

Exhibit A for Verified Statement Pursuant to Rule 2019 of Schiff Hardin LLP filed separately



Karol K. Denniston
415-901-8602
kdenniston@schiffhardin.com

ONE MARKET
SPEAR STREET TOWER
THIRTY-SECOND FLOOR
SAN FRANCISCO, CA 94105
t 415.901.8700
f 415.901.8701
www.schiffhardin.com

June 28, 2013

VIA U.S. MAIL AND EMAIL

Antonia.darling@usdoj.gov

Antonia Darling
Assistant U.S. Trustee
United States Department of Justice
Assistant U.S. Trustee
United States Department of Justice
501 "I" Street, Suite 7-500
Sacramento, California 95814

Re: In re City of Stockton, California ("Debtor"), United States Bankruptcy Court,
Eastern District of California, Sacramento Division, Case No. 12-3211-C-9

Dear Ms. Darling:

Schiff Hardin LLP recently has been retained to represent an ad hoc working group of Stockton taxpayers ("Working Group"), formed after the conclusion of the eligibility process.¹ Our clients represent a cross section of Stockton's business community as discussed below. We write to formally request the U.S. Trustee to appoint an official taxpayers' committee pursuant to 11 U.S.C. § 1102.

Based on information made publicly available by various representatives of the Debtor, it is our understanding that the Debtor intends to file its proposed plan of adjustment ("Plan") in the near future. It is our further understanding that the Plan provides for, and indeed

¹ The Working Group members are parties in interest in this case. The Ninth Circuit recently considered the breadth of Section 1109(b)'s definition of "party in interest" and held that standing as a party in interest is coextensive with Article III standing under the Constitution. *In re Thorpe Insulation Co.*, 677 F.3d 869, 884 (9th Cir. 2012). Specifically, taxpayers that will be affected by a tax increase proposed by the plan or that will primarily bear the costs of the plan's implementation—such as the Working Group members—are parties in interest in a Chapter 9 case. See *In re Mount Carbon Metropolitan District*, No. 97-20215, 1999 WL 34995477, *5 (Bankr. D. Colo., July 20, 1999); *Ault v. Emblem Corp. (In re Wolf Creek Valley Metropolitan District No. IV)*, 138 B.R. 610 (D. Colo. 1992).



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relies upon, among other things, a tax increase.² In materials available on the Debtor's website and discussed at the most recent Stockton City Council Meeting, the Debtor confirmed that it will be seeking a ¾ cent sales tax increase to "provide necessary resources to put the general fund back into a solvent position and fund the City's bankruptcy exit plan." The City Manager's "Legislation Text" provides an overview of the need for the tax increase and is very clear that proceeds from the tax increase are necessary to fund the Debtor's plan of adjustment.

The tax increase will require difficult-to-obtain voter approval as taxpayers made clear during the most recent City Council meeting. There are a number of concerns regarding the tax increase including how many additional police officers will be hired if the tax increase is approved by the voters and how much of the tax increase is needed to exit bankruptcy. At present the City has provided no information about its proposed plan of adjustment.

At present, there is an ongoing and serious debate about whether Stockton currently has and will have a sufficient number of police officers. This is an issue that fully impacts the taxpayers and one that needs to be explored in connection with any Plan the Debtor proposes. Until the Debtor provides information regarding its Plan to exit bankruptcy, without representation the taxpayers have no way to evaluate and consider how much of the tax increase will be used to pay creditors and other obligations required to exit bankruptcy and how much will be available to hire additional police officers.

While the Debtor has numerous obligations to secured and unsecured creditors, employees and retirees, it also has clear and unambiguous obligations to provide a sufficient level of health, safety and welfare services to its tax paying residents. The California Supreme Court has consistently held that municipal police power stems directly from a municipality's duty "to protect its citizens and provide for the safety, good order and well-being of society." McKay Jewelers v. Bowron, 19 Cal. 2d 595, 600 (1942); See Gin S. Chow v. City of Santa Barbara, 217 Cal. 673, 702 (1933). Appointment of an official taxpayer committee will ensure that taxpayers are well represented and able to fully participate in the plan process.

At present there is no other group that represents the interests of the taxpayers. Interests of the other creditors and stakeholders may ultimately be adverse to the taxpayers as taxpayers are being asked to fund the Plan through a tax increase. Creditors will no doubt seek as large a recovery as possible leaving taxpayers with significantly reduced health, safety and

²The Working Group is troubled by recent statements from certain of the Debtor's officials, including city manager Bob Deis, effectively soliciting support for their proposed plan of adjustment before the terms of that plan have been publicly released and while negotiations with bondholders continue out of the public view. As the Debtor well knows, solicitation of support for a plan of adjustment prior to the approval of a disclosure statement is improper. See In re California Fidelity, Inc., 198 B.R. 567, 571-72 (9th Cir. BAP 1996), 11 U.S.C. § 1125(b).



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welfare services. The Stockton taxpayers are a large group with a common interest, that would be difficult, if not impossible, to negotiate with as a whole. An official committee will enable a single vocal representative to express the interests of the taxpayers including working with the Debtor to address questions and concerns about the proposed tax increase which appears to be a necessary condition for the Debtor's exit from bankruptcy. Lastly, without an official committee there is no independent representative to explain the complex bankruptcy process to an otherwise generally uninformed tax paying constituency – who cannot be expected to read or understand the docket. At present, the tax increase is out of context as taxpayers have no information regarding the Debtor's proposed plan of adjustment terms. Indeed the Debtor is soliciting approval of a tax increase necessary to fund its exit without providing information regarding its proposed plan of adjustment.

The Working Group does not intend nor expect to be a disruptive force. Its goals are to participate in the process to ensure that: (1) the Plan provides for an appropriate level of services, including without limitation, health, public safety and welfare services; (2) the taxpayers' interests are represented in connection with the Plan and the proposed tax increase; and (3) the Plan is feasible (after the inclusion of an appropriate level of services), provides fiscal sustainability, not only at completion of the plan confirmation process and exit from bankruptcy, but in terms of appropriate and reasonable long term fiscal sustainability. Because the taxpayers will be paying for the restructuring process both in terms of administrative and plan implementation costs as a result of current, proposed and future taxes, it is appropriate that the taxpayers participate in the process represented by an official committee.

The Working Group is comprised of the members identified on Exhibit 1. Since Stockton was found to be an eligible Debtor, Schiff Hardin has received inquiries from Stockton taxpayers regarding the plan process. The taxpayers reached out to the community. An initial meeting was held on June 5, 2013 attended by seven taxpayers. In response Schiff Hardin suggested that a Working Group be formed and that interested taxpayers reach out to other Stockton taxpayers who would be interested in participating in a Working Group, if formed. Exhibit 2 also contains biographical information about these long time Stockton residents. These members are currently involved in an outreach program to identify any other Stockton residents and taxpayers that are interested in joining the Working Group and perhaps serving on an official committee. The Working Group anticipates establishing a website to communicate with Stockton's taxpayers. This website will follow, to the extent appropriate, the format utilized by official committees in chapter 11 cases.

As an official committee, the Working Group is sensitive to fees and costs and to the need to provide value to the Debtor as it moves through the plan process. Given that the Debtor has spent in excess of \$10 million dollars of legal fees and costs, an official taxpayer



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committee has the potential to make the process more efficient and more balanced in terms of representation of the people who are going to bear the financial burden of the bankruptcy. An official taxpayers committee can do so at a very small fraction of the Debtor's legal fees and costs. Given that the Debtor's initial plan proposal includes a voter-approved tax increase it is likely that plan approval and implementation can better be achieved if the taxpayers are represented and working constructively with the Debtor and other creditors to achieve a feasible, confirmable plan that provides an appropriate level of service and future fiscal sustainability. The formation of a taxpayer committee could result in better communications regarding the tax increase and the proposed Plan and potentially prevent the collapse of the plan if the tax increase is not approved by the voters.

It is not the intention of the Working Group to derail the Debtor's bankruptcy proceeding. Notwithstanding the Working Group's best intentions regarding cooperation and efficiency, there is a need for independent taxpayer representation to analyze the proposed tax increase from the taxpayers' perspective and to insure that existing conflicts of interest do not unduly impact the plan presented, plan negotiations and the confirmation process.

Lastly, there are concerns that City employees may be receiving retirement benefits as part of their employment that make independence and impartiality regarding plan terms, difficult if not impossible. In order to ensure that any plan confirmed is fair and equitable it is appropriate that an independent official taxpayer committee fully participate in the process.

We appreciate your consideration and are available at your convenience to discuss our request and provide additional information. Time is of the essence given the status of the case and plan process.

Best regards,

A handwritten signature in blue ink that reads 'Karol K. Denniston'.

Karol K. Denniston

KKD:cs

Attachment



Exhibit 1

Working Group Members
<p>James DiSerio 1746 Grand Canal Boulevard, #14B Stockton, CA 95207 Tel: (209) 952-2222 Fax: (209) 952-2501 Email: stknrocket@aol.com Email: james.diserio@axa-advisors.com</p>
<p>Robert French 1308 West Robinhood Drive Suite 14 Stockton, CA 95207 Tel: (209) 477-4418 Fax: (209) 477-4419 Email: rfrenchwts@aol.com</p>
<p>Dale Fritchen 2243 Stern Place Stockton, CA 95206 Tel: (209) 612-8297 Email: dfritchen@aol.com</p>
<p>David Renison 1225 Hartwell Avenue Stockton, CA 95209 Tel: (209) 608-7693 Fax: (888) 608-4634 Email: davidrenison@cs.com</p>
<p>Larry M. Solari 501 W. Weber, Suite 500 Stockton, CA 95203 P.O. Box 1607 Stockton, CA 95201-1607 Tel: (209) 943-2222 Fax: (209) 943-2220 Email: lsolari@croceco.com</p>



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Exhibit 2

Dale C. Fritchen

Dale C. Fritchen has lived in Stockton since 1981. Mr. Fritchen is employed as a Supervisor II at Child Protective Services in San Joaquin County. He holds Associate of Arts degree in Business from San Joaquin Delta College, a Bachelor's degree in Business Administration from University of Phoenix, and a Master's Degree in Counseling Psychology from National University.

Mr. Fritchen was a founding board member of the Manteca Unified Student Trust. A 501(c)3 organization to established to raise funds to assist students of the school district with sports, science and scholarships. He is the founder and President/CEO of Foster Angels, a 501(c)3 established to assist foster children in San Joaquin County with expenses not provided by the government such as tutoring, science camp, braces, field trips, and musical instruments. Dale Fritchen has served on the many boards and commissions throughout his time in the community and was elected to the Stockton City Council in 2008.

David Renison

David Renison is a third generation Stockton resident. David has owned American Realty, operating in the Stockton area since 1980. He holds a land use/planning certificate from the University of the Pacific and attended San Joaquin Delta Community College.

Mr. Renison is president of the San Joaquin Taxpayers Association, a non-profit organization raising public awareness of fiscal policy and taxation issues through education, research and analysis. Mr. Renison also has served on numerous boards and commissions including two-term leadership of the San Joaquin County Civil Grand Jury. He has proficiency in investigative research and governmental oversight and has helped to influence local public policy throughout his time in Stockton.

Larry M. Solari

Larry M. Solari, is a Stockton resident and active community member. He is a shareholder in Croce & Company Accountancy Corporation and has been with the firm since its inception in 1987. Mr. Solari graduated from California State University, Stanislaus with a Bachelor of Arts Degree in Business Administration in 1979 and from Golden Gate University with a Master's of Science Degree in Taxation in 1987.

Mr. Solari is a member of the board of directors for Farm Credit System, as audit committee chairman for American AgCredit ACA, and serves as the chairmen of the San Joaquin County Planning Commission. Larry is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants. His background also includes extensive experience in the area of planning and structuring business acquisitions, mergers and dispositions.



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Robert French

Robert French is a resident of Stockton. Mr. French is the president of Western Truck Stops, Inc., which owns and operates commercial truck stops. He also is the owner of R.L. French Properties, which owns and operates shopping centers and office buildings.

Mr. French is active in the Boy Scouts of America, serving on many different groups since 1992. Robert also is the Vice President of the Sertoma Club of Stockton which is part of a nationwide service club dedicated those affected by hearing loss in the community.

James DiSerio

James DiSerio has been a resident of Stockton for over 35 years. He is a financial consultant with AXA Advisors LLC, where he specializes in retirement and estate planning. Mr. DiSerio is a graduate of the University of Toledo.