27	0.27	0.28	0.28
42 Rents/Leases/Concessions	2.56	2.72	2.71	2.68	2.68	2.68	2.68	2.68	2.68	2.68
43 Parking Fund - Debt Service	1.58	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
44 Subtotal Reimbursements	10.12	8.86	9.68	8.33	8.52	8.99	9.19	9.36	9.54	9.73
<b>45 Total General Fund Revenues</b>	<b>160.27</b>	<b>160.66</b>	<b>166.32</b>	<b>189.83</b>	<b>194.87</b>	<b>201.52</b>	<b>207.59</b>	<b>213.84</b>	<b>220.32</b>	<b>225.42</b>
46										
<b>47 Salaries &amp; Benefits</b>										
48 Salaries - Safety (w/ COLA)	34.00	34.23	38.91	41.76	45.22	49.11	51.12	52.98	54.91	56.93
49 Salaries - Non-Safety (w/ COLA)	15.48	15.59	17.72	18.71	20.00	21.44	22.27	23.06	23.87	24.72
50 Salaries - Part time, Temporary	1.05	1.06	1.48	1.50	1.54	1.59	1.65	1.70	1.75	1.81
51 Pension - CalPERS	14.14	14.24	17.75	21.96	31.61	35.41	37.17	39.05	40.99	42.43
52 Health/Dental/Vision-Employee (w/COLA)	8.79	8.85	9.37	10.04	10.68	11.34	11.68	11.95	12.24	12.53
53 Health - Retirees	7.96	2.13	-	-	-	-	-	-	-	-
54 Workers Compensation	7.16	7.21	7.19	8.42	8.87	9.27	9.46	9.60	9.74	9.88
55 Other Pay & Benefits	6.39	6.44	5.52	5.88	6.25	6.44	6.55	6.63	6.71	6.79
56 Overtime & Standby/Callback	7.61	7.66	7.23	7.65	8.23	8.81	9.06	9.32	9.58	9.85
57 Compensated Absences	3.46	2.74	2.01	3.10	3.35	3.26	3.60	3.81	4.00	4.24
58 Salaries - Safety-Expiring Grants	-	-	-	-	-	2.32	2.39	2.47	2.55	2.63
59 Net Labor Adjust/Reimbursements	-	-	0.94	1.01	1.15	1.20	1.23	1.27	1.32	1.35
60 Budgeted Vacancy Savings	-	-	(1.05)	(2.42)	(4.13)	(4.56)	(4.69)	(4.86)	(5.03)	(5.20)
61 Subtotal Salaries & Benefits	106.05	100.14	107.06	117.62	132.78	145.63	151.48	156.98	162.62	167.97

<b>GENERAL FUND (cont.)</b>	<b>11-12</b>	<b>12-13</b>	<b>13-14</b>	<b>14-15</b>	<b>15-16</b>	<b>16-17</b>	<b>17-18</b>	<b>18-19</b>	<b>19-20</b>	<b>20-21</b>
<b>62 Services &amp; Supplies</b>										
63 Internal Services-Equipment	12.18	13.44	13.51	13.66	13.93	14.21	14.50	14.71	14.93	15.15
64 General Liability Insurance	2.24	3.01	3.37	3.44	3.49	3.54	3.60	3.65	3.71	3.76
65 Utilities	2.49	2.49	2.65	2.69	2.73	2.77	2.82	2.86	2.90	2.95
66 Maintenance & Repair Services	2.14	2.61	2.60	2.63	2.67	2.71	2.76	2.80	2.84	2.88
67 Labor/Legal Services	3.76	6.33	2.20	2.23	2.26	2.30	2.33	2.37	2.40	2.44
68 General Expenses	6.70	8.43	8.90	11.75	11.27	11.19	9.52	9.62	9.77	9.92
69 Tax Collection & Election	2.09	2.34	2.28	2.57	2.61	2.65	2.70	2.75	2.79	2.83
70 Subtotal Services & Supplies	<u>31.61</u>	<u>38.66</u>	<u>35.51</u>	<u>38.98</u>	<u>38.98</u>	<u>39.39</u>	<u>38.23</u>	<u>38.75</u>	<u>39.33</u>	<u>39.92</u>
71										
<b>72 Program Support for Other Funds</b>										
73 Library	3.98	3.91	4.00	4.30	4.88	5.08	5.22	5.40	5.58	5.73
74 Recreation	2.76	2.34	2.85	3.06	3.47	3.61	3.72	3.84	3.97	4.08
75 Golf Courses	-	0.50	0.45	0.48	0.55	0.57	0.59	0.61	0.63	0.65
76 Entertainment Venues	2.44	2.64	2.65	2.35	2.74	2.87	2.97	3.08	3.20	3.30
77 RDA Successor Agency	1.81	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
78 Downtown Marina	0.05	0.05	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
79 Capital Improvements	0.62	0.58	1.29	1.58	1.58	1.58	1.58	1.58	1.58	1.58
80 Administration Building	-	0.16	-	0.84	0.84	0.84	0.91	0.91	0.91	0.91
81 Grant Match	0.04	0.16	0.40	0.40	0.40	0.30	0.30	0.30	0.30	0.30
82 Development Services	0.15	1.00	1.00	1.00	1.00	1.00	-	-	-	-
83 Other	0.25	0.03	-	0.05	0.05	0.05	0.05	0.05	0.05	0.05
84 Subtotal Program Support	<u>12.09</u>	<u>12.11</u>	<u>13.55</u>	<u>14.96</u>	<u>16.42</u>	<u>16.80</u>	<u>16.24</u>	<u>16.68</u>	<u>17.13</u>	<u>17.51</u>
85										
<b>86 Debt - Bonds/Other</b>										
87 Jarvis Utilities Settlement	0.47	-	-	-	-	-	-	-	-	-
88 Marina Settlement	-	-	-	-	-	-	-	-	-	-
89 2003 COPs	-	-	-	0.35	0.51	0.49	0.24	0.76	0.26	0.26
90 2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
91 2006 LRBs-Parking (SEB)	0.77	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
92 2006 DBW-Debt - Marina	0.68	-	-	-	-	-	-	-	-	-
93 2007 POBs	5.62	-	-	-	-	-	1.33	1.33	1.33	1.33
94 2007 VRDLRB - 400 E.Main	0.24	-	-	-	-	-	-	-	-	-
95 2009 LRBs-Pub Facil Bonds/CIP	0.65	-	-	-	-	-	-	-	-	-
96 Debt - Other/Admin	0.42	0.21	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.24
97 Subtotal Debt	<u>8.85</u>	<u>1.05</u>	<u>1.40</u>	<u>1.75</u>	<u>1.91</u>	<u>1.89</u>	<u>2.97</u>	<u>3.49</u>	<u>3.00</u>	<u>2.75</u>
98										
99 <b>Mission Critical Expenditures</b>	-	-	-	8.00	8.00	-	-	-	-	-
100 <b>Efficiencies/Improved Cost Recovery</b>	-	-	-	(2.50)	(2.50)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
101 <b>Contingency</b>	-	1.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
102 <b>Total General Fund Expenditures</b>	<u>158.60</u>	<u>153.46</u>	<u>159.52</u>	<u>180.80</u>	<u>197.59</u>	<u>202.71</u>	<u>207.92</u>	<u>214.90</u>	<u>221.08</u>	<u>227.15</u>
103										
104 <b>Surplus(Shortfall)</b>	1.67	7.20	6.80	9.03	(2.72)	(1.19)	(0.33)	(1.06)	(0.75)	(1.73)
105 Transfer to Bankruptcy Fund	(5.59)	(6.91)	-	-	-	-	-	-	-	-
106 Encumbrance+AB 506 Carryover	(2.71)	2.71	-	-	-	-	-	-	-	-
107 Beginning Available Balance	6.64	-	3.00	9.80	18.83	16.11	14.91	14.58	13.52	12.77
108 <b>Ending Available Balance</b>	<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>
109 <b>Balance as % of Total Expenditures</b>	0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%
110 <b>Vacancy Rate (% of Baseline+COLAs)</b>	4.2%	5.9%	1.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

**ATTACHMENT A1 - STOCKTON LONG-RANGE FINANCIAL PLAN (FY21-22 to FY30-31, Dollars in Millions)**

<b>GENERAL FUND</b>	<b>21-22</b>	<b>22-23</b>	<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>28-29</b>	<b>29-30</b>	<b>30-31</b>
<b>1 General Revenues</b>										
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 Measure A	35.51	36.75	38.04	39.37	40.72	42.09	43.48	44.88	46.30	47.74
11 Subtotal Sales Taxes	87.81	90.88	94.06	97.35	100.69	104.08	107.51	110.98	114.49	118.04
12 Utility Users Tax										
13 Water	3.65	3.70	3.76	3.82	3.87	3.93	3.98	4.04	4.09	4.15
14 Electric & Gas	19.96	20.26	20.57	20.87	21.18	21.49	21.79	22.09	22.39	22.69
15 Cable	2.62	2.66	2.70	2.74	2.78	2.82	2.86	2.90	2.94	2.97
16 Telecommunications	9.76	9.91	10.06	10.21	10.36	10.51	10.66	10.80	10.95	11.10
17 Subtotal Utility Users Tax	35.99	36.53	37.08	37.64	38.19	38.74	39.29	39.83	40.37	40.91
18 Franchise Tax										
19 PG&E	2.24	2.28	2.33	2.37	2.42	2.47	2.51	2.56	2.61	2.65
20 Cable/Video	2.55	2.60	2.65	2.71	2.76	2.81	2.86	2.92	2.97	3.02
21 Waste Haulers	8.77	8.94	9.12	9.30	9.49	9.67	9.85	10.03	10.21	10.39
22 Subtotal Franchise Tax	13.55	13.83	14.10	14.38	14.67	14.95	15.23	15.51	15.79	16.07
23 Other General Revenues										
24 Business License Tax	10.08	10.23	10.38	10.54	10.69	10.85	11.02	11.18	11.35	11.52
25 Hotel/Motel Tax	2.11	2.13	2.15	2.17	2.20	2.22	2.24	2.26	2.28	2.31
26 Document Transfer Tax	0.56	0.57	0.58	0.59	0.59	0.60	0.61	0.62	0.63	0.64
27 Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
28 Interest Income	0.21	0.19	0.18	0.19	0.24	0.31	0.40	0.50	0.60	0.73
29 Subtotal Other General Revenues	13.11	13.27	13.44	13.64	13.87	14.14	14.42	14.71	15.02	15.35
<b>30 Program Revenues</b>										
31 Fire Contracts	3.49	3.53	3.56	3.60	3.64	3.67	3.71	3.75	3.78	3.82
32 Code Enforcement	3.22	3.26	3.29	3.32	3.35	3.39	3.42	3.46	3.49	3.53
33 Charges for Services	1.98	2.00	2.02	2.04	2.06	2.08	2.10	2.12	2.14	2.16
34 Fines & Forfeitures	1.51	1.54	1.57	1.60	1.63	1.67	1.70	1.73	1.77	1.80
35 Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
36 Licenses & Permits	0.43	0.44	0.45	0.46	0.46	0.47	0.48	0.49	0.50	0.51
37 Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
38 Subtotal Program Revenues	11.23	11.36	11.49	11.61	11.74	11.88	12.01	12.15	12.29	12.42
<b>39 Interfund Reimbursements</b>										
40 Indirect Cost Allocation	6.02	6.19	6.37	6.54	6.73	6.90	7.09	7.30	7.50	7.72
41 Refunds & Reimbursements	0.29	0.29	0.30	0.30	0.31	0.32	0.32	0.33	0.34	0.34
42 Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
43 Parking Fund - Debt Service	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
44 Subtotal Reimbursements	9.90	10.07	10.25	10.43	10.63	10.80	11.00	11.21	11.42	11.64
<b>45 Total General Fund Revenues</b>	<b>231.95</b>	<b>238.71</b>	<b>245.70</b>	<b>252.96</b>	<b>260.36</b>	<b>267.85</b>	<b>275.48</b>	<b>283.22</b>	<b>291.06</b>	<b>299.01</b>
<b>46</b>										
<b>47 Salaries &amp; Benefits</b>										
48 Salaries - Safety (w/ COLA)	58.68	60.50	62.37	64.30	66.29	68.34	70.45	72.62	74.85	77.15
49 Salaries - Non-Safety (w/ COLA)	25.49	26.29	27.11	27.95	28.83	29.72	30.65	31.60	32.59	33.60
50 Salaries - Part time, Temporary	1.87	1.93	1.99	2.05	2.12	2.18	2.25	2.33	2.40	2.48
51 Pension - CalPERS	43.62	44.83	46.02	47.30	47.88	49.11	50.34	51.59	52.85	54.13
52 Health/Dental/Vision-Employee (w/COLA)	12.77	13.02	13.26	13.52	13.77	14.04	14.31	14.58	14.85	15.13
53 Health - Retirees	-	-	-	-	-	-	-	-	-	-
54 Workers Compensation	9.98	10.08	10.19	10.29	10.40	10.50	10.61	10.72	10.83	10.94
55 Other Pay & Benefits	6.85	6.90	6.96	7.13	7.31	7.50	7.71	7.93	8.16	8.39
56 Overtime & Standby/Callback	10.14	10.43	10.73	11.04	11.36	11.69	12.03	12.39	12.75	13.13
57 Compensated Absences	4.48	4.73	5.00	5.28	5.59	5.91	6.25	6.61	6.65	6.75
58 Salaries - Safety-Expiring Grants	2.71	2.80	2.89	2.98	3.08	3.18	3.28	3.38	3.49	3.60
59 Net Labor Adjust/Reimbursements	1.39	1.43	1.47	1.51	1.54	1.58	1.63	1.67	1.71	1.76
60 Budgeted Vacancy Savings	(5.35)	(5.49)	(5.65)	(5.81)	(5.95)	(6.12)	(6.29)	(6.47)	(6.64)	(6.82)
61 Subtotal Salaries & Benefits	172.63	177.43	182.33	187.55	192.21	197.63	203.22	208.94	214.49	220.24

<b>GENERAL FUND (cont.)</b>	<b>21-22</b>	<b>22-23</b>	<b>23-24</b>	<b>24-25</b>	<b>25-26</b>	<b>26-27</b>	<b>27-28</b>	<b>28-29</b>	<b>29-30</b>	<b>30-31</b>
<b>62 Services &amp; Supplies</b>										
63 Internal Services-Equipment	15.37	15.59	15.82	16.05	16.29	16.53	16.77	17.02	17.27	17.52
64 General Liability Insurance	3.82	3.88	3.93	3.99	4.05	4.11	4.18	4.24	4.30	4.37
65 Utilities	2.99	3.03	3.08	3.13	3.17	3.22	3.27	3.32	3.37	3.42
66 Maintenance & Repair Services	2.92	2.97	3.01	3.06	3.10	3.15	3.20	3.25	3.29	3.34
67 Labor/Legal Services	2.47	2.51	2.55	2.59	2.63	2.67	2.71	2.75	2.79	2.83
68 General Expenses	10.07	10.22	10.38	10.54	10.70	10.87	11.03	11.20	11.37	11.55
69 Tax Collection & Election	2.89	2.93	2.97	3.02	3.08	3.13	3.18	3.22	3.29	3.34
70 Subtotal Services & Supplies	<u>40.53</u>	<u>41.14</u>	<u>41.75</u>	<u>42.38</u>	<u>43.03</u>	<u>43.68</u>	<u>44.33</u>	<u>44.99</u>	<u>45.69</u>	<u>46.37</u>
71										
<b>72 Program Support for Other Funds</b>										
73 Library	5.89	6.05	6.21	6.39	6.53	6.71	6.90	7.10	7.27	7.46
74 Recreation	4.19	4.30	4.42	4.55	4.65	4.78	4.91	5.05	5.17	5.30
75 Golf Courses	0.66	0.68	0.70	0.72	0.73	0.76	0.78	0.80	0.82	0.84
76 Entertainment Venues	3.41	3.51	3.62	3.74	3.83	4.45	4.58	4.71	4.82	4.95
77 RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
78 Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
79 Capital Improvements	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58
80 Administration Building	0.98	0.98	0.98	0.98	1.06	1.06	1.06	1.06	1.15	1.15
81 Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
82 Development Services	-	-	-	-	-	-	-	-	-	-
83 Other	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
84 Subtotal Program Support	<u>17.97</u>	<u>18.37</u>	<u>18.77</u>	<u>19.22</u>	<u>19.64</u>	<u>20.60</u>	<u>21.07</u>	<u>21.55</u>	<u>22.07</u>	<u>22.53</u>
85										
<b>86 Debt - Bonds/Other</b>										
87 Jarvis Utilities Settlement	-	-	-	-	-	-	-	-	-	-
88 Marina Settlement	-	-	-	-	-	-	-	-	-	-
89 2003 COPs	0.35	0.04	(0.26)	(0.48)	(0.67)	(0.87)	(0.98)	-	-	-
90 2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
91 2006 LRBs-Parking (SEB)	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
92 2006 DBW-Debt - Marina	-	-	-	-	-	-	-	-	-	-
93 2007 POBs	1.33	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78
94 2007 VRDLRB - 400 E.Main	-	-	-	-	-	-	-	-	-	-
95 2009 LRBs-Pub Facil Bonds/CIP	-	-	-	-	-	-	-	-	-	-
96 Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
97 Subtotal Debt	<u>2.84</u>	<u>3.97</u>	<u>3.67</u>	<u>3.44</u>	<u>3.25</u>	<u>3.06</u>	<u>2.94</u>	<u>3.92</u>	<u>3.92</u>	<u>3.92</u>
98										
<b>99 Mission Critical Expenditures</b>	-	-	-	-	-	-	-	-	-	-
<b>100 Efficiencies/Improved Cost Recovery</b>	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
<b>101 Contingency</b>	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
<b>102 Total General Fund Expenditures</b>	<u>232.97</u>	<u>239.90</u>	<u>245.53</u>	<u>251.58</u>	<u>257.13</u>	<u>263.96</u>	<u>270.56</u>	<u>278.41</u>	<u>285.17</u>	<u>292.06</u>
103										
<b>104 Surplus(Shortfall)</b>	(1.02)	(1.19)	0.17	1.38	3.22	3.88	4.92	4.81	5.89	6.95
105 Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
106 Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
107 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>
<b>108 Ending Available Balance</b>	<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>
<b>109 Balance as % of Total Expenditures</b>	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%
<b>110 Vacancy Rate (% of Baseline+COLAs)</b>	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

**ATTACHMENT A1 - STOCKTON LONG-RANGE FINANCIAL PLAN (FY31-32 to FY40-41, Dollars in Millions)**

<b>GENERAL FUND</b>	<b>31-32</b>	<b>32-33</b>	<b>33-34</b>	<b>34-35</b>	<b>35-36</b>	<b>36-37</b>	<b>37-38</b>	<b>38-39</b>	<b>39-40</b>	<b>40-41</b>
<b>1 General Revenues</b>										
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 Measure A	49.19	50.65	52.13	53.62	55.12	56.64	58.16	59.70	61.24	62.79
11 Subtotal Sales Taxes	121.62	125.25	128.90	132.59	136.30	140.05	143.82	147.61	151.42	155.26
12 Utility Users Tax										
13 Water	4.20	4.25	4.31	4.36	4.41	4.46	4.52	4.57	4.62	4.67
14 Electric & Gas	22.98	23.28	23.57	23.86	24.14	24.43	24.71	24.99	25.27	25.54
15 Cable	3.01	3.05	3.09	3.13	3.17	3.20	3.24	3.28	3.31	3.35
16 Telecommunications	11.24	11.38	11.53	11.67	11.81	11.95	12.09	12.22	12.36	12.49
17 Subtotal Utility Users Tax	41.44	41.97	42.49	43.01	43.53	44.04	44.55	45.05	45.55	46.05
18 Franchise Tax										
19 PG&E	2.70	2.74	2.79	2.84	2.88	2.93	2.97	3.02	3.06	3.10
20 Cable/Video	3.08	3.13	3.18	3.23	3.28	3.34	3.39	3.44	3.49	3.54
21 Waste Haulers	10.58	10.76	10.93	11.11	11.29	11.47	11.65	11.82	12.00	12.17
22 Subtotal Franchise Tax	16.35	16.63	16.90	17.18	17.46	17.73	18.00	18.27	18.54	18.81
23 Other General Revenues										
24 Business License Tax	11.69	11.87	12.05	12.23	12.41	12.60	12.79	12.98	13.17	13.37
25 Hotel/Motel Tax	2.33	2.35	2.38	2.40	2.43	2.45	2.47	2.50	2.52	2.55
26 Document Transfer Tax	0.65	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.73	0.74
27 Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
28 Interest Income	0.85	0.93	0.96	0.98	1.00	1.03	1.06	1.08	1.11	1.15
29 Subtotal Other General Revenues	15.68	15.96	16.20	16.44	16.68	16.92	17.18	17.43	17.69	17.96
<b>30 Program Revenues</b>										
31 Fire Contracts	3.86	3.90	3.94	3.98	4.02	4.06	4.10	4.14	4.18	4.22
32 Code Enforcement	3.56	3.60	3.63	3.67	3.71	3.74	3.78	3.82	3.86	3.89
33 Charges for Services	2.18	2.21	2.23	2.25	2.27	2.30	2.32	2.34	2.37	2.39
34 Fines & Forfeitures	1.84	1.88	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.20
35 Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
36 Licenses & Permits	0.52	0.53	0.54	0.55	0.57	0.58	0.59	0.60	0.61	0.62
37 Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
38 Subtotal Program Revenues	12.57	12.71	12.85	13.00	13.15	13.30	13.45	13.61	13.77	13.93
<b>39 Interfund Reimbursements</b>										
40 Indirect Cost Allocation	7.93	8.04	8.27	8.37	8.61	8.42	8.65	8.89	9.01	9.27
41 Refunds & Reimbursements	0.35	0.36	0.36	0.37	0.38	0.39	0.39	0.40	0.41	0.42
42 Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
43 Parking Fund - Debt Service	0.90	-	-	-	-	-	-	-	-	-
44 Subtotal Reimbursements	11.86	11.08	11.31	11.42	11.67	11.48	11.73	11.98	12.10	12.37
<b>45 Total General Fund Revenues</b>	<b>307.03</b>	<b>314.08</b>	<b>322.18</b>	<b>330.22</b>	<b>338.45</b>	<b>346.32</b>	<b>354.68</b>	<b>363.10</b>	<b>371.45</b>	<b>380.00</b>
46										
<b>47 Salaries &amp; Benefits</b>										
48 Salaries - Safety (w/ COLA)	79.53	82.01	84.57	87.20	89.95	92.75	95.67	98.66	101.72	104.89
49 Salaries - Non-Safety (w/ COLA)	34.64	35.73	36.85	38.01	39.21	40.44	41.72	43.03	44.38	45.77
50 Salaries - Part time, Temporary	2.56	2.64	2.72	2.81	2.90	2.99	3.09	3.19	3.29	3.40
51 Pension - CalPERS	52.48	53.72	51.66	52.83	43.33	44.18	44.99	42.56	43.48	44.49
52 Health/Dental/Vision-Employee (w/COLA)	15.42	15.72	16.02	16.33	16.65	16.97	17.31	17.64	17.98	18.32
53 Health - Retirees	-	-	-	-	-	-	-	-	-	-
54 Workers Compensation	11.05	11.17	11.28	11.40	11.53	11.65	11.77	11.90	12.02	12.15
55 Other Pay & Benefits	8.63	8.88	9.13	9.40	9.68	9.96	10.25	10.55	10.86	11.18
56 Overtime & Standby/Callback	13.51	13.91	14.33	14.75	15.19	15.64	16.11	16.59	17.09	17.61
57 Compensated Absences	6.85	6.73	6.80	6.86	6.90	6.96	7.03	7.09	7.16	7.23
58 Salaries - Safety-Expiring Grants	3.72	3.84	3.96	4.09	4.22	4.35	4.49	4.63	4.78	4.94
59 Net Labor Adjust/Reimbursements	1.76	1.80	1.81	1.85	1.75	1.79	1.84	1.84	1.88	1.93
60 Budgeted Vacancy Savings	(6.92)	(7.10)	(7.19)	(7.38)	(7.25)	(7.44)	(7.64)	(7.75)	(7.96)	(8.17)
61 Subtotal Salaries & Benefits	223.24	229.05	231.95	238.15	234.05	240.24	246.63	249.93	256.69	263.72

<b>GENERAL FUND (cont.)</b>	<b>31-32</b>	<b>32-33</b>	<b>33-34</b>	<b>34-35</b>	<b>35-36</b>	<b>36-37</b>	<b>37-38</b>	<b>38-39</b>	<b>39-40</b>	<b>40-41</b>
<b>62 Services &amp; Supplies</b>										
63 Internal Services-Equipment	17.78	18.04	18.31	18.58	18.85	19.13	19.41	19.70	19.99	20.28
64 General Liability Insurance	4.43	4.50	4.57	4.63	4.70	4.77	4.85	4.92	4.99	5.07
65 Utilities	3.47	3.52	3.57	3.63	3.68	3.74	3.79	3.85	3.91	3.97
66 Maintenance & Repair Services	3.39	3.44	3.50	3.55	3.60	3.66	3.71	3.77	3.82	3.88
67 Labor/Legal Services	2.87	2.92	2.96	3.00	3.05	3.09	3.14	3.19	3.24	3.28
68 General Expenses	11.73	11.91	12.09	12.28	12.46	12.66	12.85	13.05	13.25	13.45
69 Tax Collection & Election	3.39	3.44	3.51	3.56	3.62	3.67	3.75	3.80	3.86	3.92
70 Subtotal Services & Supplies	<u>47.06</u>	<u>47.77</u>	<u>48.50</u>	<u>49.23</u>	<u>49.97</u>	<u>50.72</u>	<u>51.50</u>	<u>52.27</u>	<u>53.06</u>	<u>53.85</u>
71										
<b>72 Program Support for Other Funds</b>										
73 Library	7.48	7.65	7.66	7.85	7.43	7.61	7.79	7.79	7.99	8.19
74 Recreation	5.32	5.44	5.45	5.58	5.28	5.41	5.54	5.54	5.68	5.83
75 Golf Courses	0.84	0.86	0.86	0.88	0.84	0.86	0.88	0.88	0.90	0.92
76 Entertainment Venues	4.96	5.08	5.08	5.21	4.93	5.05	5.17	5.17	5.30	5.43
77 RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
78 Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
79 Capital Improvements	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58
80 Administration Building	1.15	1.15	1.24	1.24	1.24	1.24	1.34	1.34	1.34	1.34
81 Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
82 Development Services	-	-	-	-	-	-	-	-	-	-
83 Other	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
84 Subtotal Program Support	<u>22.57</u>	<u>23.01</u>	<u>23.12</u>	<u>23.59</u>	<u>22.55</u>	<u>22.99</u>	<u>23.55</u>	<u>23.55</u>	<u>24.04</u>	<u>24.54</u>
85										
<b>86 Debt - Bonds/Other</b>										
87 Jarvis Utilities Settlement	-	-	-	-	-	-	-	-	-	-
88 Marina Settlement	-	-	-	-	-	-	-	-	-	-
89 2003 COPs	-	-	-	-	-	-	-	-	-	-
90 2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
91 2006 LRBs-Parking (SEB)	0.90	-	-	-	-	-	-	-	-	-
92 2006 DBW-Debt - Marina	-	-	-	-	-	-	-	-	-	-
93 2007 POBs	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78
94 2007 VRDLRB - 400 E.Main	-	-	-	-	-	-	-	-	-	-
95 2009 LRBs-Pub Facil Bonds/CIP	-	-	-	-	-	-	-	-	-	-
96 Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
97 Subtotal Debt	<u>3.92</u>	<u>3.02</u>								
98										
99 <b>Mission Critical Expenditures</b>	6.00	10.00	16.00	15.00	30.00	28.00	30.00	34.00	34.00	34.00
100 <b>Efficiencies/Improved Cost Recovery</b>	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
101 <b>Contingency</b>	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
102 <b>Total General Fund Expenditures</b>	<u>301.80</u>	<u>311.86</u>	<u>321.60</u>	<u>328.00</u>	<u>338.59</u>	<u>343.97</u>	<u>353.69</u>	<u>361.78</u>	<u>369.80</u>	<u>378.13</u>
103										
104 <b>Surplus(Shortfall)</b>	5.24	2.22	0.58	2.21	(0.14)	2.35	0.99	1.32	1.65	1.86
105 Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
106 Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
107 Beginning Available Balance	40.05	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.48
108 <b>Ending Available Balance</b>	<u>45.29</u>	<u>47.51</u>	<u>48.09</u>	<u>50.30</u>	<u>50.16</u>	<u>52.51</u>	<u>53.50</u>	<u>54.82</u>	<u>56.47</u>	<u>58.34</u>
109 <b>Balance as % of Total Expenditures</b>	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%
110 <b>Vacancy Rate (% of Baseline+COLAs)</b>	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%