



CITY OF STOCKTON NEWS RELEASE

FOR IMMEDIATE RELEASE:
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City of Stockton Successful Remarketing of Water Bonds from Variable to Fixed Rate Results in Improved Rating

(Stockton, CA) - Today, the City of Stockton, through the Stockton Public Financing Authority, successfully remarketed \$55 million in water revenue bonds from a variable interest rate to a fixed-rate of interest for the term of the bonds. In the process, the Authority was able to secure rating upgrades from all three major rating agencies, including Standard and Poor's, which upgraded the ratings on the bonds four notches to A-/Positive from BB+/Developing.

"We are very pleased that the market clearly understands that these bonds are paid from special revenues that are restricted and are not impacted by our bankruptcy filing and at the level of interest and the demand generated for the bonds at the public sale," said Interim City Manager Kurt Wilson. "These bonds partially funded our Delta Water Supply Project. Now, all \$253 million in bonds associated with the project are at a fixed-rate of interest, eliminating any risks associated with staying in variable interest rate mode."

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The \$55 million in remarketed bonds were originally sold in 2010 and are referred to as the Stockton Public Financing Authority, Water Revenue Bonds, Series 2010A (Delta Water Supply Project). The bonds were originally secured by a letter of credit (“LOC”) issued by Union Bank. Under the terms of the Union Bank Reimbursement Agreement, Union Bank could have declared an event of default upon the City filing for chapter 9 bankruptcy protection; a declaration would have caused the Bonds to become immediately due and payable, creating a liquidity concern for the water fund. Union Bank reserved all rights, but never declared an event of default. “We have been in constant communication with the (Union) Bank and they have been extremely reasonable with us,” said former City Manager Bob Deis in a report to the City Council on August 13, 2013. “This helped to calm the market and allowed the bonds to continue to be remarketed successfully.”

Throughout the City’s fiscal crisis, the City has held fast to the position that the bonds are paid from the special revenues of the water fund, which have been and will be solely available for water operations and for the payment of the debts of the water fund. These special revenue funds cannot and will not be diverted to fund general government operations. The remarketing agent, Citigroup Global Markets, Inc., recognized that the market would respond positively, which was confirmed by closure of the deal effective, Tuesday, November 26, 2013.

The Standard and Poor’s analysis recognizes that the economics of Stockton continue to be weak, due to a housing market that has not recovered and continued high

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unemployment, which exceeds that of the rest of the state. At the same time, the analysis acknowledged the progress Stockton has made with its proposed plan of adjustment for the general fund, filed with the bankruptcy court on October 10, 2013, and amended on November 15, 2013, and that the water bonds, as well as other special revenue funds of the City, are unimpaired by the bankruptcy.

“We’re getting our fiscal house in order,” continued Wilson. “Even though the water fund is not associated with our bankruptcy, fiscal discipline must be demonstrated in every aspect of the City’s finances. It is part of living within our means and making certain that we are prepared when the next market downturn occurs.”

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