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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 MODIFIED
 DISCLOSURE STATEMENT WITH
 RESPECT TO FIRST AMENDED
 PLAN FOR THE ADJUSTMENT OF
 DEBTS OF CITY OF STOCKTON,
 CALIFORNIA (NOVEMBER 15, 2013)
 AND THE DISCLOSURE STATEMENT
 WITH RESPECT TO THE FIRST
 AMENDED PLAN FOR THE
 ADJUSTMENT OF DEBTS OF CITY
 OF STOCKTON, CALIFORNIA,
 DATED NOVEMBER 15, 2013**

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 Modified Disclosure
3 Statement With Respect To First Amended Plan For The Adjustment Of Debts Of City Of
4 Stockton, California (November 15, 2013) and the City’s Disclosure Statement with Respect to
5 the First Amended Plan for the Adjustment of Debts of the City of Stockton, California, Dated
6 November 15, 2013 [Dkt. No. 1205].
7

8 Dated: November 21, 2013

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Exhibit 1

The draft disclosure statement accompanying this draft plan of adjustment has not been approved by the Bankruptcy Court. The distribution of the draft disclosure statement and of this draft plan is not intended as, and should not 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

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

Date: November 18, 2013

Time: 1:00 p.m.

Judge: Hon. Christopher M. Klein

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

TABLE OF CONTENTS

	Page
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	
16	
17	
18	
19	
20	
21	
22	
23	
24	
25	
26	
27	
28	
I.	INTRODUCTION.....8
A.	The Purpose of This Disclosure Statement..... 11 <u>12</u>
B.	Summary of Entities Entitled to Vote on the Plan and of Certain Requirements Necessary for Confirmation of the Plan..... 12 <u>13</u>
C.	Voting Procedures, Balloting Deadline, Confirmation Hearing, and Other Important Dates, Deadlines, and Procedures.....13
1.	Voting Procedures and Deadlines.....13
2.	Date of the Confirmation Hearing and Deadlines for Objection to Confirmation of the Plan.....14
D.	Important Notices and Cautionary Statements.....15
E.	Additional Information.....16
II.	BACKGROUND INFORMATION.....17
A.	The City.....17
B.	The City's Financial Problems.....17
C.	The City's Pension Obligations.....19
D.	The City's Attempts to Avoid Insolvency..... 22 <u>23</u>
E.	The City's Participation in Pre-Bankruptcy Negotiations.....24
III.	ADMINISTRATION OF THE CHAPTER 9 CASE..... 24 <u>25</u>
A.	Pendency Plans..... 24 <u>25</u>
B.	Eligibility Litigation.....25
C.	Post-Bankruptcy Negotiations Conducted by Judge Elizabeth L. Perris..... 25 <u>26</u>
D.	Formation of an Official Committee to Represent Retirees.....26
E.	Motions for Relief from Stay to Pursue or Commence Litigation.....27
IV.	THE CITY'S LIABILITIES AND ASSETS.....28
A.	Liabilities.....29
1.	Liabilities Listed by the City in Its Filings on the Petition Date.....29
2.	Liabilities Listed by the City in Its Amended Creditors' List.....29
3.	Proofs of Claim.....30
4.	General Unsecured Claims, Including General Liability Claims.....31
5.	Priority Unsecured Claims.....32
6.	Secured Claims.....32
7.	Workers Compensation Liabilities.....32
8.	Claims Relating to the Lease Out/Lease Back Transactions.....33
a.	Background.....33
b.	2003 Fire/Police/Library Leases.....34

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TABLE OF CONTENTS

(continued)

	Page
(i) Financial Instruments Involved.....	34
(ii) Leased Properties.....	35
(iii) Ambac Settlement Agreement.....	37
c. 2004 Arena Leases.....	38
(i) Financial Instruments Involved.....	38
(ii) Leased Property.....	40
(iii) NPFPG Arena Settlement.....	41
d. 2004 Parking Structure Leases.....	41
(i) Financial Instruments Involved.....	41
(ii) Leased Properties.....	43
(a) Edmund S. Coy Parking Structure.....	43
(b) Stockton Events Center Parking Structure.....	43
(c) Market Street Garage.....	44
(iii) NPFPG Parking Settlement.....	44
e. 2006 SEB Leases.....	45
(i) Financial Instruments Involved.....	45
(ii) Leased Properties.....	46
(a) Stewart/Eberhardt Building.....	46
(b) SEB Parking Facility.....	47
(iii) Lease Assumption; NPFPG SEB Settlement.....	47
f. 2007 Office Building Leases.....	47
(i) Financial Instruments Involved.....	47
(ii) Leased Property.....	50
(iii) Assured Guaranty Settlement as Applicable to the 400 E. Main Office Building Property.....	52
g. 2009 Golf Course/Park Leases.....	53
(i) Financial Instruments Involved.....	53
(ii) Leased Properties.....	53
(a) Oak Park.....	54
(b) Swenson Golf Course.....	55
(c) Van Buskirk Golf Course.....	55
(iii) Operating Revenue Shortfalls Experienced for the Golf Course/Park Properties.....	56
(iv) Lease Rejection by City.....	56

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TABLE OF CONTENTS

(continued)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

	Page
(v) Limits/Restrictions Upon the Right of the Golf Course/Park Bond Trustee/Franklin to Take Over Possession of the Golf Course/Park Properties.....	59
(a) Rather Than Maintaining the Status Quo, a Takeover by Franklin Would Interrupt the Status Quo and Require Planning, Transition, and Coordinated Implementation.....	59 <u>60</u>
(b) The Golf Courses Must Continue to Be Operated as Golf Courses, and Oak Park Must Continue to Be Operated as a Park.....	61
(vi) Adversary Proceeding.....	61 <u>62</u>
9. Pension Obligation Bonds.....	62 <u>63</u>
10. Statement Regarding Liabilities.....	65
B. Assets.....	65
1. Capital Assets; Valuation and Sale Thereof.....	65
2. Claims and Causes of Action Against Third Parties.....	67
C. Financial Projections Regarding City Finances.....	67
D. Impact of Measure A upon Future City Finances and Ability of City to Confirm the Plan.....	67 <u>68</u>
V. SUMMARY OF THE PLAN OF ADJUSTMENT.....	68
A. Classification and Treatment of Claims.....	70
1. Unclassified Claims.....	70
a. Administrative Claims.....	70
(i) Treatment of All Other Administrative Claims Other Than Professional Claims.....	70
b. Bar Date for Assertion of Requests for Payment of Administrative Claims (Other Than Ordinary Course Administrative Claims) and Professional Claims.....	71
2. Classified Claims.....	71 <u>72</u>
a. Class 1A – Claims of Ambac – 2003 Fire/Police/Library Certificates.....	71 <u>72</u>
b. Class 1B – Claims of Holders of 2003 Fire/Police/Library Certificates.....	72
c. Class 2 – SEB Claims of the 2006 SEB Bond Trustee/NPFG – 2006 SEB Bonds.....	72
d. Class 3 – Arena Claims of the 2004 Arena Bond Trustee/NPFG – 2004 Arena Bonds.....	73
e. Class 4 – Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG – 2004 Parking Bonds.....	73

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TABLE OF CONTENTS

(continued)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

	Page
f. Class 5 – Office Building Claims of the 2007 Office Building Bond Trustee/Assured Guaranty.....	74
g. Class 6 – Pension Obligation Bonds Claims.....	75 <u>76</u>
h. Class 7 – Claims of DBW.....	77
i. Class 8 – SCC 16 Claims.....	79 <u>80</u>
j. Class 9 – Thunder Claims.....	79 <u>80</u>
k. Class 10 – Claims of Holders of Restricted Revenue Bond and Note Payable Obligations.....	80
l. Class 11 – Claims of Holders of Special Assessment and Special Tax Obligations.....	81
m. Class 12 – General Unsecured Claims.....	81 <u>82</u>
n. Class 13 – Convenience Class Claims.....	82 <u>83</u>
o. Class 14 – Claims of Certain Tort Claimants.....	82 <u>83</u>
p. Class 15 – Claims Regarding City’s Obligations to Fund Employee Pension Plan Contributions to CalPERS, as Trustee under the CalPERS Pension Plan for the Benefit of CalPERS Pension Plan Participants.....	83
q. Class 16 – Claims of Equipment Lessors.....	83 <u>84</u>
r. Class 17 – Workers Compensation Claims.....	83 <u>84</u>
s. Class 18 – SPOA Claims.....	84
t. Class 19 – Price Claims.....	85
B. Treatment of Executory Contracts and Unexpired Leases.....	86
1. Generally.....	86
2. Assumption.....	86 <u>87</u>
3. Rejection.....	87
4. Deadline for the Assertion of Rejection Damage Claims; Treatment of Rejection Damage Claims.....	88
C. Means for Execution and Implementation of the Plan.....	88 <u>89</u>
D. Distributions.....	89
1. Delivery of Distributions.....	89 <u>90</u>
2. Distributions of Unclaimed Property.....	89 <u>90</u>
3. Distributions of Cash.....	90 <u>91</u>
4. Timeliness of Payments.....	90 <u>91</u>
5. Compliance with Tax, Withholding, and Reporting Requirements.....	90 <u>91</u>
6. Time Bar to Cash Payments.....	91
7. No <i>De Minimis</i> Distributions.....	91 <u>92</u>

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

TABLE OF CONTENTS

(continued)

	Page
8. No Distributions on Account of Disputed Claims.....	91 <u>92</u>
9. No Postpetition Accrual.....	91 <u>92</u>
E. Disputed Claims.....	92 <u>93</u>
1. Claims Objection Deadline; Prosecution of Objections.....	92 <u>93</u>
2. Payments and Distributions with Respect to Disputed Claims.....	92 <u>93</u>
F. Continuing Jurisdiction of the Bankruptcy Court.....	92 <u>93</u>
VI. CONFIRMATION AND EFFECTIVENESS OF THE PLAN.....	93
A. Voting and Right to Be Heard at Confirmation.....	93 <u>94</u>
1. Who May Support or Object to Confirmation of the Plan?.....	93 <u>94</u>
2. Who May Vote to Accept or Reject the Plan?.....	93 <u>94</u>
3. Who Is Not Entitled to Vote?.....	94 <u>95</u>
4. Vote Necessary to Confirm the Plan.....	94 <u>95</u>
B. The “Best Interests” Test.....	94 <u>95</u>
C. Feasibility.....	95 <u>96</u>
D. Cramdown.....	96 <u>97</u>
E. Effective Date.....	97 <u>98</u>
1. Conditions to the Occurrence of the Effective Date.....	97 <u>98</u>
2. Non-Occurrence of Effective Date.....	98
F. Effect of Confirmation.....	98 <u>99</u>
1. Discharge of the City.....	98 <u>99</u>
2. Injunction.....	99
3. Term of Existing Injunctions and Stays.....	99 <u>100</u>
4. Exculpation.....	99 <u>100</u>
5. Releases Among Releasing Parties and Released Parties.....	100 <u>101</u>
6. Good Faith Compromise.....	102
VII. CERTAIN RISK FACTORS TO BE CONSIDERED.....	102 <u>103</u>
VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES.....	103 <u>104</u>
IX. RECOMMENDATION AND CONCLUSION.....	105 <u>106</u>

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TABLE OF AUTHORITIES

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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Page(s)

FEDERAL CASES

Ass’n of Retired Emps. of the City of Stockton v. City of Stockton (In re City of Stockton, Cal.),
478 B.R. 8 (Bankr. E.D. Cal. 2012) 28

In re City of Stockton, California,
484 B.R. 372 (Bankr. E.D. Cal. 2012) 27

In re City of Stockton, California,
493 B.R. 772 (Bankr. E.D. Cal. 2013) 18, 26

In re County of Orange v. Fuji Securities Inc.,
31 F. Supp. 2d 768 (C.D. Cal. 1998) 78

Price, et al. v. City of Stockton, et al.,
No. 2:02-cv-00065-LKK-KJM (E.D. Cal. May 2, 2002) 85

STATE CASES

City of Los Angeles v. Offner,
19 Cal. 2d 483 (1942) 34

City of Oxnard v. Dale,
45 Cal. 2d 729 (1955) 78

City of Stockton v. Marina Towers LLC et al.,
No. CV022054 (San Joaquin Superior Court Oct. 6, 2003) 66

Dean v. Kuchel,
35 Cal. 2d 444 (1950) 34

Wells Fargo Bank, National Association v. City of Stockton,
No. 39-2012-00277622-CU-UD-STK (San Joaquin Superior Court March 7, 2012). 43

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No. 39-2012-00280741-CU-UD-STK (San Joaquin Superior Court May 10, 2012) 49

FEDERAL STATUTES

11 U.S.C.

§ 105 100

§ 326 71

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1	<u>§ 362</u>	<u>27, 100</u>
2	<u>§ 365</u>	<u>62</u>
3	<u>§ 365(a)</u>	<u>passim</u>
4	<u>§ 365(d)(3)</u>	<u>62</u>
5	<u>§ 365(h)</u>	<u>57, 59</u>
6	<u>§ 502(b)(6)</u>	<u>31</u>
7	<u>§ 503</u>	<u>62</u>
8	<u>§ 506(a)</u>	<u>62</u>
9	<u>§ 507(a)(2)</u>	<u>32</u>
10	<u>§ 553</u>	<u>100</u>
11	<u>§ 902(2)</u>	<u>6, 81</u>
12	<u>§ 903</u>	<u>29</u>
13	<u>§ 904</u>	<u>29</u>
14	<u>§ 922</u>	<u>27, 100</u>
15	<u>§ 924</u>	<u>29</u>
16	<u>§ 925</u>	<u>29</u>
17	<u>§ 928(b)</u>	<u>5, 78, 79</u>
18	<u>§ 943</u>	<u>98</u>
19	<u>§ 943(a)(3)</u>	<u>71</u>
20	<u>§ 943(b)</u>	<u>97</u>
21	<u>§ 943(b)(7)</u>	<u>95, 96</u>
22	<u>§ 944</u>	<u>99</u>
23	<u>§ 1124</u>	<u>13</u>
24	<u>§ 1125</u>	<u>12</u>
25	<u>§ 1129(b)</u>	<u>13, 98</u>
26	<u>§ 1129(b)(1)</u>	<u>98</u>
27		
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[§ 1129\(b\)\(2\)\(A\)](#) [98](#)

[§ 1129\(b\)\(2\)\(B\)](#) [98](#)

STATE STATUTES

Cal. Gov’t Code

[§ 825](#) [28](#)

[§ 825.2](#) [28](#)

[§ 900](#) [66](#)

[§ 20574](#) [96](#)

[§ 53570](#) [63](#)

[§ 53760 24](#)

Cal. Health and Safety Code § 16000 [46](#)

RULES

Fed. R. Bankr. P.

[1007\(a\)](#) [29](#)

[1007\(d\)](#) [29](#)

[9019](#) [102](#)

Local Rule of Bankruptcy Procedure 1007-1 [29](#)

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Constitution of the State of California

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**David M. Bennett and Donna D. Lattin, *The Marshall Plan: Violence Reduction Strategy*,
Stockton, California, March 7, 2013, [http://www.stocktongov.com/files/Council
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Agenda_2013_4_02_item_15_01_MarshallPlan.pdf).** [18](#)

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1
2
3
4
5
6
7
8
9
10
11
12
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14
15
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19
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~~**NOTE: This draft disclosure statement has not been approved by the Bankruptcy Court. The distribution of this draft and of the accompanying draft plan of adjustment is not intended as, and should not be construed to be, the solicitation of a vote on such draft plan or on any other plan.**~~ **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 (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

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

1 repayment of the City's creditors, it nevertheless further defers infrastructure maintenance as well
2 as the optimal staffing of City service units such as police and fire.

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

24 Payment to holders of General Unsecured Claims—which holders include, but are not
25 limited to, holders of lease rejection claims, the Retiree Health Benefit Claimants, and the holders
26 of Leave Buyout Claims—shall receive cash payment on the Effective Date in an amount equal to
27 a set percentage of the Allowed amount of such Claims. The percentage of the Allowed amount
28 paid on such claims will be the Unsecured Claim Payout Percentage (unless the amount of the

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1 Retiree Health Benefit Claims changes, that percentage will be equal to 0.93578% (i.e.,
 2 \$5,100,000 divided by \$545,000,000) or such other amount as is determined by the Bankruptcy
 3 Court before confirmation of the Plan to constitute a pro-rata payment on such other General
 4 Unsecured Claims. While the City regrets that it cannot pay a higher amount to holders of
 5 General Unsecured Claims, the fact is that the City lacks the revenues to do so if it is to maintain
 6 an adequate level of municipal services such as the provision of fire and police protection, the
 7 maintenance and repair of the City's streets and other public facilities, and the continued
 8 availability of important municipal services such as library, recreation, and parks.

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

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

<u>Debtor</u>	City of Stockton, California.
<u>Bankruptcy Court</u>	United States Bankruptcy Court for the Eastern District of California, Sacramento Division, The Honorable Chief Judge Christopher M. Klein presiding.
<u>Plan</u>	First Amended Plan For The Adjustment Of Debts Of City Of Stockton, California (November 15, 2013).
<u>Purpose of the Disclosure Statement</u>	To provide information of a kind, and in sufficient detail, that would enable a typical holder of claims in a Class Impaired under the Plan to make an informed judgment with respect to voting on the Plan.
<u>Balloting Information</u>	Ballots have been provided with this Disclosure Statement to creditors known to have claims that are Impaired under the Plan. Ballots must be returned to and received by the Ballot Tabulator by no later than 4:30 p.m., Pacific Time, on February 10 , February 10, 2014. Objections to confirmation also must be filed and served by no later than February 10 , February 10, 2014.

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Ballot Tabulator

Rust Consulting/Omni Bankruptcy, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367.

Confirmation Hearing and Confirmation Objections

A hearing regarding confirmation of the Plan will be held by the Bankruptcy Court on ~~_____~~ **March 5**, 2014, commencing at ~~_____~~ **9:30** 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. The treatment of the Class 1A Claims will be as set forth in the Ambac Settlement Agreement, which 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.

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. The effectiveness of the NPFG 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 NPFG and the 2004 Parking Bond Trustee, then the City, at the request or direction of the 2004 Parking Bond Trustee or NPFG shall take such actions

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(if any) that may be required by the 2004 Parking Bond Trustee or NCFG 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.

Class 6
Pension Obligation
Bonds Claims

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.

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 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

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.

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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, which should be consulted for the precise terms of the treatment.

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
Claims of Holders of
Special Assessment
and Special Tax
Obligations

Unimpaired. Class 11 consists of Claims of the holders of Special Assessment and Special Tax Obligations, 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.

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 Claims in this Class include without limitation: (i) the Retiree Health Benefit Claims; (ii) the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (iii) the Leave Buyout Claims; and (iv) Other Postpetition Claims.

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Pursuant to the Retirees Settlement, on the Effective Date, the City will pay the 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 percentage equals the Unsecured Claim Payout Percentage, 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; *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

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

Unimpaired. CalPERS will continue as the trustee for the City's pension plan for its employees, and the 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

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Benefit of CalPERS Pension Plan Participants same rights and benefits to which they are currently entitled under the CalPERS Pension 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 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.

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.~~ City's settlement with the Price Judgment Creditors will have no material monetary impact on the City, but will enable the City to fulfill its obligations under a previous judgment relating to relocation of residents. The settlement includes agreement on the manner of calculating the number of replacement units the City has produced to date; a methodology for creating a list of persons entitled to preference for housing units; a means for reaching out to the community about the availability of replacement units; the extinguishing of the City's obligation to make relocation assistance payments; and the recognition that any claim for attorney fees is treated as an unsecured claim in the Plan.

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

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1 week prior to the beginning of its 2012-13 fiscal year. As a result of prior poor fiscal
2 management by the City, overspending on downtown improvement construction projects, the
3 general economic turndown that began in 2008, the resulting decline in real estate transactions
4 and values, high unemployment rates, and generally lower collections of tax revenues and user
5 fees, the City had virtually no General Fund reserves as of the Petition Date. It had slashed its
6 General Fund workforce by an aggregate of 30% during the preceding three years: sworn police
7 officers were cut by 25%, non-sworn police staffing by 20%, fire staffing by 30%, and non-safety
8 staffing by 43%. It had also reduced compensation by \$52 million and cut staffing and service
9 ~~///~~
10 levels by \$38 million, for an overall General Fund budget reduction of approximately \$90 million
11 during fiscal years 2009-10, 2010-11, and 2012-13.

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

21 Despite having taken these desperate measures, as of June 2012 the City's General Fund
22 budget for the impending fiscal year was still \$25.9 million underwater.¹ The negative balance
23 meant that the General Fund was prohibited from borrowing from the City's restricted funds and
24 that the City therefore could not pay the first payroll of the fiscal year, which was due in July
25 2012. The City was instead forced to enact its "Pendency Plan" budget, described in Section
26 III.A. below, which enabled it to meet payroll and debt obligations during the Chapter 9 Case.
27

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

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

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

19 The holders of General Unsecured Claims in Class 12, including retiree health benefit
20 claimants, will be paid a percentage of their claims equal to the Unsecured Claim Payout
21 Percentage (unless the amount of the Retiree Health Benefit Claims changes, that percentage will
22 be equal to 0.93578% (i.e., \$5,100,000 divided by \$545,000,000) or such other amount as is
23 determined by the Bankruptcy Court before confirmation of the Plan to constitute a pro-rata
24 payment on such other general unsecured claims. That is all the City can afford to pay and still
25 maintain even a bare minimum level of City services. In fact, the constituencies that will bear the
26 greatest burden as a result of the City's inability to meet its financing obligations are its current
27 employees, and its retirees who collectively hold approximately \$545 million in claims against the
28 City, but who have agreed, after months of negotiations, to accept \$5.1 million in satisfaction of

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1 those claims. Retirees who are receiving a CalPERS pension but no health benefits from the City
2 will not be affected by the Plan. Retirees who are receiving a CalPERS pension plus health
3 benefits will have their health benefits eliminated.

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

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

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

27 As described more fully herein, the City believes that the Plan provides the greatest and
28 earliest possible recoveries to holders of claims while preserving necessary City services and

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1 operations. The City thus believes that acceptance of the Plan is in the best interests of creditors
2 and parties in interest, as well as in the best interests of the City's residents and businesses, and
3 that any alternative debt adjustment or restructuring would result in additional delay, uncertainty,
4 expense, litigation, and, ultimately, smaller or no distributions to creditors. Accordingly, **the City**
5 **urges that you cast your ballot in favor of the Plan.**

6
7 **A. The Purpose of This Disclosure Statement.**

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

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

19 This Disclosure Statement, however, cannot and does not provide creditors with legal or
20 other advice or inform such parties of all aspects of their rights. Claimants are advised to consult
21 with their attorneys and/or financial advisors to obtain more specific advice regarding how the
22 Plan will affect them and regarding their best course of action with respect to the Plan. As noted
23 below, retirees are advised to consult with the Retirees Committee, which was appointed in April
24 2013 by the Office of the United States Trustee to represent the interests of the City's
25 approximately 2,400 retirees in the Chapter 9 Case.

26 This Disclosure Statement has been prepared in good faith and in compliance with
27 applicable provisions of the Bankruptcy Code. Based upon information currently available, the
28 City believes that the information contained in this Disclosure Statement is correct as of the date
of its filing. This Disclosure Statement, however, does not and will not reflect some events that

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1 occur after October 10, 2013 (and, where indicated, specified earlier dates), and the City assumes
2 no duty and presently does not intend to prepare or distribute any amendments or supplements to
3 reflect such events.

4
5 **B. Summary of Entities Entitled to Vote on the Plan and of Certain**
6 **Requirements Necessary for Confirmation of the Plan.**

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

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

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

23 **C. Voting Procedures, Balloting Deadline, Confirmation Hearing, and Other**
24 **Important Dates, Deadlines, and Procedures.**

25 **1. Voting Procedures and Deadlines.**

26 The City has provided copies of this Disclosure Statement and ballots to all known holders
27 of Impaired Claims in the voting Classes. Those holders of an Allowed Claim in each of the
28 voting Classes who seek to vote to accept or reject the Plan **must** complete a ballot and return it to
the Court-appointed ballot tabulator, Rust Consulting/Omni Bankruptcy, 5955 DeSoto Avenue,

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Suite 100, Woodland Hills, CA 91367 (the “**Ballot Tabulator**”)—so that their ballots actually are received by no later than the Balloting Deadline (as defined in the following paragraph), and must be returned directly to the Ballot Tabulator, **not** to the Bankruptcy Court. Note that Ballots do not constitute proofs of claim.

*All ballots, including ballots transmitted by facsimile, must be completed, signed, returned to, and actually received by the Ballot Tabulator by not later than ~~_____~~, ~~2013~~, February 10, 2014, at 4:30 p.m. Pacific Time (the “**Balloting Deadline**”). Neither Ballots received after the ~~++~~ **Balloting Deadline**, nor ballots returned directly to the Bankruptcy Court rather than to the **Ballot Tabulator**, shall be counted in connection with confirmation of the Plan.*

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

The hearing to determine whether the Bankruptcy Court will confirm the Plan (the “**Confirmation Hearing**”) will commence on ~~_____~~, March 5, 2014, at ~~___~~ 9:30 a.m. Pacific Time in the Courtroom of the Honorable Christopher M. Klein, Chief United States Bankruptcy Judge for the Eastern District of California, in his Courtroom on the 6th floor of the United States Courthouse, 501 I Street, Sacramento, CA 95814. The Confirmation Hearing may be continued from time to time, including by announcement in open court, without further notice.

Any objections to confirmation of the Plan must be filed with the Bankruptcy Court and served on the following entities so as to be **actually received** by no later than ~~_____~~ ~~2013~~ February 10, 2014: (a) John M. Luebberke, City Attorney’s Office, 425 N. El Dorado Street, 2nd Floor, Stockton, CA 95202; (b) Marc A. Levinson, Orrick, Herrington & Sutcliffe LLP, 400 Capitol Mall, Suite 3000, Sacramento, CA 95814-4497 (counsel to the City); (c) Steven H. Felderstein, Felderstein, Fitzgerald, Willoughby & Pascuzzi LLP, 400 Capitol Mall, Suite 1750, Sacramento, CA 95814 (counsel to the Retirees Committee); (d) ~~Jennifer Niemann, Felderstein, Fitzgerald, Willoughby & Pascuzzi LLP, 400 Capitol Mall, Suite 1750, Sacramento, CA 95814 (counsel to the Retirees Committee);~~ (e) Debra A. Dandeneau, Weil, Gotshal &

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1 Manges LLP, 767 Fifth Avenue, New York, NY 10153 (counsel to NPMFG); (fe) Jeffrey E. Bjork,
 2 Sidley Austin LLP, 555 West ~~Fifth~~5th Street, Los Angeles, CA 90013 (counsel to Assured
 3 Guaranty); (gf) David Dubrow, Arent Fox LLP, 1675 Broadway, New York, NY 10019-5820
 4 (counsel to Ambac); ~~and~~(g) James O. Johnston, Jones Day, 555 South Flower Street, 50th
 5 Floor, Los Angeles, CA 90071 (counsel to Franklin); (h) William W. Kannel, Mintz, Levin,
 6 Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111 (counsel to the
 7 Indenture Trustee); and (i) Michael J. Gearin, K&L Gates LLP, 925 Fourth Avenue, Suite
 8 2900, Seattle, WA 98104 (counsel to CalPERS). Objections that are not timely filed and served
 9 may not be considered by the Bankruptcy Court. *Please refer to the accompanying notice of the*
 10 *Confirmation Hearing for specific requirements regarding the form and nature of objections to*
 11 *confirmation of the Plan.*

12 ~~///~~

13
 14 **D. Important Notices and Cautionary Statements.**

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

23 ***The City's professional advisors have not independently verified the financial***
 24 ***information provided in this Disclosure Statement, and, accordingly, make no representations***
 25 ***or warranties as to its accuracy.*** Moreover, although reasonable efforts have been made to

26 ² To locate the CAFR go to http://www.stocktongov.com/files/2011_CAFR.pdf. Alternatively, from the City's
 27 website, <http://www.stocktongov.com>: (1) click "Administrative Services"; (2) then click "Financial Reporting";
 28 (3) then click "Financial Reports"; and (4) then click "CAFR 2011". A printed copy will be mailed to you upon
 your request mailed to the following address: City 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 provide accurate information, the City does not warrant or represent that the information in this
2 Disclosure Statement, including any and all financial information and projections, is without
3 inaccuracy or omissions, or that actual values or distributions will comport with the estimates set
4 forth herein.

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

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

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

26
27 **E. Additional Information.**

28 If you have any questions about the procedures for voting on the Plan, desire another copy
of a ballot, or seek further information about the timing and deadlines with respect to

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

13 **II. BACKGROUND INFORMATION**

14 **A. The City.**

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

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

21 Over the past several years, the City has struggled with massive budget deficits. These
22 deficits have been the result of a combination of plummeting revenues and increasing costs. In
23 the wake of the Great Recession, housing prices plunged while unemployment skyrocketed,
24 which led to substantial declines in the City's property tax and sales tax revenues. Stockton has
25 been among the top-ranked American cities in terms of foreclosures and declines in home prices
26 for the past several years. The median home price has dropped from \$397,000 in 2006 to
27 \$109,000 as of 2012, a decline of 72%. This collapse in property values and the flood of
28 foreclosures reduced the City's gross property tax collections by roughly 29%, from \$61.1 million
in fiscal year 2007-08 to \$43.6 million in fiscal year 2012-13. Because of California tax laws

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1 under Proposition 13, embodied in article 13A of the California Constitution, changes in
2 ownership that occurred at the bottom of the market due to foreclosures and short sales will
3 suppress property values for many years into the future. Adverse economic conditions also
4 caused a drop in the City's income from assessments and development fees.

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

12 In addition, the fiscal crisis had an impact on public safety. As Judge Klein recounted,
13 "[i]n 2010, Stockton's violent crime rate bucked a nationwide drop and rose to rank it 10th
14 nationally, with 13.81 violent crimes per 1,000 residents. Homicides were at an all-time record."
15 *In re City of Stockton, California*, 493 B.R. 772, 780 (Bankr. E.D. Cal. 2013). Yet, while
16 homicides increased from 28 in 2008 to 71 in 2012, budget reductions carved away the Stockton
17 Police Department: 99 police officers, 50 civilian positions, 40 part-time positions, and the
18 narcotics unit have been eliminated since 2009.³ In response, in 2012 the City began the planning
19 process for the "Marshall Plan: Violence Reduction Strategy, Stockton, California," written by
20 David M. Bennett and Donna D. Lattin and adopted by the City Council (the "**Marshall Plan**").
21 Named after the original Marshall Plan that guided Europe's economic recovery after World War
22 II, the City's Marshall Plan aims to reduce homicides and gun violence in the City. One of the
23 Marshall Plan's recommendations is to increase the Stockton Police Department staffing ratio of
24 sworn officers to population, which is well below the average for cities of its size.⁴ However,
25

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

⁴ *Id.* at 53-54.

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1 implementation of the Marshall Plan, including the hiring of additional police officers, will
2 require new funding.

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

12 ~~///~~

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

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C. The City's Pension Obligations.

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

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

⁵ 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%).⁶ 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 ⁶ See City Budgets for 2008-09, 2009-10, 2010-11, and 2011-12, available on the website of the City of Stockton at <http://www.stockton.gov> (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”).⁷

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 ///

12 ///

13
14 **III. ADMINISTRATION OF THE CHAPTER 9 CASE**

15 **A. Pendency Plans.**

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

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

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B. Eligibility Litigation.

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

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

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

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

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One of the parties with which the City reached agreement in the mediation conducted by Judge Perris is the SPOA. On December 11, 2012, the City Council adopted the Memorandum of 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.

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

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

D. Formation of an Official Committee to Represent Retirees.

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

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Since its appointment, the Retirees Committee has met with the City and discussed the claims of its constituencies. The overwhelming majority of such claims in dollar amount relate to two categories of claims: (1) health benefits promised by the City and then reduced in the first Pendency Plan for fiscal year 2012-13 and eliminated for the following fiscal year and thereafter (which the City and the Retirees Committee estimate to amount to approximately \$545 million for the approximately 1,100 retirees eligible for health benefits); and (2) pension benefits paid through the CalPERS Pension Plan. As discussed below, the Plan proposes to pay \$5.1 million on the Effective Date in full satisfaction of the health benefit claims, and the Plan assumes the

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1 City's obligations to CalPERS, preserving in full the pension benefits of the approximately 2,400
2 current recipients thereof and of current employees who are participating in CalPERS. The
3 Retirees Committee has agreed to support the Plan and recommends that retirees vote to accept
4 the Plan.

5
6 **E. Motions for Relief from Stay to Pursue or Commence Litigation.**

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

18 Several motions requesting relief from the automatic stay have been filed by plaintiffs in
19 lawsuits pending in other courts in which damages have been sought based on allegations of civil
20 rights violations and other General Liability Claims. The City stipulated to relief from the stay
21 being granted in those cases in which the movant agreed to liquidate its claims in another forum,
22 agreed not to enforce any claim so liquidated against City assets or property, agreed to look
23 exclusively to insurance proceeds, or agreed to proceed with its underlying lawsuit but seek
24 further leave of the court should it obtain a monetary award (but only in cases in which the
25 continuance of the underlying action would not impose a burden on the Office of the City
26 Attorney). The City has not opposed relief from the automatic stay for parties with claims strictly
27 against City Restricted Funds, which are not a part of the Chapter 9 Case (*e.g.*, Preston Pipelines,
28 Dkt. Nos. 1045, 1092). Nor has the City opposed relief from the automatic stay for the Indenture

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Trustee to distribute funds it has collected acting pursuant to a state court receivership order [Dkt. Nos. 506, 533, 695, 721, 1080, 1097]. The City has also not opposed the commencement or 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. 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:

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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 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 Amended Creditors' List.

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 by the relevant order [Dkt. No. 960]. The excluded claims were primarily those relating to pension benefits and the loss of retiree healthcare benefits. The second bar date, September 30, 2013, which was set by the same order, was limited to claims of governmental units. The third bar date, November 26, 2013, which was established by an order filed on October 7, 2013 [Dkt. No. 1126], was limited to claims relating to the loss of retiree healthcare benefits.

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Approximately 241 proofs of claim were filed on or prior to the August 16, 2013, bar date.

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

Approximately 12 proofs of claim were filed by governmental units prior to the September 30, 2103 bar date applicable to governmental units. Altogether, the proofs of claim filed by governmental units assert approximately \$38.3 million in claims.

~~Approximately [] proofs of claim were filed by claimants prior to the November 26, 2013 bar date for claims applicable to the loss of retiree healthcare benefits. Altogether, the proofs of claim filed by these claimants assert approximately \$[] in claims. As of November 19, 2013, only two of the approximately 1,100 Retiree Health Care Benefit Claimants had filed proofs of claim asserting Retiree Health Benefit Claim amounts different than the amounts set forth in the Amended Creditors' List. The amounts asserted in such proofs of claim exceed the amounts listed in the Amended Creditors' List by approximately \$200,000 in one proof of claim and by \$9 in the other.~~

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

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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; and (4) 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 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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2 **8. Claims Relating to the Lease Out/Lease Back Transactions.**

3 **a. Background.**

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

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

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

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

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

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

b. 2003 Fire/Police/Library Leases.

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

(i) Financial Instruments Involved.

The financial instruments involved in this transaction are the City of Stockton Certificates of Participation (Redevelopment Housing Projects) Series 2003A, issued on June 27, 2003, in the original principal amount of \$1,160,000 (the “**2003A Fire/Police/Library Certificates**”) and the Certificates of Participation (Redevelopment Housing Projects) Taxable Series 2003B, issued on June 27, 2003, in the original principal amount of \$12,140,000 (the “**2003B Fire/Police/Library Certificates**”), and together with the 2003A Fire/Police/Library Certificates, the “**2003 Fire/Police/Library Certificates**”). Wells Fargo is the trustee under the 2003 Fire/Police/Library Certificates Trust Agreement (together with any successor trustee, the “**2003 Fire/Police/Library**

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

17 (ii) *Leased Properties.*

18 As described in more detail below, the properties that are involved in this transaction are
19 three fire stations, the City’s Main Police Facility, and the Maya Angelou Southeast Branch
20 Library (collectively, the “Fire/Police/Library Properties”). In order to facilitate the financing
21 to be provided by the 2003 Fire/Police/Library Certificates, the City, as owner of the
22 Fire/Police/Library Properties, leased the properties to the Financing Authority pursuant to that
23 certain Site and Facility Lease dated as of June 1, 2003, for a term ending on June 1, 2033, with a
24 possible extension of the term to the date upon which the 2003 Fire/Police/Library Certificates are
25 paid in full (the “Fire/Police/Library Lease Out”). Pursuant to section 510 of the City Charter,
26 the term of the Fire/Police/Library Lease Out cannot extend for more than 55 years or to May 31,
27 2058. The City contemporaneously leased the Fire/Police/Library Properties back from the
28 Financing Authority for the same number of years pursuant to the terms of a Lease Agreement

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1 dated as of June 1, 2003 (the "**Fire/Police/Library Lease Back**"). Thus, the City is the lessor
2 and the Financing Authority is the tenant under the Fire/Police/Library Lease Out, and the
3 Financing Authority is the lessor and the City is the tenant in the Fire/Police/Library Lease Back.

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

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

- 20 • **Fire Stations.** The City owns 13 fire stations, of which 12 are operating. Fire
21 Stations No. 1, 5, and 14 were built in 1995-96. Each station primarily serves the
22 neighborhood in which it is located and occupies a half-acre site with a building of
23 approximately 5,000 square feet. Station No. 1 is located in the south area of the
24 City in the South Stockton Redevelopment Project Area; it was closed as a result
25 of budget cuts. Station No. 5 is located in the south area off Interstate 5 in the
26 Weston Ranch Subdivision. Station No. 14 is located in the north area in a newer
27 residential community commonly referred to as Spanos Park located off Interstate
28 5 and Eight Mile Road.

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

(iii) *Ambac Settlement Agreement.*

On February 26, 2013, the City filed a motion with the Bankruptcy Court in which it requested the Bankruptcy Court to enter an order approving the Ambac Settlement Agreement [Dkt. No. 723]. A copy of the Ambac Settlement Agreement 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 on February 26, 2013 [Dkt. No. 725]. On April 24, 2013, the Bankruptcy Court entered its order granting the Ambac Settlement Agreement Motion in its entirety and approving the Ambac Settlement Agreement in its entirety [Dkt. No. 888].

Pursuant to the Ambac Settlement Agreement, Ambac and the 2003 Fire/Police/Library Certificates Trustee will forbear from exercising their rights under the 2003 Fire/Police/Library Certificates in exchange for payment of their attorneys’ fees, certain General Fund Payments (as defined in the Ambac Settlement Agreement) towards the principal of and interest on the Certificates, the assignment to the 2003 Fire/Police/Library Certificates Trustee of the City’s rights under the Certificates, the collateral assignment and pledge to the 2003 Fire/Police/Library Certificates Trustee of all of the City’s rights, title and interest under the 2003 Fire/Police/Library Certificates Reimbursement Agreement, including its right to the Housing Set-Aside Amounts (the “**2003 Housing Set-Aside Rights**”), the further assignment of the 2003 Housing Set-Aside

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1 Rights by the 2003 Fire/Police/Library Certificates Trustee to Ambac if and when required by the
2 terms of the 2003 Fire/Police/Library Certificates Supplemental Trust Agreement (as defined
3 below), and the sale of certain City and Successor Agency properties for proceeds that will be
4 paid toward the principal of and interest on the Certificates. It also requires that the 2003
5 Fire/Police/Library Certificates Reserve Fund be distributed toward the principal of and interest
6 on the Certificates. Finally, the agreement requires that Ambac support and vote in favor of the
7 Plan so long as it is consistent with the agreement approved by the Bankruptcy Court.
8

9 **c. 2004 Arena Leases.**

10 The Plan does not modify, amend, or alter the 2004 Arena Bonds (defined below) or the
11 obligations of NPMG to pay principal or redemption price of, or interest on the 2004 Arena Bonds
12 as and when such amounts become due under the 2004 Arena Bond Indenture, which payments
13 shall be made by NPMG in accordance with, and subject to, the terms of the 2004 Arena Bond
14 Insurance Policy. Pursuant to the terms of the NPMG Arena Settlement and the Plan, the City will
15 assume the Arena Lease Out and the Arena Lease Back as modified by the NPMG Arena
16 Settlement.

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

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

26 As described in more detail below, the property and facility involved in this transaction is
27 the Stockton Arena (as more particularly described below, the “**Arena**”). In order to facilitate the
28 financing provided by the 2004 Arena Bonds, the City, as owner of the Arena, leased the Arena to
the Successor Agency pursuant to that certain Site Lease dated as of March 1, 2004, for a term

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

10 As tenant under the Arena Lease Out, the Successor Agency paid rent for the entire lease
11 term in the amount of \$1.00. The Successor Agency agreed under the Arena Lease Back to allow
12 the City to use the proceeds of the 2004 Arena Bonds to construct the Arena facilities. As tenant
13 under the Arena Lease Back, the City agreed to make payments, including certain semi-annual
14 rental payments in varying amounts (\$2,570,687 for fiscal year 2012-13, \$2,621,346 for fiscal
15 year 2013-14, \$2,673,221 for fiscal year 2014-15, etc.) (the “**Arena Lease Back Rental**
16 **Payments**”). The Successor Agency assigned its rights under the Arena Lease Back, including
17 the rights to enforce the lease after default by the City, and including the stream of Arena Lease
18 Back Rental Payments from the City, to support the repayment of the 2004 Arena Bonds. In
19 addition, pursuant to the terms of that certain Pledge Agreement between the City as pledgor and
20 the Successor Agency as pledgee dated as of March 1, 2004 (the “**Arena Pledge Agreement**”),
21 the City pledged certain incremental tax revenues (the “**Pledged Tax Increment**”) expected to be
22 collected from the West End Urban Renewal Project No. 1, a former development project area
23 consisting of 642 acres surrounding and including the Arena, located in the heart of downtown
24 Stockton, just north of the City’s Crosstown Freeway and east of Interstate 5, containing a mix of
25 commercial, industrial, and residential uses (the “**West End Project Area**”). As a result of the
26 enactment of Assembly Bill X1 26 (“**AB 26**”) as modified by Assembly Bill 1484 (“**AB 1484**”),
27 amending certain sections of the California Health and Safety Code, which together effected the
28 dissolution of redevelopment agencies in the State of California, certain other tax increment

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1 monies formerly allocated to the former redevelopment agencies have been transferred to their
2 successor agencies (in this case, the City acting in that capacity) and are available in addition to
3 pledged revenues to pay enforceable obligations such as the Arena Pledge Agreement (the
4 “**Additional Tax Increment Revenues**”). No other revenues or assets are pledged to support the
5 repayment of the 2004 Arena Bonds, the repayment obligation is non-recourse to the Successor
6 Agency, and the 2004 Arena Bonds are payable solely from the 2004 Arena Bond Reserve Fund,
7 the Arena Lease Back Rental Payments, the Pledged Tax Increment, and the Additional Tax
8 Increment Revenues.

9 (ii) *Leased Property.*

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

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

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

28 ///

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(iii) *NPFG Arena Settlement.*

The City has reached an agreement with NPFG regarding the Arena Lease Out, the Arena Lease Back, and the Pledged Tax Increment. The terms are contained in the NPFG Arena Settlement; the NPFG Settlement Term Sheet is attached hereto as **Exhibit C**. In general, with respect to the Arena, the NPFG Arena Settlement provides that, subject to the modification of the payment terms of the Arena Lease Back in accordance with the terms of 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.

d. **2004 Parking Structure Leases.**

The Plan does not modify, amend, or alter the 2004 Parking Bonds (defined below) or the obligations of NPFG 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 NPFG in accordance with, and subject to, the terms of the 2004 Parking Bond Insurance Policy. Pursuant to the terms of the NPFG Parking Settlement and the Plan, the City will assume the Parking Structure Lease Out and the Parking Structure Lease Back as modified by the NPFG Parking Settlement.

(i) *Financial Instruments Involved.*

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

As described in more detail below, the properties and facilities involved in this transaction are the Edmund S. Coy Parking Structure, the Stockton Events Center Parking Structure, and the Market Street Garage (as more particularly defined below, the “**Parking Structure Properties**”).

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1 In order to facilitate the financing provided by the 2004 Parking Bonds, the City, as owner of the
2 Parking Structure Properties, leased the properties to the Financing Authority, pursuant to a site
3 and facility lease dated as of June 1, 2004, for a term ending on September 1, 2034, with a
4 possible extension of the term to the date upon which the 2004 Parking Bonds are paid in full (the
5 "**Parking Structure Lease Out**"). Pursuant to section 510 of the City Charter, the term of the
6 Parking Structure Lease Out cannot extend for more than 55 years or to May 31, 2059. The City
7 contemporaneously leased the properties back from the Financing Authority for the same number
8 of years pursuant to the terms of the Lease Agreement dated as of September 1, 2004 (the
9 "**Parking Structure Lease Back**"). Thus, the City is the lessor and the Financing Authority is
10 the tenant under the Parking Structure Lease Out transaction, and the Financing Authority is the
11 lessor and the City is the tenant in the Parking Structure Lease Back transaction.

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

26 Even before filing the Chapter 9 Case, due to a lack of revenues generated by the Parking
27 Structure Properties, and as a result of the deteriorating finances of the City, the City defaulted in
28 the payment of the Parking Structure Lease Back Rental Payments. As a result of these

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1 circumstances, the 2004 Parking Bond Trustee filed suit to enforce the Parking Structure Lease
2 Back, with the result that the Superior Court of the State of California for the County of San
3 Joaquin issued two decisions on April 19, 2012, one granting the 2004 Parking Bond Trustee
4 “Judgment of Possession After Unlawful Detainer” and also appointing a receiver for the Parking
5 Structure Properties under an “Order Appointing Receiver.” See *Wells Fargo Bank, National*
6 *Association v. City of Stockton*, Superior Court of the State of California, County of San Joaquin,
7 case no. 39-2012-00277622-CU-UD-STK. The Judgment of Possession found the City to be in
8 unlawful detainer of the Parking Structure Properties and awarded possession of the Parking
9 Structure Properties to the 2004 Parking Bond Trustee. Under the Judgment of Possession, the
10 2004 Parking Bond Trustee can operate and re-let the Parking Structure Properties for the account
11 of the City. The Judgment of Possession also entitles the 2004 Parking Bond Trustee to
12 reimbursement of its costs for the unlawful detainer proceeding, as well as reimbursement of its
13 attorney fees and expenses under the Parking Structure Lease Back.

14 (ii) *Leased Properties.*

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

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

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

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

27 This structure is located in the vicinity of Fremont and Van Buren Streets in downtown
28 Stockton. The seven-story parking structure provides approximately 600 parking spaces on the

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1 north shore of the Stockton Channel to accommodate sports fans, concert goers, and event
2 attendees. The structure has approximately 7,500 square feet of ground-level commercial/retail
3 fronting Fremont Street and was constructed using a single-threaded helix design. The total cost
4 of construction was originally estimated at \$9,595,000, with all such amounts provided by
5 proceeds of the 2004 Parking Bonds.
6

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

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

13 (iii) *NPFG Parking Settlement.*

14 The City has reached an agreement with NPFG regarding the Parking Structure Lease Out
15 and the Parking Structure Lease Back. The terms are contained in the NPFG Parking Settlement;
16 the NPFG Settlement Term Sheet is attached hereto as **Exhibit C**. In general, with respect to the
17 Parking Structure Properties, the NPFG Parking Settlement provides that the City will create a
18 new parking authority for the City that will be comprised of the Parking Structure Properties plus
19 other downtown parking structures and lots, and downtown parking meters and parking
20 enforcement revenues; that revenues from the newly created parking authority will be pledged to
21 the 2004 Parking Bond Trustee to make payments from the revenues of the parking authority; and
22 that the City's General Fund will have no liability for the modified payment schedule.

23 The effectiveness of the NPFG Parking Settlement is contingent upon the entry into the
24 SCC 16 Settlement Agreement. In the event the parties are unable to agree to the terms of such
25 settlement that is acceptable to NPFG, then the City, at the request or direction of the 2004
26 Parking Bond Trustee or NPFG, shall take such actions (if any) that may be required by the 2004
27 Parking Bond Trustee or NPFG to terminate the Parking Structure Lease Back as part of an
28 alternative arrangement that is acceptable to the City and the 2004 Parking Bond Trustee that is

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not conditioned on the occurrence of such settlement. As a result, the parking authority will obtain possession, custody, and control of the Parking Structure Properties.

e. **2006 SEB Leases.**

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

(i) *Financial Instruments Involved.*

The financial instruments involved in this transaction are the Stockton Public Financing Authority 2006 Lease Revenue Refunding Bonds, Series A, issued on April 6, 2006, in the aggregate principal amount of \$13,965,000 (the "**2006 SEB Bonds**"). Wells Fargo is the indenture trustee under the 2006 SEB Bond Indenture (together with any successor trustee, the "**2006 Bond Trustee**"). A reserve fund exists for the 2006 SEB Bonds in an amount equal to the initial reserve requirement funded by a surety policy for the reserve fund issued by NPMG, which such initial reserve requirement equals \$919,093.75 (the "**2006 SEB Bond Reserve Fund**"). The funds in the 2006 Bond Reserve Fund are pledged to support repayment of the 2006 SEB Bonds. Payment of principal of and interest on the 2006 SEB Bonds is insured by NPMG pursuant to the terms of the 2006 SEB Bond Insurance Policy.

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

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1 Agreement dated as of March 1, 2006 (the "**SEB Lease Back**"). Thus, the City is the lessor and
2 the Financing Authority is the tenant under the SEB Lease Out transaction, and the Financing
3 Authority is the lessor and the City is the tenant in the SEB Lease Back transaction.

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

16 (ii) *Leased Properties.*

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

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

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

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(b) SEB Parking Facility.

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

(iii) Lease Assumption; NCFG SEB Settlement.

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

The City has reached an agreement with NCFG regarding the SEB Lease Out and the SEB Lease Back. The terms are contained in the NCFG SEB Settlement; the NCFG Settlement Term Sheet is attached hereto as **Exhibit C**. In general, with respect to the SEB Properties, the NCFG SEB Settlement provides that the City will assume the SEB Lease Back, and as a result, the City will continue to remain in possession, custody and control of the SEB Properties.

f. 2007 Office Building Leases.

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

(i) Financial Instruments Involved.

The financial instruments involved in this transaction are the Stockton Public Financing Authority Variable Rate Demand Lease Revenue Bonds, 2007 Series A (Building Acquisition Financing Project), issued on November 29, 2007, in the aggregate principal amount of

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1 \$36,500,000 (the “**2007 Series A Bonds**”) and the Stockton Public Financing Authority Taxable
2 Variable Rate Demand Lease Revenue Bonds, 2007 Series B (Building Acquisition Financing
3 Project), issued on November 29, 2007, in the aggregate principal amount of \$4,270,000 (the
4 “**2007 Series B Bonds**”) and together with the 2007 Series A Bonds, the “**2007 Office Building**
5 **Bonds**”). Wells Fargo is the indenture trustee under the 2007 Office Building Bond Indenture
6 (together with any successor trustee, the “**2007 Office Building Bond Trustee**”). The 2007
7 Office Building Bonds are insured by Assured Guaranty.

8
9 As described in more detail below, the property that is involved in this transaction is an
10 office building that was purchased with the net proceeds of the 2007 Office Building Bonds and
11 located at 400 E. Main Street in Stockton (the “**400 E. Main Office Building Property**”). In
12 order to facilitate the financing to be provided by the 2007 Office Building Bonds, the City, as
13 prospective owner of the 400 E. Main Office Building Property, leased the property to the
14 Financing Authority pursuant to that certain Site and Facility Lease dated as of November 1,
15 2007, for a term ending on September 1, 2048, with a possible extension of the term to the date
16 upon which the 2007 Office Building Bonds are paid in full, but in any event no later than
17 September 1, 2058 (the “**Office Building Lease Out**”). The City contemporaneously leased the
18 400 E. Main Office Building Property back from the Financing Authority for the same number of
19 years pursuant to the terms of the Lease Agreement dated as of November 1, 2007 (the “**Office**
20 **Building Lease Back**”). Thus, the City is the lessor and the Financing Authority is the tenant
21 under the Office Building Lease Out transaction, and the Financing Authority is the lessor and the
22 City is the tenant in the Office Building Lease Back transaction.

23 As tenant under the Office Building Lease Out, the Financing Authority paid rent for the
24 entire lease term in the amount of \$1.00. Pursuant to the Office Building Lease Back, the
25 Financing Authority agreed to provide to the City the net proceeds of the 2007 Office Building
26 Bonds (with gross proceeds equal to \$40,355,000), which the City then used to acquire the 400 E.
27 Main Office Building Property. As tenant under the Office Building Lease Back, the City agreed
28 to make payments, including certain annual rental payments in the amount of interest accruing on
the 2007 Office Building Bonds plus principal amortization specified in the Office Building Lease

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1 Back (such principal amortization is scheduled as \$155,000 due on September 1, 2012, \$165,000
2 due on September 1, 2013, and \$175,000 due on September 1, 2014, etc.) (the “**Office Building**
3 **Lease Back Rental Payments**”). The Financing Authority assigned its rights under the Office
4 Building Lease Back, including the rights to enforce the lease after default by the City, and
5 including the stream of Office Building Lease Back Rental Payments from the City, to support the
6 repayment of the 2007 Office Building Bonds. No other revenues or assets are pledged to support
7 the repayment of the 2007 Office Building Bonds, the repayment obligation is non-recourse to the
8 Financing Authority, and the 2007 Office Building Bonds are payable solely from the Office
9 Building Lease Back Rental Payments. Even before filing its Chapter 9 Case, due to a lack of
10 revenues generated by the 400 E. Main Office Building Property, and as a result of the
11 deteriorating finances of the City, the City defaulted in the payment of the Office Building Lease
12 Back Rental Payments. As a result, the 2007 Office Building Bond Trustee filed suit to enforce
13 the Office Building Lease Back, with the result that the Superior Court of the State of California
14 for the County of San Joaquin entered a Judgment of Possession on May 31, 2012 authorizing
15 Main Street Stockton LLC, as designee of the 2007 Office Building Bond Trustee, to enter into
16 possession of the 400 E. Main Office Building Property. See Judgment of Possession, filed May
17 31, 2012, *Wells Fargo Bank, National Association v. City of Stockton*, Superior Court of
18 California, County of San Joaquin, case no. 39-2012-00280741-CU-UD-STK. Under the
19 Judgment of Possession, the 2007 Office Building Bond Trustee can operate and re-let the 400 E.
20 Main Office Building Property for the account of the City, but cannot cause the fee interest or the
21 leasehold interest of the City in the 400 E. Main Office Building Property to be sold. The
22 Judgment of Possession also entitles the 2007 Office Building Bond Trustee to reimbursement of
23 its costs for the unlawful detainer proceeding, as well as reimbursement of its attorney fees and
24 expenses under the Office Building Lease Back.

25 The 2007 Office Building Bonds were issued as variable rate demand bonds under the
26 terms of which the interest rate was reset on a weekly basis. Holders of the 2007 Office Building
27 Bonds had the right to tender their bonds for purchase by the 2007 Office Building Bond Trustee,
28 acting as tender agent, on any date. Tendered bonds were to be remarketed to other investors

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1 pursuant to a remarketing agreement between the Financing Authority and a registered broker
2 dealer. In order to provide liquidity to holders of the 2007 Office Building Bonds in the event
3 that the tendered bonds could not be so remarketed, the Financing Authority and the City entered
4 into a Standby Bond Purchase Agreement, dated as of November 29, 2007 (the "**Office Building**
5 **Standby Agreement**"), with Dexia. Under the Office Building Standby Agreement, Dexia
6 agreed to purchase any 2007 Office Building Bonds that could not be remarketed. In the event of
7 such a purchase, the bonds so purchased ("**Bank Bonds**") were subject to adjustments to their
8 terms so long as they were held by Dexia. On February 28, 2012, the City Council voted to
9 commence the AB 506 process, and on April 26, 2012 an event of default of occurred in the
10 payment by the City of the amounts due under the Office Building Lease Back. As a result of the
11 announcement of the commencement of the AB 506 process, the occurrence of the default, and
12 the filing of the Chapter 9 Case, all of the 2007 Office Building Bonds were tendered for purchase
13 and were unable to be remarketed (the final tender date for the 2007 Series A Bonds is February
14 29, 2012, and the final tender date for the 2007 Series B Bonds is September 14, 2012).
15 Accordingly, Assured Guaranty purchased the 2007 Office Building Bonds and is now the sole
16 holder thereof. As Bank Bonds, the 2007 Office Building Bonds now bear interest at the Default
17 Rate under the Office Building Standby Agreement, which is equal to the Base Rate plus 3%
18 (currently, 6.25%).⁹ In addition, the Bank Bonds are subject to mandatory early redemption over
19 a seven-year period, and Assured Guaranty is obligated to insure payment of such early
20 redemption amounts pursuant to its bond insurance policy.

21 (ii) *Leased Property.*

22 The 400 E. Main Office Building Property is located at 400 East Main Street, Stockton. It
23 consists of a Class A, eight-story, steel-framed office building totaling approximately 246,541
24 square feet. The office building is situated on a 2.07-acre site, which is a square block fronting on
25

26 ⁹ 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 East Main Street, Market Street, South California Street, and South Sutter Street. The building
2 has an “H”-shaped floor plate with office wings flanking a central lobby on the first floor. The
3 lower three floors step back successively to form terraces extending around the building at Floors
4 2, 3, and 4, while the tower above Floor 4 has planar walls. The building’s exterior consists of
5 polished granite walls with tinted single-pane glass window and painted bronze aluminum
6 sections. It was constructed in 1988 and is supported by a foundation of cast-in-place concrete
7 pile in the form of a two-floor subterranean parking garage, which offers a parking ratio of
8 approximately 2.1 per 1,000 square feet, for a total of approximately 518 stalls. The 400 E. Main
9 Office Building Property continues to be owned by the City (subject to the Office Building Lease
10 Out to the Financing Authority and the Office Building Lease Back from the Financing
11 Authority).

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

18 Because of this investment, after the 2007 Office Building Bond Trustee took possession
19 of the 400 E. Main Office Building Property, the City and the 2007 Office Building Bond Trustee
20 entered into a short-term lease pursuant to which the City occupies the fourth floor of the building
21 (the “**Fourth Floor Lease of 400 E. Main**”). As described in the Assured Guaranty Settlement
22 Term Sheet, attached hereto as **Exhibit D**, the Fourth Floor Lease of 400 E. Main, will be
23 superseded by the New 400 E. Main Lease. The City currently occupies (and pays above market
24 rent for) only the fourth floor of the 400 E. Main Office Building Property. Including the City’s
25 occupancy, the 400 E. Main Office Building Property was approximately 60% vacant as of
26 September 2013, and barely breaks even on an operating basis before debt service. Under the
27 New 400 E. Main Lease, however, the City will enjoy exclusive use of approximately 65,000
28 square feet of rentable space and joint use of the common areas and will be relieved of the

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2 approximately \$1.8 million cost of relocating its information technology operations. In addition,
3 its rent will be below market.

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

6 The City has reached an agreement with Assured Guaranty regarding the treatment under
7 the Plan of the Claims arising out of the Office Building Lease Back Transaction (as well as the
8 Pension Obligation Bonds). The terms are contained in the Assured Guaranty Settlement. In
9 general, with respect to the 400 E. Main Property, the Assured Guaranty Settlement provides that
10 the Office Building Lease Out and Lease Back will be terminated. The City will transfer fee title,
11 and Main Street Stockton, LLC will transfer possessory interest, in the 400 E. Main Office
12 Building Property to Assured Guaranty or its designee at Assured Guaranty's election, subject to
13 the New 400 E. Main Lease. Assured Guaranty may elect to keep the property or sell it at some
14 future date to another purchaser, subject to the New 400 E. Main Lease. Assured Guaranty shall
15 be entitled to all rent and profits of the property after the transfer, and to all of the sales proceeds
16 of the property should Assured Guaranty elect to sell the property. The City shall be released
17 from any and all liability with respect to the 2007 Office Building Bonds and the terminated
18 Office Building Lease Out and Lease Back and other related bond documents.

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

25 Main Street Stockton, LLC is currently in possession, custody and control of the 400 E.
26 Main Property, and will remain in possession, custody and control of the 400 E. Main Property
27 through the Effective Date. The parties may later agree that a receiver will be put in possession,
28 custody and control of the 400 E. Main Property, and that Assured Guaranty will be granted an

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1 option to purchase. From and after the Effective Date, the Assured Guaranty Settlement
2 Documents will dictate and control which entity shall continue in possession, custody and control
3 of the 400 E. Main Property.
4

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

6 *(i) Financial Instruments Involved.*

7 The financial instruments involved in this transaction are the Stockton Public Financing
8 Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects), issued on
9 September 9, 2009, in the aggregate principal amount of \$35,080,000 (the “**2009 Golf**
10 **Course/Park Bonds**”). Wells Fargo is the indenture trustee (together with any successor trustee,
11 the “**2009 Golf Course/Park Bond Trustee**”) under the Indenture of Trust, dated as of
12 September 1, 2009, by and between the Financing Authority and the 2009 Golf Course/Park Bond
13 Trustee. A reserve fund exists for the 2009 Golf Course/Park Bonds with a balance as of
14 September 1, 2013, of \$904,380.81 (the “**2009 Golf Course/Park Bond Reserve Fund**”). The
15 funds in the 2009 Golf Course/Park Bond Reserve Fund are pledged to support repayment of the
16 2009 Golf Course/Park Bonds. The 2009 Golf Course/Park Bonds are not insured; however,
17 Franklin is the sole holder of the bonds.

18 *(ii) Leased Properties.*

19 As described in more detail below, the properties that are involved in this transaction are
20 Oak Park, the Van Buskirk Golf Course, and the Swenson Golf Course (as defined below, the
21 “**Golf Course/Park Properties**”). In order to facilitate the financing to be provided by the 2009
22 Golf Course/Park Bonds, the City, as owner of the Golf Course/Park Properties, leased the
23 properties to the Financing Authority, pursuant to a site and facility lease dated as of September 1,
24 2009, for a term ending on September 1, 2038, with a possible extension of the term to the date
25 upon which the 2009 Golf Course/Park Bonds are paid in full. Pursuant to section 510 of the City
26 Charter, the term of the lease cannot extend for more than 55 years or to August 31, 2064 (the
27 “**Golf Course/Park Lease Out**”). The City contemporaneously leased the properties back from
28 the Financing Authority for the same number of years pursuant to the terms of the Lease
Agreement dated as of September 1, 2009 (the “**Golf Course/Park Lease Back**”). Thus, the City

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1 is the lessor and the Financing Authority is the tenant under the Golf Course/Park Lease Out
2 transaction, and the Financing Authority is the lessor and the City is the tenant in the Golf
3 Course/Park Lease Back transaction.

4 As tenant under the Golf Course/Park Lease Out, the Financing Authority paid rent for the
5 entire lease term in a lump sum payment in the amount of \$1.00. Pursuant to the terms of the
6 Golf Course/Park Lease Back, the Financing Authority agreed to provide the net proceeds of the
7 2009 Golf Course/Park Bonds (with gross proceeds equal to \$35,080,000) to the City for the
8 purpose of financing various capital projects. As tenant under the Golf Course/Park Lease Back,
9 the City agreed to make payments, including certain semi-annual rental payments in varying
10 amounts (\$2,415,838 fiscal year 2012-13, \$2,923,119 for fiscal year 2013-14, \$2,926,332 for
11 fiscal year 2014-15, etc.) (the "**Golf Course/Park Lease Back Rental Payments**"). The
12 Financing Authority assigned to the 2009 Golf Course/Park Bond Trustee its rights under the Golf
13 Course/Park Lease Back, including the rights to enforce the lease after default by the City, and
14 including the stream of Golf Course/Park Lease Back Rental Payments from the City, to support
15 the repayment of the 2009 Golf Course/Park Bonds. No other revenues or assets are pledged to
16 support the repayment of the 2009 Golf Course/Park Bonds, the repayment obligation is
17 non-recourse to the Financing Authority, and the 2009 Golf Course/Park Bonds are payable solely
18 from the Golf Course/Park Lease Back Rental Payments. A default occurred on March 1, 2012 in
19 the payment by the City of amounts due under the Golf Course/Park Lease Back.

20 The subject properties consist of three separate properties, each of which continues to be
21 owned by the City (subject to the Golf Course/Park Lease Out to the Financing Authority and the
22 Golf Course/Park Lease Back from the Financing Authority) (as described below, the "**Golf**
23 **Course/Park Properties**").

24
25 (a) **Oak Park.**

26 This property is a public park of approximately 61.2 acres, bounded on the east by Union
27 Pacific railroad tracks, on the north by East Fulton Street, on the south by East Alpine Street, and
28 on the west by North Sutter and Alvarado Streets. This park features group picnic areas, 20 picnic
tables, two tot lots, 15 barbecue pits, and four restrooms. In addition, Oak Park features 11 tennis

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1 courts; two regulation softball fields; the Billy Hebert Field; a 6,000 seat, regulation professional
2 minor league baseball field (renovated in 2002); a multi-use field; a community swimming pool
3 complex with changing facilities; and an approximately 13,875-square-foot ice-rink facility with
4 seating for 350. A one-story senior center of approximately 5,000 square feet, which is available
5 for rental to the public is also located at Oak Park.

6
7 **(b) Swenson Golf Course.**

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

13
14 **(c) Van Buskirk Golf Course.**

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

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

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

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

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

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

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

As a result, each of the properties generates no revenues at all to service the debt obligations of the 2009 Golf Course/Park Bonds. Instead, the City has historically utilized certain 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,

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

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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 the rights of the Authority under the Golf Course/Park Lease Out, may have the option under section 365(h) to take possession of the Golf Course/Park Properties for the balance of the term of the Golf Course/Park Lease Out so long as the rent is paid and other amounts to be paid by it under the Golf Course/Park Lease Out are paid (and the City reserves its rights to contest or place limitations upon such election), or to treat the rejection of the Golf Course/Park Lease Out as a termination of the same and thereby allow possession and control of the Golf Course/Park Properties to remain with the City. Should the 2009 Golf Course/Park Bond Trustee succeed in taking possession and control of the Golf Course/Park Properties from the City, the City would be relieved of the obligation under the Golf Course/Park Lease Back to pay for expenses associated with the Golf Course/Park Properties, including utilities, insurance, and maintenance expenses, all of which would instead be borne by the 2009 Golf Course/Park Bond Trustee. The rent under the Golf Course/Park Lease Out was paid in a lump sum from the proceeds of the 2009 Golf Course/Park Bonds, so no further rent would be due and owing.

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

The actual decision will likely be made by Franklin, as the current holder of the 2009 Golf Course/Park Bonds, or its successor(s) should Franklin transfer ownership of the bonds. Franklin would have at least these options: (1) treat the rejection as a breach of the lease, make a claim for damages for breach of lease, and allow possession and control of the Golf Course/Park Properties to remain with the City (and the City would then need to make the decision of whether to continue to operate the Golf Course/Park Properties and underwrite the operating losses or close the Golf Course/Park Properties and pay for the closure, maintenance, security and other holding costs);

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1 (2) attempt to exercise the option under section 365(h) to take over possession and either operate
2 the Golf Course/Park Properties (and underwrite the operating deficits, likely in the hope that
3 such operating deficits can be converted into operating profits), or hold the Golf Course/Park
4 Properties without operating them (and underwrite the closure, maintenance, security and other
5 holding costs) in order to sell the rights to the remaining term of the Golf Course/Park Lease Out
6 to a third party. Although theoretically possible, the City believes it is unlikely that Franklin
7 would decide to enter into possession of the Golf Course/Park Properties for the balance of the
8 term of the Golf Course/Park Lease Out and shut the properties down, which would obligate
9 Franklin to pay all of the closure, maintenance, security and other holding costs of the Golf
10 Course/Park Properties without realizing any revenue at all from the operation of the properties.

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

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

24 Should the 2009 Golf Course/Park Bond Trustee/Franklin decide to and be successful in
25 taking possession of the Golf Course/Park Properties from the City, at the end of the term of the
26 Golf Course/Park Lease Out, possession, custody and control of the Golf Course/Park Properties
27 will revert to the City as the owner of the Golf Course/Park Properties.

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2 (v) *Limits/Restrictions Upon the Right of the Golf Course/Park*
3 *Bond Trustee/Franklin to Take Over Possession of the Golf Course/Park Properties.*

4 As a result of the lease/leaseback transaction described herein, the City is currently in
5 possession, custody and control of the Golf Course/Park Properties, but section 365(h) may
6 provide the Golf Course/Park Bond Trustee/Franklin the right to enter into possession and control
7 of the Golf Course/Park Properties. However, the Golf Course/Park Lease Out states in section 5
8 thereof, entitled "Purpose": "The Authority shall use the Site and the Facility solely for the
9 purpose of leasing the Site and the Facility to the City, pursuant to the Lease Agreement . . ."
10 Thus, the Golf Course/Park Bond Trustee/Franklin (having succeeded to the rights of the
11 Authority by assignment) may not have any rights to the Golf Course/Park Properties other than
12 to lease them to the City, and specifically may not have the right to operate the Golf Course/Park
13 Properties for their own account. The City is still considering the merits of such an argument.

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

24 [Franklin disputes the foregoing characterization of its rights and remedies in respect](#)
25 [to the 2009 Golf Course/Park Bonds, including the alleged limits or restrictions upon its](#)
26 [right to possess and use the Golf Course/Park Properties.](#)

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

Should the Golf Course/Park Bond Trustee/Franklin decide, for some reason, to take over the operations at the Golf Course/Park Properties, there will be a fairly massive change to the operations of the Golf Course/Park Properties. In order to plan for such a takeover, and in the absence of agreement with the Golf Course/Park Bond 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 over such operations? When would the changeover of possession occur? Which vendors would the Golf Course/Park Bond Trustee/Franklin like to retain and which vendors would they terminate (assuming they could even do so)?), as well as protections for the City to ensure the responsible, safe and professional operation of the facilities throughout the years of the Golf Course/Park Lease Out term (liability insurance satisfactory to the City would need to be maintained, adequate measures for security at all three facilities would need to be in place or in prospect, measures to ensure that access to all three facilities by members of the public would not be interrupted, changeover in billing arrangements for utilities such as water, gas, electricity, and telephone would need to be in place, arrangements with any new vendors would need to be in place, arrangements satisfactory to the City for the maintenance and upkeep and replacement of obsolete or non-functional equipment located at the facilities and maintenance and capital improvements of the facilities themselves would need to be in place, arrangements for allowing City personnel to access infrastructure and other public facilities located on the subject properties would need to be in place, etc.). The City would want to be protected from the uncertainty of not knowing when or if the Golf Course/Park Bond Trustee/Franklin would decide to enter into possession of the Golf Course/Park Properties. The City would want protection from Franklin attempting to provide the public with the idea that the City and the citizens of the City would lose access to and the use of the Golf Course/Park Properties unless Franklin's payment demands are met. The City would want protection from Franklin taking possession of the Golf Course/Park Properties to simply cease operations at the

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1 facilities, or worse, operate the facilities in an unsafe manner or allow the facilities to fall into
2 disrepair and neglect. And, the City would want protection from the chaos and public confusion
3 that could result if there are not guidelines and timetables for the transition from City-operated
4 properties to privately-operated properties.

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8 **(b) The Golf Courses Must Continue to Be Operated as Golf
9 Courses, and Oak Park Must Continue to Be Operated as a Park**

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

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

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

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

(vi) *Adversary Proceeding*

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

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

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9. **Pension Obligation Bonds.**

The Plan does not modify, amend, or alter the Pension Obligation Bonds (defined below) 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.

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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 (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 Wells Fargo, as indenture trustee (together with any successor trustee, the "**Pension Obligation 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 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

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

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

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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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B. Assets.

1. Capital Assets; Valuation and Sale Thereof.

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

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

The City's property broker, CBRE, Inc., has provided broker's opinions of value for the City-owned surplus properties approved for sale. The aggregated broker's opinions of value total from \$2.3 million to \$3 million. The City has sold one of these City-owned surplus properties 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, which settled the eminent

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1 domain action known as *City of Stockton v. Marina Towers LLC et al.*, San Joaquin Superior
2 Court, case no. CV022054, and related litigation.¹¹ Pursuant to the settlement, Marina Towers
3 LLC agreed to withdraw its proof of claim for \$1,875,000. The settlement with Marina Towers
4 LLC puts these five properties back on the tax roll in the hands of a capable developer. In
5 addition, it resolves a legal issue of first impression regarding the interplay between eminent
6 domain and bankruptcy law.

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

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

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

16 Judge Perris has successfully mediated negotiations between the City and Ambac, Assured
17 Guaranty, and NPMFG. Judge Perris also mediated negotiations with representatives of Franklin,
18 but to date a settlement with this creditor has not been forthcoming. Although the City cannot
19 discuss in any detail the content of privileged settlement negotiations, it is clear to the City that
20 reaching agreement with such parties on a consensual plan of adjustment will greatly increase the
21 payments that must be made out of the General Fund in the coming years.

22 There can be no assurances that the finances of the City in future years will be consistent
23 with any of the financial projections submitted herewith and creditors should review such

24 ¹¹ By this eminent domain action, the City took two parcels of real property from Marina Towers LLC to develop the
25 Stockton Event Center, a project that now includes a public ballpark and arena, public parking and related
26 services. The east parcel was unimproved, and the west parcel was improved with a five-story office building that
27 had been vacant since 1989. Extended state-court litigation over the City's right to take, pre-condemnation
28 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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1 financial statements with this caveat in mind (see the discussion of risk factors associated with the
2 Plan in Section VII below).

3
4 **D. Impact of Measure A upon Future City Finances and Ability of City to**
5 **Confirm the Plan.**

6 The City believes that Measure A, which Stockton voters passed on November 5, 2013,
7 will produce approximately \$28 million per year in new revenue from a 3/4 of one percent
8 increase in sales taxes (from 8.25% to 9%), and that such revenue is critical to the viability of the
9 Plan. The Plan Financial Projections, attached hereto as **Exhibit B**, assume the approval of
10 Measure A. Also on November 5, 2013, Stockton voters passed an advisory measure (Measure
11 B) that advises the City Council to use approximately 65% of the revenue generated by Measure
12 A over time to enhance depleted police services under the Marshall Plan and the remainder to
13 fund the City's ongoing expenses, including the cost of implementing the Plan.

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

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

20 The Plan involves claims of approximately \$299,505,000 of publicly held securities,
21 certain of which evidence and represent undivided fractional interests in General Fund leases of
22 many of the City's capital assets. Some of these assets are important or even essential to
23 municipal operations. The Plan also addresses and resolves the City's obligations to current and
24 former employees and various other claims. While the Plan permits the City to continue to
25 maintain minimally acceptable levels of vital municipal services for its residents and businesses,
26 and while it devotes substantial resources to the repayment of the City's creditors, it nevertheless
27 further defers infrastructure maintenance as well as the optimal staffing of City service units such
28 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, holders of lease rejection claims, the Retiree Health Benefit Claimants, and the holders
24 of Leave Buyout Claims—shall receive cash payment on the Effective Date in an amount equal to
25 a set percentage of the Allowed amount of such Claims. The percentage of the Allowed amount
26 paid on such claims will be the Unsecured Claim Payout Percentage (unless the amount of the
27 Retiree Health Benefit Claims changes, that percentage will be $\$5,100,000/\$545,000,000 =$
28 0.93578%) or such other amount as is determined by the Bankruptcy Court before confirmation of

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

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

12
13 **A. Classification and Treatment of Claims.**

14 **1. Unclassified Claims.**

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

17 **a. Administrative Claims.**

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

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

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

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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.

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

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

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

2. Classified Claims

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

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

b. Class 1B – Claims of Holders of 2003 Fire/Police/Library 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 1B Claims is Ambac, who, as the deemed holder of the Class 1B Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

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

The deemed holder of the Class 2 Claims is NPFG. 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

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1 SEB Settlement. The finding by the Bankruptcy Court that the Plan is feasible shall constitute
2 adequate assurance of future performance of the SEB Lease Back and the SEB Lease Out. The
3 Plan does not modify, amend, or alter the 2006 SEB Bonds or the obligations of NPFPG to pay
4 principal or redemption price of, or interest on, the 2006 SEB Bonds as and when such amounts
5 become due under the 2006 SEB Bond Indenture, which payments shall be made by NPFPG in
6 accordance with, and subject to, the terms of the 2006 SEB Bond Insurance Policy. Class 2 is not
7 Impaired by the Plan since the treatment of this Class will not affect the legal, equitable, or
8 contractual rights of the holders of the Claims, and, accordingly, NPFPG, as the deemed holder of
9 the Class 2 Claims, is not entitled to vote to accept or reject the Plan in accordance with the Plan
10 Solicitation Order.

11 ##

12 ##

13
14 **d. Class 3 – Arena Claims of the 2004 Arena Bond Trustee/NPFPG**
15 **– 2004 Arena Bonds.**

16 The deemed holder of the Class 3 Claims is NPFPG. The treatment of the Class 3 Claims
17 will be as set forth in the NPFPG Arena Settlement Documents, which should be consulted for the
18 precise terms of the treatment. In summary, with respect to these Claims, after modification of
19 the payment terms of the Arena Lease Back, as provided in the NPFPG Arena Settlement, on the
20 Effective Date, the City will assume the Arena Lease Back (as modified), and as a result, the City
21 will continue to remain in possession, custody, and control of the Arena. The Plan does not
22 modify, amend, or alter the 2004 Arena Bonds or the obligations of NPFPG to pay principal or
23 redemption price of, or interest on the 2004 Arena Bonds as and when such amounts become due
24 under the 2004 Arena Bond Indenture, which payments shall be made by NPFPG in accordance
25 with, and subject to, the terms of the 2004 Parking Bond Insurance Policy. NPFPG, as the deemed
26 holder of the Class 3 Claims, is entitled to vote to accept or reject the Plan in accordance with the
27 Plan Solicitation Order.

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

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

16 The effectiveness of the NPMG Settlement is contingent upon the entry into the SCC 16
17 Settlement Agreement. In the event the parties are unable to agree to the terms of such settlement
18 that is acceptable to NPMG and the 2004 Parking Bond Trustee, then the City, at the request or
19 direction of the 2004 Parking Bond Trustee or NPMG shall take such actions (if any) that may be
20 required by the 2004 Parking Bond Trustee or NPMG to terminate the Parking Structure Lease
21 Back as part of an alternative arrangement that is acceptable to the City and the 2004 Parking
22 Bond Trustee that is not conditioned on the occurrence of such settlement.

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

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NPFG, 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 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.

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

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

g. Class 6 – Pension Obligation Bonds Claims

The deemed holder of the Class 6 Claims is Assured Guaranty. 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 (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 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

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1 provide that such payments shall be paid from the restricted revenues associated
2 with each of the Class 10 obligations only to the extent permitted by the Class 10
3 documents and applicable law but the City shall otherwise remain obligated to
4 make such payments in accordance with the Assured Guaranty Settlement.

- 5 • Assured Guaranty (or in the event Assured Guaranty has defaulted on its
6 obligations under the Pension Obligation Bond Insurance Policy, the Pension
7 Obligation Bonds Trustee) shall also be entitled to Contingent Payments in
8 accordance with the City's Contingent Payment Model, a copy of which is attached
9 to the Assured Guaranty Term Sheet as Exhibit A. If the City does not exceed its
10 baseline financial projections in the upcoming years, Assured Guaranty would
11 receive no Contingent Payments. However, if the City were to exceed its financial
12 projections over the years—which the City and Assured Guaranty believe may be
13 achievable—Assured Guaranty would receive Contingent Payments until Assured
14 Guaranty has received payment in full on the Pension Obligation Bond Class 6
15 Claims; *provided*, that the last date a Contingent Payment is required to be paid is
16 June 1, 2052, unless any Contingent Payments have been suspended pursuant to
17 the terms of the Assured Guaranty Settlement Documents, in which event such
18 Contingent Payments shall be paid in accordance with the Assured Guaranty
19 Settlement Documents. Contingent Payments will be based upon the City's budget
20 in each year, subject to adjustment following year-end audit.
- 21 • Contingent Payments on the Pension Obligation Bonds for each fiscal year shall be
22 paid on June 1 of such fiscal year, commencing June 1, 2018 and ending on June 1,
23 2052, subject to adjustment based on audits as mentioned above.
- 24 • The Plan does not modify, amend, or alter the Pension Obligation Bonds or the
25 obligations of Assured Guaranty to pay principal or redemption price of, or interest
26 on Pension Obligation Bonds as and when such amounts become due under
27 Pension Obligation Bond Indenture, which payments shall be made by Assured
28

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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-
~~///~~
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).

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**”),¹² 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

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

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1 Agreement (the “**DBW Construction Loan Claim**”), secured by a pledge of gross revenues
2 under the terms of a Collateral Assignment of Rents and Leases for the Project Area, which
3 pledge is converted to a pledge of net revenues by virtue of section 928(b). Because the Marina
4 Construction Loan was not submitted to and approved by 2/3 of the voters of the City, any
5 obligation of the City’s General Fund to make payments under the Marina Construction Loan is
6 *void ab initio*, and the unsecured portion of this Claim is not an Allowed Claim.¹³

7 As evidenced by that certain Stockton Waterfront Marina \$180,000 Planning Loan
8 Contract (also titled the Planning Study Contract, Stockton Waterfront Marina Study Loan) dated
9 as of September 13, 1996, DBW made an unsecured loan to the Successor Agency in the amount
10 of \$280,000, bearing interest at 4.5% per year with a repayment term of ten (10) years, with equal
11 annual installment payments due on August 1 of each year commencing on August 1, 2003 (as
12 amended from time to time (the “**Marina Planning Report Loan**”). DBW has asserted a Claim
13 under the Marina Planning Report Loan (the “**DBW Marina Planning Report Loan Claim**”).
14 This claim is an unsecured claim against the Successor Agency, is not a claim against the City,
15 and is included herein for information only.

16 Under the Plan, the General Fund will not be required to pay debt service on the DBW
17 Construction Loan Claim, or to reimburse operating expenses to DBW should DBW take over
18 operations of the Marina Project. DBW will retain its pledge of rents and leases generated from
19 the Marina Project. However, the pledge of gross revenues will be converted to a pledge of
20 revenues net of all reasonable and direct operating expense of the Marina Project, calculated on a
21 fiscal year basis ending June 30 of each year pursuant to section 928(b). Should DBW decide to
22 take over operations of the Marina Project, DBW will be responsible for payment of all operating
23 expenses of the Marina Project, and the City will have the right to ensure that the Marina Project
24 is operated in a responsible and safe manner, including providing adequate security, and the City
25 shall have the right to compel DBW to alter its manner of operations if such operations pose a
26 threat to the public welfare or if such operations abet a public nuisance. The General Fund shall

27 ¹³ The obligation to pay the Marina Construction Loan from revenues of the Marina Project—as opposed to the
28 General Fund—does not violate the Debt Limit because the Marina Project operates as an enterprise fund. See
City of Oxnard v. Dale, 45 Cal. 2d 729, 737, 290 P.2d 859, 863 (1955).

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1 have no liability, directly or indirectly, for the Claims of DBW, and the City may decide at any
2 time to cease subsidizing the operating deficits of the operation of the Marina Project. DBW has
3 stated to the City an interest in exercising its remedy of taking possession of the Marina Project.
4 The real property that is the subject of the Marina Project shall be that real property described in
5 Exhibit A to the Plan, and should DBW exercise its remedy of taking possession of the Marina
6 Project, DBW shall succeed to possession and control only over the real property set forth in
7 Exhibit A to the Plan.

8 ///

9
10 **i. Class 8 – SCC 16 Claims.**

11 To the extent SCC 16 has any offset rights arising under the Construction Agreement or
12 the Disposition and Development Agreement, SCC 16 shall apply any such offsets against
13 amounts owing under the SCC 16 Promissory Note.

14 **j. Class 9 – Thunder Claims.**

15 The treatment of the Class 9 Claims will be as set forth in the Thunder Settlement. The
16 Thunder Settlement is summarized as follows (the Thunder Settlement Term Sheet, attached
17 ///
18 hereto as **Exhibit E**, should be consulted for the precise terms of the Thunder Settlement; any
19 further documentation of the Thunder Settlement will be attached to the Plan Supplement):

- 20 • The Base Rent payable to the City will be increased by \$2,000 per regular season
21 home game. Base Rent for pre-season and playoff games remains unchanged.
- 22 • Catering Services Adjusted Gross Revenue paid to the team will be reduced from
23 30% to 10%.
- 24 • The team will have the exclusive right to sell team merchandise, will retain 100%
25 of revenues from the same and bear the expenses of the same.
- 26 • The team will purchase the use of five luxury suites from the City each year for a
27 total cost of \$150,000, adjusted annually for any increases in the costs of other
28 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

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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 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.

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

Class 11 consists of Claims of the holders of Special Assessment and Special Tax Obligations, 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.

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

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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.

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m. Class 12 – General Unsecured Claims.

The Claims in this Class include without limitation: (i) the Retiree Health Benefit Claims; (ii) the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (iii) the Leave Buyout Claims; and (iv) 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 \$545,000,000.¹⁴ Pursuant to the Retirees Settlement, on the Effective Date, the City will pay the Retirees an aggregate amount of \$5,100,000 in full satisfaction of Allowed Retiree Health Benefit Claims, and no other retiree health benefits will be provided by the City. If required by state or federal law, the City will withhold from the aggregate \$5,100,000 payment any taxes or other deductions to be withheld from the individual payment to each Retiree Health Benefit Claimant. The individual recipient is responsible for any tax liability for this payment, and the City will not provide any advice to any recipient as to the taxable impact of this payment.

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 percentage equals the Unsecured Claim Payout Percentage, or such other amount as is determined by the

¹⁴ 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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Bankruptcy Court before confirmation of the Plan to constitute a pro-rata payment on such other General Unsecured Claims; *provided, however*, 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 five percent (5%) per annum. Such excess amounts may be prepaid at the option of the City.

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n. Class 13 – Convenience Class Claims.

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.

o. Class 14 – Claims of Certain Tort Claimants.

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.

///

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

In order to be both clear and transparent, the Plan designates the CalPERS contract in a separate Class. CalPERS will continue as the trustee for the City’s pension plan for its employees, and the 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

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1 nonbankruptcy law. Thus, CalPERS and the CalPERS Pension Plan Participants will be entitled
2 to the same rights and benefits to which they are currently entitled under the CalPERS Pension
3 Plan.¹⁵ CalPERS, pursuant to the CalPERS Pension Plan, will continue to be made available to
4 provide pension benefits for participants in the manner indicated under the provisions of the
5 CalPERS Pension Plan and remedies under applicable nonbankruptcy law.

6 ///

7
8 **q. Class 16 – Claims of Equipment Lessors.**

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

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

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

18 **s. Class 18 – SPOA Claims.**

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

22 Specifically, the SPOA MOU provides as follows:

23 2. SPOA’s Claims. SPOA alleges that its members have claims in the
24 bankruptcy case against the City relating to the City’s modification of its 2009
25 Memorandum of Understanding (“2009 MOU”), pursuant to Declarations of

26 ¹⁵ As a result of negotiated labor contracts that changed certain pension provisions, as well as changes in state law,
27 pension benefits for new hires effective January 2013 have been reduced by 50-70% (including loss of retiree
28 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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Fiscal Emergency beginning on or about May 26, 2010 and continuing in effect thereafter, and in connection with the treatment of the claims of SPOA and its members under the Pendency Plan (collectively, the "Claims"), and that, in the aggregate, the Claims exceed thirteen million dollars (\$13,000,000). The City disputes the Claims and contends that the Claims would not be allowed in the chapter 9 case. It further asserts that, if the Claims were allowed, they would be allowed in an amount aggregating less than thirteen million dollars (\$13,000,000).

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

(a) The Claims will be deemed allowed in the chapter 9 case in the aggregate amount of eight million, five hundred thousand dollars (\$8,500,000) (the "Allowed Claims"). In consideration for the reduction in the amount of the Claims SPOA members employed during fiscal year 2010-2011 and/or 2011-2012 shall be credited, upon final approval of the MOU by the Parties and, if necessary, 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 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.

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1 SPOA MOU at 55-56.

2 **t. Class 19 – Price Claims**

3 On May 2, 2002, Richard Price, five other low-income individuals who were
4 displaced from single-room-occupancy housing units in downtown Stockton in connection with
5 the City’s code-enforcement activities, and the Interfaith Council of San Joaquin (formerly
6 Stockton Metro Ministry Inc.) (collectively, the “**Price Judgment Creditors**”) filed an action
7 against the City, the Successor Agency, and other parties, captioned as *Price, et al. v. City of*
8 *Stockton, et al.*, United States District Court for the Eastern District of California, case no.
9 2:02-cv-00065-LKK-KJM. In their complaint, the Price Judgment Creditors alleged that the
10 defendants had violated certain state and federal redevelopment, relocation assistance, and fair
11 housing laws. The parties settled the action pursuant to a settlement agreement, dated as of
12 January 9, 2006. See Exhibit B to Declaration of Hilton S. Williams in Support of Motion for
13 Relief from Stay, filed in the Chapter 9 Case on November 29, 2012 [Dkt. No. 628]. On January
14 12, 2006, the District Court entered judgment against the defendants pursuant to this settlement
15 agreement. See Exhibit C to Declaration of Hilton S. Williams in Support of Motion for Relief
16 from Stay, filed on November 29, 2012 in the Chapter 9 Case [Dkt. No. 628]. Among other
17 things, the judgment obligated the City to construct low-income housing and to establish a
18 restricted fund in the amount of approximately \$1.45 million for distribution by a special master
19 over a five-year period to persons displaced by the City’s activities.

20 The ~~treatment of the Class 19 Claims will be as set forth in the Price Settlement, which~~
21 ~~should be consulted for the precise terms of the treatment~~City and the Price Judgment
22 Creditors reached agreement (the “Price Settlement”) as the result of the mediation
23 conducted by Judge Perris. The Price Settlement is subject to City Council approval, which
24 is expected in early December. The documents that will memorialize the Price Settlement
25 will be included in the Plan Supplement. The Price Settlement includes the following
26 component parts, none of which will have any material monetary impact on the City. The
27 City and the Price Judgment Creditors have agreed on: (1) the manner of calculating the
28 number of replacement units the City has produced to date; (2) a methodology for creating

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1 a list of persons entitled to preference for housing units, including the creation and
2 monitoring of a list; (3) a means for reaching out to the community about the availability of
3 replacement units, using community support agencies and through other vehicles, and a
4 way to monitor the City's compliance with such obligation; (4) the extinguishing of the
5 City's obligation to make relocation assistance payments; and (5) the recognition that any
6 claim for attorney fees is treated as an unsecured claim in the Plan.

7
8 **B. Treatment of Executory Contracts and Unexpired Leases.**

9 **1. Generally.**

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

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

22 **2. Assumption.**

23 The City is a party to hundreds of executory contracts and unexpired leases. Significant
24 agreements include: (i) its collective bargaining agreements with its nine unions, most of which
25 were reached before or not long after the Petition Date; (ii) numerous equipment and vehicle
26 leases; (iii) agreements with contractors and other vendors to the City; (iv) the City's obligations
27 to CalPERS in its capacity as trustee for the City's pension trust for the City's employees and
28 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 miscellaneous); and

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

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

11 **3. Rejection.**

12 The City will file the Rejection Motion, pursuant to section 365(a), to seek approval and
13 authorization for the rejection of those executory contracts and unexpired leases that it does not
14 elect to assume. Such agreements are those that the City, in the exercise of its business judgment,
15 deems burdensome. The City anticipates rejecting few executory contracts or unexpired leases.
16 As described above, the City will reject all of its financing leases except for the (i)
17 Fire/Police/Library Lease Out, the Fire/Police/Library Lease Back, and any other executory
18 contracts related to the 2003A Fire/Police/Library Certificates, which shall be subject to the
19 treatment as set forth in the Ambac Settlement Agreement, (ii) the Arena Lease Out, the Arena
20 Lease Back, and any other executory contracts related to the 2004 Arena Bonds, which shall be
21 subject to the treatment as set forth in the NPMG Settlement, (iii) the Parking Structure Lease Out,
22 the Parking Structure Lease Back, and any other executory contracts related to the 2004 Parking
23 Bonds, which shall be subject to the treatment as set forth in the NPMG Settlement, (iv) the SEB
24 Lease Out, and the SEB Lease Back, and any other executory contracts related to the 2006 SEB
25 Bonds, which shall be subject to the treatment as set forth in the NPMG Settlement, and (v) the
26 Office Building Lease Out, the Office Building Lease Back, and any other executory contracts
27 related to the 2007 Office Building Bonds, which shall be subject to the treatment as set forth in
28 the Assured Guaranty Settlement. As to the Parking Structure Lease Back, as provided in the

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1 NPMG Settlement, upon the occurrence of certain circumstances, the City, at the request or
2 direction of the 2004 Parking Bond Trustee or NPMG shall take such actions (if any) that may be
3 required by the 2004 Parking Bond Trustee or NPMG to terminate the Parking Structure Lease
4 Back as part of an alternative arrangement that is acceptable to the City and the 2004 Parking
5 Bond Trustee.

6 ~~///~~

7
8 **4. Deadline for the Assertion of Rejection Damage Claims; Treatment of**
9 **Rejection Damage Claims.**

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

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

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

25 Except as otherwise set forth in the Plan, the Plan provides that the City retains all of its
26 claims, causes of action, rights of recovery, rights of offset, recoupment rights to refunds, and
27 similar rights after the Effective Date. The failure to list in this Disclosure Statement any
28 potential or existing Right of Action retained by the City is not intended to and shall not limit the
rights of the City to pursue any such action. Unless a Right of Action is expressly waived,

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1 relinquished, released, compromised, or settled in the Plan, the City expressly reserves all Rights
2 of Action for later adjudication and, as a result, no preclusion doctrine, including the doctrines of
3 res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable,
4 or otherwise), or laches, shall apply to such Rights of Action upon or after the confirmation or
5 consummation of the Plan or the Effective Date. In addition, the City expressly reserves the right
6 ~~///~~
7 to pursue or adopt against any other entity any claims alleged in any lawsuit in which the City is a
8 defendant or an interested party.
9

10 **D. Distributions.**

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

15 **1. Delivery of Distributions.**

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

25 **2. Distributions of Unclaimed Property.**

If any distribution to any holder of a Claim is returned to the City or its agent as
26 undeliverable, no further distributions shall be made to such holder unless and until the City is
27 notified in writing of such holder's then-current address. Any unclaimed distributions shall be set
28 aside and held in a segregated account to be maintained by the City pursuant to the terms of the

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1 Plan. No later than sixty (60) days after the date of the first distributions under the Plan, the City
2 shall file with the Bankruptcy Court a list of unclaimed distributions, together with a schedule that
3 identifies the name and last-known addresses of the holders of any unclaimed distributions. The
4 City shall not be required to make any further attempt to locate the holders of any unclaimed
5 distributions. Any distribution under the Plan that remains unclaimed after ninety (90) days
6 following the date of the first distributions under the Plan (including, without limitation, because
7 the distribution made to the last known address is returned as undeliverable), shall be deemed not
8 to have been made and, together with any accrued interest or dividends earned thereon, shall be
9 transferred to and vest in the City for any use as the City sees fit. The City shall not be obligated
10 to make any further distributions on account of the Claim with respect to which such distribution
11 was made, and such Claim shall be treated as a Disallowed Claim. Nothing contained herein shall
12 affect the discharge of the Claim with respect to which such distribution was made, and the holder
13 of such Claim shall be forever barred from enforcing such Claim against the City or its assets,
14 estate, properties, or interests in property.

15
16 **3. Distributions of Cash.**

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

19 **4. Timeliness of Payments.**

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

25 **5. Compliance with Tax, Withholding, and Reporting Requirements.**

26 The City shall comply with all tax, withholding, reporting, and like requirements imposed
27 on it by any government unit, including without limitation, payments related to CalPERS's
28 required pension obligations, and all distributions pursuant to the Plan shall be subject to such
withholding and reporting requirements. In connection with each distribution with respect to

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1 which the filing of an information return (such as Internal Revenue Service Forms W-2, 1099, or
2 1042) or withholding is required, the City shall file such information return with the Internal
3 Revenue Service and provide any required statements in connection therewith to the recipients of
4 such distribution, or effect any such withholding and deposit all moneys so withheld to the extent
5 required by law. With respect to any entity from whom a tax identification number, certified tax
6 identification number, or other tax information which is required by law to avoid withholding has
7 not been received by the City, the City at its sole option may withhold the amount required and
8 distribute the balance to such entity or decline to make such distribution until the information is
9 received.

10
11 **6. Time Bar to Cash Payments.**

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

19 **7. No De Minimis Distributions.**

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

22 **8. No Distributions on Account of Disputed Claims.**

23 Notwithstanding anything to the contrary in the Plan, no distributions shall be made on
24 account of any part of any Disputed Claim until such Claim becomes Allowed (and then only to
25 the extent so Allowed). Distributions made after the Effective Date in respect of Claims that were
26 not Allowed as of the Effective Date (but which later became Allowed) shall be deemed to have
27 been made as of the Effective Date.
28

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9. No Postpetition Accrual.

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

///

satisfy or waive the conditions to the Effective Date. Any such delayed payments shall accrue interest at the rate specified in the Assured Guaranty Settlement Documents.

E. Disputed Claims.

1. Claims Objection Deadline; Prosecution of Objections.

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

2. Payments and Distributions with Respect to Disputed Claims.

After the Effective Date has occurred, at such time as a Disputed Claim becomes an Allowed Claim, in whole or in part, the City or its agent will distribute to the holder thereof the distributions, if any, to which such holder is then entitled under the Plan. Such distributions, if

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any, will be made as soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Disputed Claim becomes a Final Order (or such other date as the Claim becomes an Allowed Claim), but in no event more than sixty (60) days thereafter. Unless otherwise specifically provided in the Plan or Allowed by order of the Bankruptcy Court, no interest will be paid on Disputed Claims that later become Allowed Claims.

F. Continuing Jurisdiction of the Bankruptcy Court.

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

VI. CONFIRMATION AND EFFECTIVENESS OF THE PLAN

Because the law with respect to confirmation of a plan of adjustment is complex, 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 purpose of providing basic information concerning certain confirmation issues. The City cannot and does not represent that the discussion contained below is a complete summary of the law on this topic.

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

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A. Voting and Right to Be Heard at Confirmation.

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

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

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

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

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.

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.

In contrast, in the absence of the financial adjustments made in Plan, the City’s creditors would be left to “fend for themselves.” Individual creditor collection actions likely would aggregate, through lawsuits, attempts at attachments, and writs of mandate, to make continued operation of the City untenable. Massive litigation costs would burden the City, its creditors, and all parties in interest, although creditors financially equipped to pursue litigation most quickly (and thus win “the race to the courthouse”) would benefit disproportionately. And even the swiftest of creditors would likely find its ability to collect on a judgment stymied by the inability of the City to pay without violating provisions of California law by raiding Restricted Funds. For example, were retirees to sue collectively for the \$545 million of health benefits the City

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1 promised them for life, the result would be a judgment that could never be paid, even were the
 2 City to lock the doors of each City building, sell the building and any undeveloped real estate. If
 3 the City were to attempt to pay the proceeds to retirees, the City would still be unable to pay its
 4 CalPERS obligations, and the City's obligations to CalPERS in its capacity as trustee for the
 5 City's pension trust for the City's retired workers and their dependents who are the beneficiaries
 6 of such trust would be terminated—resulting in a claim of over \$1 billion that CalPERS contends
 7 would be secured by a lien that primes existing liens pursuant to California Government Code
 8 section 20574. In short, the City cannot afford to pay its creditors absent the debt relief afforded
 9 by the Plan, and dismissal of the Chapter 9 Case likely would result in chaos, with few if any
 10 creditors emerging safely from the blizzard of inevitable litigation.

11
 12 **C. Feasibility.**

To satisfy the requirement set forth in section 943(b)(7) that the Plan be feasible, the City
 13 must demonstrate the ability to make the payments required under the Plan and still maintain its
 14 operations at the level that it deems necessary to the continued viability of the City. The City
 15 submits that the Plan is feasible. The financial underpinning of the Plan, the City's General Fund
 16 Long-Range Financial Plan (the "**Financial Plan**"), attached hereto as **Exhibit B**, constitutes a
 17 sustainable matching of revenues and expenses, including the expenses created by or modified in
 18 the Plan. The Plan Financial Projections, make certain assumptions regarding the effect of the
 19 rejection by the City of the financing leases to be rejected as noted therein and also assume the
 20 approval of Measure A, which Stockton voters passed on November 5, 2013.

21 The Financial Plan projects revenues and expenditures over a 30-year period and analyzes,
 22 among other things, the resulting unrestricted General Fund balance at the end of each fiscal year
 23 covered by the Financial Plan. The Financial Plan shows that, assuming confirmation of the Plan
 24 and passage of Measure A, the City will be able to maintain reserves at an average of 6.7% of
 25 General Fund expenditures from fiscal year 2013-14 through 2030-31, with fund balance
 26 achieving 15% of General Fund expenditures starting in fiscal year 2031-32.¹⁶ The Government
 27 Finance Officers Association recommends that cities maintain "an unrestricted fund balance in
 28

¹⁶ Of course, the further out the projections go, the less reliable they will be.

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their general fund of no less than two (2) months of regular general fund operating revenues or regular general fund operating expenditures” (equivalent to 16.67% of total expenditures).¹⁷

D. Cramdown.

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

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

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

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

¹⁷ See Government Finance Officers Association, “Best Practice: Appropriate Level of Unrestricted Fund Balance in General Fund (2002, 2009),” available at http://www.gfoa.org/index.php?option=com_content&task=view&id=1450.

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E. Effective Date.

1. Conditions to the Occurrence of the Effective Date.

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

The Effective Date will occur on the first Business Day after which the conditions set forth in Section XIII of the Plan are satisfied or waived; *provided* that the Effective Date must occur by no later than six ~~(6)~~ months after the Confirmation Date. ~~For purposes of calculating various payments, the Effective Date was assumed to be [_____]. However, because the~~
~~///~~

~~Because the~~ Confirmation Hearing will not ~~occur~~ **commence** until [_____], **March 5, 2014**, the City estimates that the Effective Date will occur in [_____], ~~so the calculations will be slightly altered.~~ **April or May of 2014.**

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: (i) the Confirmation Order shall be vacated; (ii) no distributions under the Plan shall be made; (iii) 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 (iv) 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.

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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 after the Petition Date, whether against the City or any of its properties, assets, or interests in property. Except as otherwise provided in the Plan, upon the Effective Date all Pre-Confirmation Date Claims will be and will be deemed to be satisfied, discharged, and released in full, be they Impaired or Unimpaired under the Plan.

2. Injunction.

The Plan provides that all entities who have held, hold, or may hold Pre-Confirmation Date Claims will be permanently enjoined, from and after the Confirmation Date from (i) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Pre-Confirmation Date Claim against the City; (ii) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order against the City with respect to such Pre-Confirmation Date Claims; (iii) creating, perfecting, or enforcing any lien or encumbrance of any kind against the City or its property or interests in property; and (iv) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due to the City

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with respect to any such Pre-Confirmation Date Claim, except as otherwise permitted by section 553.

3. Term of Existing Injunctions and Stays.

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

4. Exculpation.

Except with respect to obligations specifically arising pursuant to or preserved in the Plan including but not limited to the Insurance Policies, no Exculpated Party¹⁸ shall have or incur, and each Exculpated Party is hereby released and exculpated from, any claim, obligation, cause of action or liability for any claim in connection with or arising prior to or on the Effective Date for any act taken or omitted to be taken in connection with, or related 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 administration of the Plan or property to be distributed under the Plan, (iv) the AB 506 process, (v) any document, release, contract, or other instrument entered into in connection with, or relating to, the Plan or the settlements referenced within the Plan or (vi) any other transaction contemplated by, or entered into, in connection with the Plan; provided that nothing in this Section VI.F.4 shall be deemed to release or exculpate any Exculpated Party for its willful misconduct or gross negligence. In all respects, each Exculpated Party shall be entitled to reasonably rely upon the advice of counsel with respect to its duties and responsibilities pursuant to the Plan.

5. Releases Among Releasing Parties and Released Parties.

EFFECTIVE AS OF THE EFFECTIVE DATE, FOR GOOD AND VALUABLE CONSIDERATION PROVIDED BY EACH OF THE RELEASED PARTIES, THE ADEQUACY OF WHICH IS HEREBY CONFIRMED, TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, (i) THE CITY AND EACH OF ITS RELATED

¹⁸ As defined in the Plan, the term "Exculpated Party" means each or any of the City, NPEF, Assured Guaranty, Ambac, the Indenture Trustee, and the respective Related Persons of each of the foregoing.

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1 PERSONS (COLLECTIVELY, THE “**CITY RELEASING PARTIES**”) SHALL, AND SHALL
2 BE DEEMED TO, COMPLETELY, CONCLUSIVELY, ABSOLUTELY,
3 UNCONDITIONALLY, IRREVOCABLY, AND FOREVER RELEASE, WAIVE, VOID,
4 EXTINGUISH, AND DISCHARGE EACH AND ALL OF THE RELEASED PARTIES (AND
5 EACH SUCH RELEASED PARTY SO RELEASED SHALL BE DEEMED FOREVER
6 RELEASED, WAIVED AND DISCHARGED BY THE CITY RELEASING PARTIES) AND
7 THEIR RESPECTIVE PROPERTIES AND RELATED PERSONS AND (ii) EACH OF NPMG,
8 ASSURED GUARANTY, AMBAC, THE INDENTURE TRUSTEE IN ALL CAPACITIES
9 EXCEPT AS THE 2009 GOLF/COURSE PARK BOND TRUSTEE (COLLECTIVELY WITH
10 THE CITY RELEASING PARTIES, THE “**RELEASING PARTIES**”) SHALL, AND SHALL
11 BE DEEMED TO, COMPLETELY, CONCLUSIVELY, ABSOLUTELY,
12 UNCONDITIONALLY, IRREVOCABLY, AND FOREVER RELEASE, WAIVE, VOID,
13 EXTINGUISH, AND DISCHARGE THE CITY (AND THE CITY SHALL BE DEEMED
14 FOREVER RELEASED, WAIVED AND DISCHARGED BY SUCH RELEASING PARTIES),
15 OF AND FROM ANY AND ALL OF THE FOLLOWING: CLAIMS, CAUSES OF ACTION,
16 LITIGATION CLAIMS, AVOIDANCE ACTIONS AND ANY OTHER DEBTS,
17 OBLIGATIONS, RIGHTS, SUITS, DAMAGES, ACTIONS, REMEDIES, JUDGMENTS, AND
18 LIABILITIES WHATSOEVER (INCLUDING, WITHOUT LIMITATION, THE AB 506
19 PROCESS AND THE ELIGIBILITY CONTEST), WHETHER KNOWN OR UNKNOWN,
20 FORESEEN OR UNFORESEEN, LIQUIDATED OR UNLIQUIDATED, FIXED OR
21 CONTINGENT, MATURED OR UNMATURED, EXISTING AS OF THE EFFECTIVE DATE
22 OR THEREAFTER ARISING, IN LAW, AT EQUITY, WHETHER FOR TORT, CONTRACT,
23 OR OTHERWISE, BASED IN WHOLE OR IN PART UPON ANY ACT OR OMISSION,
24 TRANSACTION, EVENT OR OTHER OCCURRENCE OR CIRCUMSTANCES EXISTING
25 OR TAKING PLACE PRIOR TO OR ON THE EFFECTIVE DATE ARISING FROM OR
26 RELATED IN ANY WAY IN WHOLE OR IN PART TO THE CITY OR ITS ASSETS AND
27 PROPERTY, THE CHAPTER 9 CASE, THE DISCLOSURE STATEMENT, THE PLAN OR
28 THE SOLICITATION OF VOTES ON THE PLAN THAT SUCH RELEASING PARTY

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1 WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT (WHETHER INDIVIDUALLY
2 OR COLLECTIVELY) OR THAT ANY HOLDER OF A CLAIM OR EQUITY INTEREST OR
3 OTHER ENTITY WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT FOR OR ON
4 BEHALF OF SUCH RELEASING PARTY (WHETHER DIRECTLY OR DERIVATIVELY)
5 AGAINST ANY OF THE RELEASED PARTIES OR THE CITY, AS APPLICABLE;
6 *PROVIDED, HOWEVER,* THAT THE FOREGOING PROVISIONS OF THIS RELEASE
7 SHALL NOT OPERATE TO WAIVE OR RELEASE (i) ANY CAUSES OF ACTION, CLAIMS
8 OR AGREEMENTS EXPRESSLY SET FORTH IN AND/OR PRESERVED BY THE PLAN
9 OR ANY PLAN SUPPLEMENT, INCLUDING BUT NOT LIMITED TO THE INSURANCE
10 POLICIES; AND/OR (ii) THE RIGHTS OF SUCH RELEASING PARTY TO ENFORCE THE
11 PLAN AND THE CONTRACTS, INSTRUMENTS, RELEASES, AND OTHER
12 AGREEMENTS OR DOCUMENTS DELIVERED UNDER OR IN CONNECTION WITH THE
13 PLAN OR ASSUMED PURSUANT TO THE PLAN OR ASSUMED PURSUANT TO FINAL
14 ORDER OF THE BANKRUPTCY COURT. THE FOREGOING RELEASE SHALL BE
15 EFFECTIVE AS OF THE EFFECTIVE DATE WITHOUT FURTHER NOTICE TO OR
16 ORDER OF THE BANKRUPTCY COURT, ACT OR ACTION UNDER APPLICABLE LAW,
17 REGULATION, ORDER, OR RULE OR THE VOTE, CONSENT, AUTHORIZATION OR
18 APPROVAL OF ANY PERSON.

19
20 **6. Good Faith Compromise**

21 Pursuant to Bankruptcy Rule 9019 and in consideration for the distributions and other
22 benefits provided under the Plan, the provisions of the Plan, including the exculpation and release
23 provisions contained in this Article VI, constitute a good faith compromise and settlement of all
24 Claims, causes of action or controversies relating to the rights that a holder of a Claim may have
25 with respect to any Claim against the City, any distribution to be made pursuant to the Plan on
26 account of any such Claim and any and all Claims or causes of action of any party arising out of
27 or relating to the AB 506 Process or the Eligibility Contest. The entry of the Confirmation Order
28 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

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1 compromises or settlements are in the best interests of the City and the holders of Claims, and are
2 fair, equitable, and reasonable.

3 4 **VII. CERTAIN RISK FACTORS TO BE CONSIDERED**

5 Confirmation of the Plan and the occurrence of the Effective Date are not without risk to
6 the City and its creditors in that the sources of revenue projected over the next 30 years in the
7 General Fund's Long-Range Financial Plan could contract. The reality is that there are economic
8 cycles over time that can negatively affect revenue growth, but the timing of these cycles is very
9 difficult to predict. Thus, while the City devoted considerable time and effort in formulating the
10 Plan Financial Projections, attached hereto as **Exhibit B**, there can be no guaranty that the
11 predicted results will be achieved. For example, few California cities, if any, predicted the length
12 and depth of the economic downturn that saw real property values (and thus real property tax
13 revenues) plummet. Nor did city financial planners predict the high unemployment and
14 underemployment that accompanied the burst of the housing bubble and reduced the amount of
15 sales tax revenues to state and local governments. Conversely, while the General Fund
16 expenditures projected in the Plan Financial Projections are the City's best and most reasoned
17 estimate of costs, the occurrence of higher inflation, state or federal law changes that increase of
18 shift costs to local government, or a natural or human-caused disaster—all of these could and
19 likely would cause costs to rise, if not to spike. These risk factors should not, however, be
20 regarded as constituting the only risks involved in connection with the Plan and its
21 implementation.

22 Moreover, the Plan Financial Projections and the City's plans for ongoing operational and
23 financial stability after confirmation of the Plan rely on the approval **and continued effect** of
24 Measure A, which Stockton voters passed on November 5, 2013 and which is estimated to
25 produce approximately \$28 million per year in new revenue. **Measure A will expire after 10**
26 **years—or sooner, if General Fund revenues reach 2009 levels adjusted for inflation—unless**
27 **the City Council takes action to renew it. For Measure A to continue in effect, the City**
28 **Council must take specific, public actions, which include: hearing recommendations made**
by the Citizens' Oversight Committee; adopting findings, with appropriate evidence, that

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Measure A is necessary; proving to the public that employee total compensation is not excessive; and holding two public hearings at least 14 days apart.

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

VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The implementation of the Plan may have federal, state, local and foreign tax consequences to the City and its creditors. No tax opinion has been sought or will be obtained with respect to any tax consequences of the Plan. However, because the City is a municipal corporation duly organized and existing under its Charter and the California Constitution, and is treated as a political subdivision of the State of California for federal income tax purposes, the City believes that it will not be subject to any federal income tax liability from implementation of 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 report any income for federal income tax purposes as a result of implementing the Plan. The City may file certain tax returns associated with the restructuring of some of its tax-exempt bonds affected by the Plan, which returns may be required in order to maintain the exclusion from gross income of interest on the bonds for purposes of federal income taxes applicable to the holders thereof.

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

To ensure compliance with requirements imposed by the Internal Revenue Service, you are hereby notified that any discussion of tax matters contained herein (including any attachments) contained in this summary is not intended or written to be used by any

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taxpayer, and cannot be used by any taxpayer, for the purpose of avoiding tax-related penalties that otherwise may be imposed under the Internal Revenue Code on the taxpayer. Such discussion of tax matters was written in connection with the solicitation of votes in favor of the Plan. The City and its creditors should seek tax advice regarding the tax consequences to them of the Plan based on their particular circumstances from an independent tax advisor.

IX. RECOMMENDATION AND CONCLUSION

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

DATED: November ____, 2013

CITY OF STOCKTON, CALIFORNIA

By: _____
Kurt O. Wilson
Interim City Manager

Submitted By:

ORRICK, HERRINGTON & SUTCLIFFE LLP

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

Attorneys for the City of Stockton, California

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

- Exhibit A First Amended Plan For The Adjustment Of Debts Of City Of Stockton, California (November 15, 2013)
- Exhibit B Long-Range Financial Plan of City of Stockton
- Exhibit C NPMG Term Sheet
- Exhibit D Assured Guaranty Term Sheet
- Exhibit E Thunder Settlement Term Sheet

Document comparison by Workshare Compare on Thursday, November 21, 2013 11:23:08 AM

Input:	
Document 1 ID	interwovenSite://NCUSADMS01/USA/754914796/6
Description	#754914796v6<USA> - Stockton Disclosure Statement - FIRST AMENDED
Document 2 ID	interwovenSite://NCUSADMS01/USA/755449777/4
Description	#755449777v4<USA> - Stockton Disclosure Statement - FIRST AMENDED AS MODIFIED
Rendering set	OHS Strikethrough No Moves With Change Bars

Legend:	
<u>Insertion</u>	
Deletion	
Moved from	
<u>Moved to</u>	
Style change	
Format change	
Moved deletion	
Inserted cell	
Deleted cell	
Moved cell	
Split/Merged cell	
Padding cell	

Statistics:	
	Count
Insertions	219
Deletions	109
Moved from	0
Moved to	0
Style change	0
Format changed	0
Total changes	328

109.....Workshare Compare comparison of interwovenSite://NCUSADMS01/USA/754914796/6 and interwovenSite://NCUSADMS01/USA/755449777/4. Performed on 11/21/2013.