

City of Stockton

Chapter 9

Creditor Agreements

April 15, 2014

City Council Meeting

Bankruptcy Milestones

- AB 506 mediation authorized February 28, 2012
- Bankruptcy declared June 28, 2012
- Ruled eligible for bankruptcy by Judge Klein April 1, 2013
- Initial Plan of Adjustment approved by Council October 2013
- Measure A sales tax approved on November 2013 ballot
- Trial on Plan confirmation set May 12-15, 2014

Status of Agreements

- Approval of pending agreements, coupled with prior approvals, settles 95% of claims without litigation
- Prior agreements:
 - Labor – all units (Jul-Aug 2012)
 - Ambac – 2003 COPs (Apr 2013)
 - Retiree Medical (Aug 2013, contingent on plan confirmation)
 - Marina Towers (Aug 2013)
- Litigation underway with one creditor (Franklin Fund)
- Ports negotiation continues
- Four agreements & one modification before Council

Major Creditors in Bankruptcy

Creditor and Detail	(\$ millions)
Association of Retired Employees – Retiree Medical	\$545.0
Assured Guaranty 2007 Pension Obligation Bonds	124.3
NPFG 2004 Arena Lease Revenue Bonds (with debt restructuring)	45.1
Assured Guaranty 2007 400 E Main Building Bonds (variable rate)	40.4
Franklin Funds 2009 City Facilities Lease Revenue Bonds	35.1
Jarvis City General Fund to Utility Fund Settlement	32.0
NPFG 2004 Parking Structure Lease Revenue Bonds	31.6
Sports Team Lease Subsidy (Thunder & Ports)	15.6
AMBAC 2003 COPs	12.6
NPFG 2006 SEB Building Lease Revenue Bonds	12.1
State of California Department of Boating Marina Development Loan	10.8
Marina Towers Judgment	1.9
Price Judgment	1.4
(Agreements before Council in Red)	TOTAL
(Previously approved in Blue)	\$907.9

Settlement Principles

- Restructuring is based on Council-adopted principles:
 - Service sustainability: core municipal services come first, with public safety top priority
 - Balance & equity: all stakeholders must be part of solution & value of collateral counts
 - Financial sustainability: GF stays balanced over long-term
- Using non-GF resources to pay obligations
- Restructuring savings could not have been achieved without chapter 9

Assured Guaranty-Deal Points

- Two bond package: 400 E. Main & POBs (\$164.7M total)
- Office building has positive market value & City needs office space
- Assured gets building & can sell it; City remains as tenant, gets below market rent for needed office space
- Amounts budgeted by City for 400 E. Main bonds in AB506 process are reallocated to POBs
- Starting 2023 GF pays \$250K annually for POBs, restricted funds pay own share of POBs
- City shares portion of upside from any GF revenue growth above baseline forecast (“contingent payments”)

Assured Guaranty-Fiscal Impact

(FY13-41 Totals, \$ in millions, rounded)	400 E. Main (2007)	POBs (2007)	Total
General Fund-Baseline Obligation	\$83	\$198	\$281
General Fund-Savings	(83)	(139)	(221)
General Fund-Revised Obligation	0 (c)	60	60 (d)
General Fund % Savings	100%	70%	79% (d)
Other Funds Cost	0	41	41
<i>Other Fund Sources</i>	N/A	(a)	
City Total-Revised Cost (b)	0	100	100
Original Debt Service	83	239	322
All Funds % Savings	100%	58%	69% (d)

(a) Solvent restricted funds contribute proportionate to their payroll.

(b) Although no debt service is paid, Assured may sell 400 E. Main subject to new City lease.

(c) Excludes rent payable to Assured, which was already included in forecast.

(d) Excludes potential impact of contingent payments, which may eventually result in payment in full to Assured if the City achieves significantly higher revenue in the future than currently forecasted (although NPV of such payments will be lower).

NPFG-Deal Points

- Three bond package: Arena, Parking, SEB (\$88.8M)
- SEB is essential facility, bonds not impaired
- Arena, while not essential, is important to community, and has pledged revenues:
 - Successor Agency tax increments dedicated to pay debt service even if City rejected lease & lost control of facility
 - Debt restructuring reduces NPV of debt by 3%
- City lost control of 3 parking garages, SCC 16 master lease issues
- Agreement uses non-GF dollars to pay obligations, avoids adverse impacts of losing control of Arena & never regaining control of garages

NPFG-Fiscal Impact

(FY13-41 Totals, \$ in millions, rounded)	Arena (2004)	Parking (2004)	SEB (2006)	Total
General Fund-Baseline Obligation	\$5	\$56	\$0	\$61
General Fund-Savings	(5)	(56)	0	(61)
General Fund-Revised Obligation	0	0	0	0
General Fund % Savings	100%	100%	0%	100%
Other Funds Cost	74	44	18	137
<i>Other Fund Sources</i>	(a)	(b)	(b)	
City Total-Revised Cost	74	44	18	137
Original Debt Service	81	56	18	155
All Funds % Savings	8%	22%	0%	12%
<i>(a) Successor Agency (tax increment revenue)</i>				
<i>(b) Parking Authority (parking fees & fines)</i>				

Ambac Modification

- Prior agreement contained “most favored nation” clause
 - Provides that any subsequent agreement provision that is superior to treatment afforded Ambac be updated for Ambac as well
- Minor provision in proposed Assured & NPFG agreements will be added to Ambac agreement
 - Stipulation to Judgment in Confession in event City defaults
 - No change in financial terms

Marina-Dept of Boating & Waterways

- City owes State \$10.8M payable from Marina net revenues; no net revenues generated to date (GF annual subsidy is \$140K)
- State agrees to forego any interest or penalties, City repays debt as able from future Marina net revenues above & beyond revenues devoted to operations
- GF not obligated to pay debt service or provide subsidy
- State can provide operation input, has option of taking possession of Marina & operating it directly
- GF saves \$10.8M from FY13-41 (100% savings from baseline obligation)

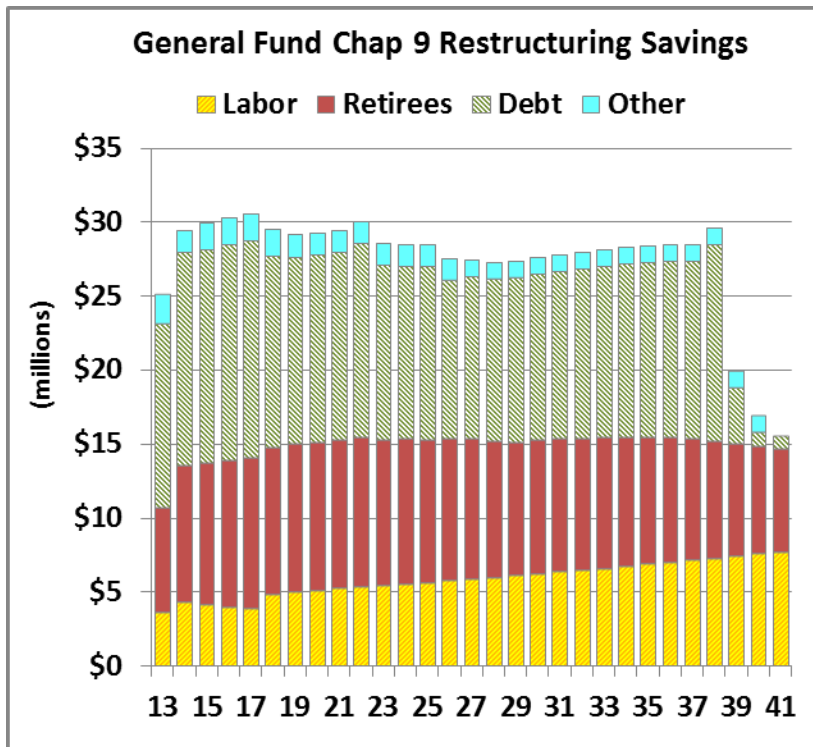
Thunder Hockey Team

- SC Hockey has agreement through 2024, annual City subsidy required
- Some support of minor league sports is typical, but contract is long & various aspects are above industry standard, so restructuring negotiated
 - Increase in rent charged for hockey games, increase in City share from catering, revised suite rental sales sharing plan, City gains from ticket-based & ad revenues when team achieves attendance benchmarks
- Annual City costs reduced \$200K when lease changes made, plus potential of another \$30-40K if/when gain-sharing kicks in

Price Plaintiffs

- Obligation arose from litigation over City efforts to abate certain substandard downtown housing (single-room occupancy hotels)
 - Payment of relocation claims
 - Provide replacement housing units for very-low and extremely-low income persons
- City obligations for relocation assistance extinguished under agreement
- Clarifies terms under which past and proposed units count as replacement housing, preference rights of plaintiffs
- Goal is for City to meet requirements by July 15, 2015
- No General Fund impact, no alteration of Successor Agency obligations

Restructuring Savings by Group



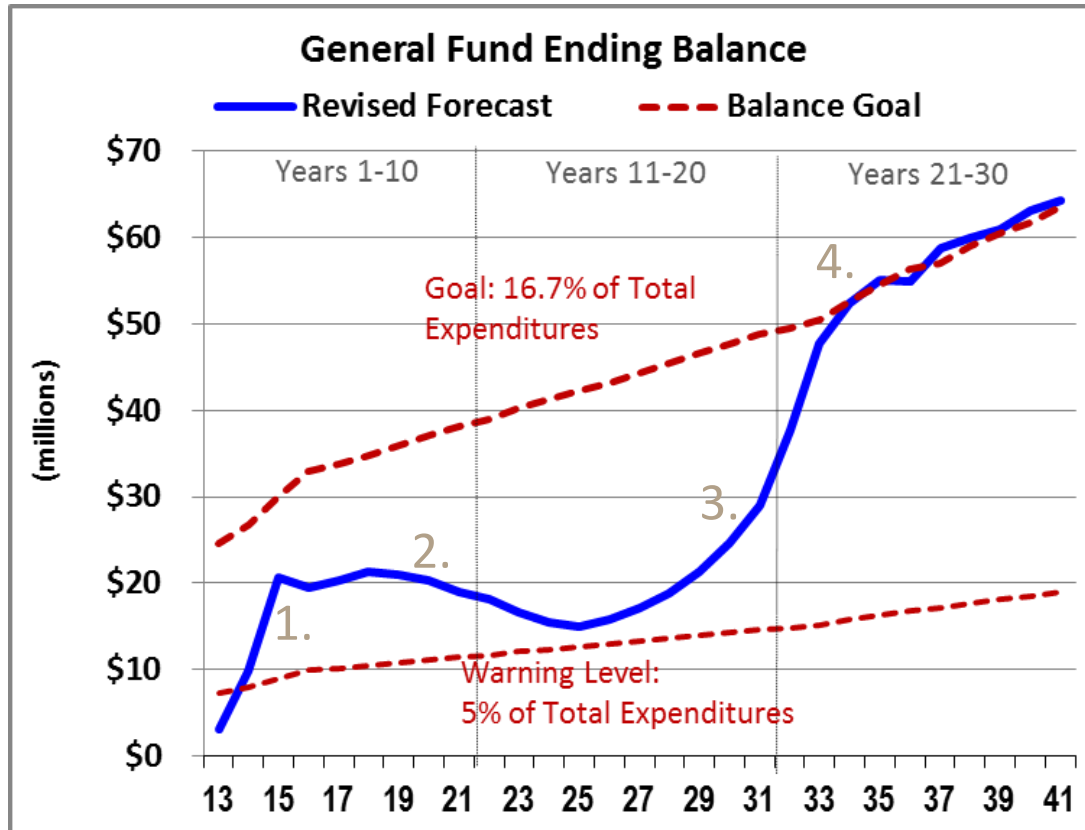
(\$ in Mil.)	General Fund	Other Funds	Total	% of Total
Labor-Prior*	\$25	\$17	\$42	4%
Labor-Future	167	107	274	24%
Subtotal	192	124	316	28%
Retirees	263	190	453	40%
Debt	326	0	326	29%
Other	38	0	38	3%
Total	820	313	1,133	100%

*Liability thru end of contracts, excludes ongoing impact of reductions made prior to AB 506 not included in baseline budget

- Ave \$27M annual savings, more in near-term

- \$1.1B total savings FY13-41; \$820M for GF

General Fund Balance Cycle



1. Increases with advent of Measure A sales tax
2. Declines with Marshall Plan implementation & higher PERS costs
3. Increases as PERS rates fall due to unfunded liability amortization
4. Balance reaches 16.7%, amounts in excess fund unmet needs

Conclusion

- Agreements represent significant progress in concluding bankruptcy process
- Settlements within Council parameters & fiscal model
- Plan of Adjustment confirmation trial in mid-May
 - If approved, Franklin, Ports, Jarvis claims resolved under plan; bankruptcy may end by June 30, 2014
 - If judge rules against City, depending on reason for denial of confirmation, process could be extended 4-6 months or more
 - Given the many negotiated agreements & support for plan from those creditors, staff is optimistic Plan can be confirmed by end of current FY

Questions?