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7 *Income Fund and Franklin California High*
8 *Yield Municipal Fund*

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

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

Case No. 12-32118 (CMK)
D.C. No. OHS-15
Chapter 9
Adv. Proceeding No. 13-02315-C

16 WELLS FARGO BANK, NATIONAL
ASSOCIATION, FRANKLIN HIGH
17 YIELD TAX-FREE INCOME FUND,
AND FRANKLIN CALIFORNIA HIGH
18 YIELD MUNICIPAL FUND,

19 Plaintiffs.

20 v.

21 CITY OF STOCKTON, CALIFORNIA,
22 Defendant.

FRANKLIN HIGH YIELD TAX-FREE INCOME FUND AND FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND'S EVIDENTIARY OBJECTIONS TO DIRECT TESTIMONY DECLARATION OF LAURIE MONTES IN SUPPORT OF CONFIRMATION OF FIRST AMENDED PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA (NOVEMBER 15, 2013)

Date: May 12, 2014
Time: 9:30 a.m.
Dept: C, Courtroom 35
Judge: Hon. Christopher M. Klein

1 Franklin High Yield Tax-Free Income Fund and Franklin California High Yield Municipal
 2 Fund (collectively, "Franklin") respectfully submit the following evidentiary objections to the
 3 *Direct Testimony Declaration Of Laurie Montes In Support Of Confirmation Of First Amended*
 4 *Plan For The Adjustment Of Debts Of City Of Stockton, California (November 15, 2013)* [Docket
 5 No. 1378 / Adv. Pro. Docket No. 72].

PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>6 7 8 5. <u>The City has cut every expense that it can while remaining a viable city in an effort to ensure that the Plan will be feasible.</u> As I 9 previously testified in my declaration in support of the City's eligibility for bankruptcy relief [Dkt. No. 23] ("Eligibility Declaration"), from fiscal year 2008-09 through 2011-12, the City cut approximately \$90 million in General Fund expenses. The City dramatically reduced expenses by eliminating staff positions, slashing pay and benefits to the employees who remain, and taking other cost-cutting measures. The City has reached consensual agreements with all of its major creditors except for Franklin. <i>The City's settlement with the Retirees Committee, as representative of the Retiree Health Benefit Claimants, eliminates a liability of over \$500 million with a one-time payment of \$5.1 million.</i></p>	<p>Franklin objects to the underlined statements in this paragraph because they are vague and lack foundation. FED. R. EVID. 602. Franklin further objects to the underlined statements in this paragraph because they contain improper opinion testimony that is not rationally based on Ms. Montes's perception and not helpful to clearly understand Ms. Montes's testimony or to determinate a fact in issue. FED. R. EVID. 701. Franklin further objects to the italicized statements in this paragraph because they are improper legal conclusions. FED. R. EVID. 701.</p>
<p>18 19 7. <u>Because median home prices remain low and foreclosure rates remain high, the recovery period for the City's Proposition 8 parcels³, which comprise 55.6% of City parcels according to HdL, will be prolonged compared to other jurisdictions. As Vanessa Burke testified in her initial declaration in support of the City's eligibility [Dkt. No. 62], the structure of California's property tax system is such that when a change in ownership (like a foreclosure or short sale) results in a lower assessed property value, the new base is "locked in" at the lower value and can only increase at the lesser of the consumer price index or two percent per year. The continued high rate of foreclosure sales and short or distressed sales in Stockton combines with the low median home price to penalize the City by slowing the growth of property taxes going forward.</u></p>	<p>Franklin objects to the underlined statements in this paragraph because they are speculative and lack foundation. FED. R. EVID. 602. Franklin further objects to the underlined statements in this paragraph because they contain improper opinion testimony that is not rationally based on Ms. Montes's perception and not helpful to clearly understand Ms. Montes testimony or to determine a fact in issue. FED. R. EVID. 701. Franklin further objects to the italicized statements in this paragraph because they are improper legal conclusions. FED. R. EVID. 701.</p>

<p>fn3: <i>Under Proposition 8 of 1978, if a parcel’s true market value is less than its Proposition 13-limited value, then it can be increased in future years as its true market value increases without respect to the 2% annual growth limit in assessed value that otherwise applies to properties that are not newly constructed or which undergo a change in ownership. At the point at which a “Prop 8 parcel” changes ownership, or increases in value to meet the value it would otherwise have been limited to under Proposition 13, that parcel resumes being restricted to 2% annual increases in assessed value.</i></p>	
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Dated: April 25, 2014

JONES DAY

By: /s/ Joshua D. Morse

James O. Johnston

Joshua D. Morse

Charlotte S. Wasserstein

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Income Fund and Franklin California High
Yield Municipal Fund*