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21 and Assured Guaranty Municipal Corp.

22 UNITED STATES BANKRUPTCY COURT
23 EASTERN DISTRICT OF CALIFORNIA
24 SACRAMENTO DIVISION

25 In re:) Case No. 12-32118
26 CITY OF STOCKTON, CALIFORNIA,)
27 Debtor,) DC No. OHS-1
28) Chapter 9
29) Date: February 26, 2013
30) Time: 1:30 p.m.
31) Dept: C, Courtroom 35
32) Judge: Hon. Christopher M. Klein

33 **DECLARATION OF NANCY L. ZIELKE IN SUPPORT OF SUPPLEMENTAL**
34 **OBJECTION OF ASSURED GUARANTY CORP. AND ASSURED GUARANTY**
35 **MUNICIPAL CORP. TO DEBTOR'S CHAPTER 9 PETITION AND STATEMENT OF**
36 **QUALIFICATIONS**

1 I, Nancy L. Zielke, declare as follows:
2

3 1. I am a Senior Director of Alvarez & Marsal Public Sector Services, LLC in Kansas
4 City, Missouri. For the past five years, as a consultant to public-sector organizations, I have
5 concentrated on public sector financial advisory services, revenue forecasts, internal business
6 process improvement, and economic development and capital financings for state and local
7 governments. Prior to joining Alvarez & Marsal, I spent 25 years working within several city,
8 county, and state government entities in key financial administrative positions including the
9 Finance/Budget Director for the City of Kansas City, Kansas; Assistant General Manager of
10 Finance for the Kansas City, Kansas Board of Public Utilities; and the Assistant Vice Chancellor
11 for Finance with the University of Missouri-Kansas City. I also served as the elected National
12 President of the Government Finance Officers Association of the United States and Canada. A true
13 and correct copy of my current curriculum vitae is attached as Exhibit A. I make this declaration
14 of my personal knowledge and, if called upon to do so, I could and would testify to the facts set
15 forth herein.

16 2. I have been retained on behalf of Assured Guaranty Corp. and Assured Guaranty
17 Municipal Corp. in connection with the Chapter 9 filing by the City of Stockton (the "City") to
18 assess the solvency of the City within the meaning of Bankruptcy Code § 109(c)(3); to analyze the
19 City's historical current and projected General Fund revenues and expenditures; to identify
20 additional revenue enhancements, cost containment initiatives, consolidation/shared services, and
21 potential privatization and/or sale of assets within the City's General Fund; and to examine best
22 practices within municipal governments to address the City's long-term financial and budget
23 planning and accountability.

24 3. This declaration is submitted in support of the Supplemental Objection of Assured
25 Guaranty Corp. and Assured Guaranty Municipal Corp. to Debtor's Chapter 9 Petition and
26 Statement of Qualifications.

27 4. In my opinion as an expert on municipal finance and budgeting, as presented in my
28 expert report attached hereto as Exhibit B, Stockton has budgeted itself into insolvency. The City

1 repeatedly has failed to take action to ensure its solvency by streamlining costs, cutting
2 nonessential services, outsourcing operations, selling or privatizing underutilized City assets, or
3 increasing revenues. The City has left millions of dollars on the table in terms of additional budget
4 efficiencies and revenue enhancements that could be achieved outside of bankruptcy. That is, the
5 City's actions have exacerbated its financial problems and contribute to the fiscal distress it now
6 faces.

7 5. City Management and the City Council remain in the dark about the City's true
8 financial condition, and the City's own financial information cannot be trusted to demonstrate
9 insolvency. The City has not maintained appropriate financial controls, produced timely or
10 accurate financial reports, or instituted best practices in financial management and budget policy
11 that are necessary to understand its financial condition, to respond to budget shortfalls, and to
12 project future revenues. For example, Stockton's Comprehensive Annual Financial Report for the
13 2010-11 fiscal year reports nearly forty (40) material weaknesses and significant deficiencies.
14 And, although the City had initially claimed it needed to file for bankruptcy in late June because it
15 would be out of money in early July, the City now reports that it beat its projection for fiscal year-
16 ending June 2012 by over \$6 million. A lack of understanding of its financial condition does not
17 itself create a fiscal crisis, but the City's delayed financial reporting and inadequate financial
18 controls illustrate that the City lacked a fair picture of its finances in the lead-up to the Chapter 9
19 petition date and is still unable to generate accurate reporting and reliable projections.

20 6. Although the City has missed opportunities and has failed to take actions to ensure
21 its solvency, the City can take essential steps to balance its current and future year budgets and
22 avoid the pending bankruptcy process. In addition to improving its financial reporting and
23 management practices, Stockton could implement significantly more cuts and push for more
24 reductions to offset the fiscal gaps experienced today, thereby averting the emergency situation.

25 7. Stockton can take action to maximize its revenues. The City has neither afforded its
26 citizens an opportunity to vote on new taxes, nor included discussion of a tax increase on the City
27 Council's public agenda, nor sought to charge for various services currently being afforded to its
28 residents for free. Nor has the City adequately explored avenues to increase revenue through sales

1 or privatization of its property. Such new or enhanced revenue sources remain available to the
2 City.


3 8. The City can cut non-mandated and nonessential costs. The City has not separated
4 the essential from the nonessential services across each department nor exhausted all its options to
5 cut department spending. Even though Stockton has long known that its finances are out of
6 control, the City continues to fund these nonessential services and to accept elevated department
7 spending today, all while foregoing other cost-saving opportunities, such as privatization or
8 consolidation. Significant reductions and increased efficiencies remain available to the City that
9 would address these fiscally irresponsible spending practices and substantially reduce the City's
10 financial burdens.

11 9. In order to avert insolvency now and in the future, the City can improve its financial
12 management practices; it can enact significantly more cuts to nonessential services and
13 unnecessary expenditures; it can institute other cost-saving measures through privatization and
14 consolidation; and it can take steps to raise revenues. Instituting these revenue and expense budget
15 alternatives, as described in the Revised Baseline Budget Alternative Model in my report, would
16 enable the City to realize both lower costs and higher revenues to balance its budget while
17 maintaining essential city services and increasing its General Fund balance moving forward.

18 10. In summary, the City does not have a reliable handle on either its current finances or
19 its future finances, continues to fund nonessential programs and services, and has refused to
20 explore sources of available revenue and revenue enhancement measures through all relevant
21 periods. Stockton can achieve various budget efficiencies that, when combined with revenue
22 enhancements, would allow the City to remain viable and cash flow solvent outside of bankruptcy.
23

24 I declare under penalty of perjury under the laws of the District of Columbia and the United
25 States of America that the foregoing is true and correct.
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Executed this 14th day of December 2012 at Washington, District of Columbia.



Nancy L. Zielke

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