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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 KENNETH DIEKER 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 Kenneth Dieker In Support Of Confirmation Of First Amended*  
 4 *Plan For The Adjustment Of Debts Of City Of Stockton, California (November 15, 2013)* [Docket  
 5 Nos. 1369-76 / Adv. Pro. Docket Nos. 64-71]. Franklin incorporates herein its concurrently filed  
 6 *Motion To Exclude Portions Of Testimony Of Kenneth Dieker*.

PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>8 2. In its Summary Objection of Franklin                  9 High Yield Tax-Free Income Fund and                  10 Franklin California High Yield Municipal                  11 Fund to Confirmation of First Amended Plan                  12 of Adjustment of Debts of City of Stockton,                  13 California (November 15, 2013) [Dkt. 1273]                  14 (“Summary Objection”), Franklin                  15 mischaracterizes the 2009 Golf Course/Park                  16 Bonds as a “loan” from Franklin to the City.                  17 This is a misstatement of the actual structure                  18 of the 2009 Golf Course/Park Bonds.</p>	<p>Franklin objects to the statements in this                  paragraph because they consist of opinion                  testimony that is inadmissible given that Mr.                  Dieker’s knowledge, skill, experience training                  and education do not render him qualified as an                  expert regarding the matters to which he is                  testifying. FED. R. EVID. 702. Franklin                  incorporates herein its <i>Motion To Exclude</i>  <i>Portions Of Testimony Of Kenneth Dieker</i>.                  Franklin also objects to this paragraph in its                  entirety because it purports to address whether                  the Agreements should be characterized as leases                  for bankruptcy purposes, and testimony in that                  regard is no longer relevant. FED. R.                  EVID. 401, 402.</p>
<p>17 3. Attached hereto as <b>Exhibit A</b> is a true                  18 and correct copy of the indenture for the 2009                  19 Golf Course/Park Bonds (“Indenture”);                  20 attached hereto as <b>Exhibit B</b> is a true and                  21 correct copy of Stockton City Council                  22 Resolution No. 08-0372; and attached hereto                  23 as <b>Exhibit C</b> is a true and correct copy of                  24 Stockton Public Financing Authority                  25 Resolution No. 08-04. As reflected on page 1                  26 of the Indenture, page 2 of the City Council                  27 Resolution, and page 2 of the PFA                  28 Resolution, the Financing Authority—not the                  City—authorized the issuance of the 2009                  Golf Course/Park Bonds. It was the Financing                  Authority that issued the official statement for                  the 2009 Golf Course/Park Bonds (“Official                  Statement”), a true and correct copy of which                  is attached hereto as <b>Exhibit D</b>, on August                  20, 2009. To accomplish the transaction, the                  City leased nonresidential real property to the                  Financing Authority, which subleased the                  property back to the City. Attached hereto as  <b>Exhibits E and F</b> are true and correct copies                  of the lease to the Financing Authority and                  the sublease to the City, respectively. The</p>	<p>Franklin objects to the statements in this                  paragraph because Mr. Dieker’s statements as to                  the terms and provisions of the referenced                  documents are not the best evidence thereof.                  FED. R. EVID. 1002.</p>

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<p>1 Financing Authority then assigned its right to 2 receive rental payments (along with certain 3 other rights relevant to the enforcement of 4 remedies) under the lease agreement to a 5 trustee. Finally, the Financing Authority 6 issued the 2009 Golf Course/Park Bonds and 7 transferred the proceeds to the City for 8 expenditure on capital improvements.</p>	
<p>9 5. Franklin purchased the 2009 Golf 10 Course/Park Bonds in 2009, in the middle of 11 the "Great Recession." In the Official 12 Statement, Franklin was put on notice that the 13 City's economic condition was dire. The 14 Official Statement contained a discussion of 15 Councilmember Dale Fritchen's request in 16 February 2009 that the City Attorney's Office 17 prepare "an informational presentation on 18 municipal bankruptcy," noting how "everyday 19 there's individuals who bump into me and tell 20 me, 'why doesn't the City just go bankrupt.'" Exhibit D, p. 27. <u>As a result, the 2009 Golf 21 Course/Park Bonds reflect this higher risk by 22 providing Franklin with a greater return.</u></p>	<p>Franklin objects to the statements in this paragraph because Mr. Dieker's statements as to the terms and provisions of the Indenture are not the best evidence of that agreement. FED. R. EVID. 1002. Franklin objects to the underlined statements in this paragraph because they consist of opinion testimony that is inadmissible given that Mr. Dieker's knowledge, skill, experience training and education do not render him qualified as an expert regarding the matters to which he is testifying. FED. R. EVID. 702. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>
<p>23 6. A proper understanding of the 2009 Golf 24 Course/Park Bonds requires some historical 25 context. The Financing Authority originally 26 approved the transaction on September 9, 27 2008. On September 15, 2008, however, 28 Lehman Brothers filed for bankruptcy protection, leaving many investors shaken and many markets in free fall over the ensuing weeks. The Dow Jones Industrial Average dropped from 13,058 in the second quarter of 2008 to a low of 6,547 in the second quarter of 2009. Interest rates spiked as well. This is reflected in the pre-pricing book that I prepared for the August 2009 sale, which is described in greater detail below. Contained on page one of the pre-pricing book is a table of interest rates and on page two is a chart of the same interest rates showing the Bond Buyer 20-Bond Index, the Bond Buyer 11- Bond index and the Bond Buyer Revenue Bond index along with both 10-yr and 30-yr U.S. Treasury rates over the previous year. The Bond Buyer indices are published each Thursday and are reflective of a pool of underlying transactions that make up the respective index. As displayed on these two pages, the Bond Buyer Revenue Bond Index went up from 5.17% on August 28, 2008 to 6.48% on October 16, 2008. Id.</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>

PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>1 2 3 4 5 6 7 8 9 10 11</p> <p>7. The bond market in late 2008 through 2009 was understandably unstable. As one illustration of the bond market during this period, I was the Financial Advisor on an AA-Water Revenue Bond transaction for another Northern California city. The financing was to provide approximately \$18 million of new money for projects and be repaid over a 30-year period. The bonds were publicly offered in October 2008, but only a few buyers showed interest. Buyers appeared to be hoarding cash and sitting on the sidelines waiting to see the outcome of the financial crisis. The City was ultimately successful in placing the bonds as a private placement with a bank, but had to lower the amount issued to \$9.25 million and shorten the term to 25 years.</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>
<p>12 13 14 15 16 17 18 19 20</p> <p>8. The bond market did stabilize somewhat when President George W. Bush signed the Emergency Economic Stabilization Act (sometimes referred to as the Toxic Asset Relief Program (“TARP”)) into law on October 3, 2008, which provided up to \$700 billion to be used to purchase troubled assets. However, those same dollars were instead directly infused into the banking system to provide much needed liquidity. Interest rates remained very choppy through the end of 2008 with the Bond Buyer Revenue Bond Index dropping under 6.00% on November 13, 2008 but climbing again to 6.39% on December 11, 2008. At the beginning of 2009, interest rates began a steady decline reaching 5.67% on February 12, 2009.</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>
<p>21 22 23 24 25 26 27 28</p> <p>9. In February of 2009, the City initially attempted to market the 2009 Golf Course/Park Bonds. On February 19, 2009, the 2009 Golf Course/Park Bonds were offered in a public offering, and the City entered into a Bond Purchase Agreement with RBC Capital Markets as the underwriter for the 2009 Golf Course / Park bonds, with closing (delivery of and payment for the 2009 Golf Course/Park Bonds) scheduled to occur approximately 2 weeks later. That same night, February 19, 2009, Councilmember Dale Fritchman requested information from the City Attorney’s office on municipal bankruptcy as described above. <u>The buyers of the 2009 Golf Course/Park Bonds who had placed orders with RBC Capital Markets, upon hearing this</u></p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>. Franklin also objects to the underlined portions of this paragraph to the extent offered for the truth of the matters asserted, as they consist of inadmissible hearsay. FED. R. EVID. 801, 802.</p>

PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>1 information, demanded that the City release 2 <u>them from those orders, and RBC was forced</u> 3 <u>to request that the City cancel the sale</u> 4 <u>pursuant to the Bond Purchase Agreement.</u> The City granted the buyers' request. The deal then sat dormant for a number of months.</p>	
<p>5 10. Later that year, RBC Capital Markets 6 investment banker Bob Williams approached 7 me about reviving the deal. His firm had a 8 potential buyer (Franklin) interested in the 9 2009 Golf Course/Park bonds. The City was 10 still interested in moving forward and the 11 financing team began the process of updating 12 the official statement and the underlying 13 rating. By that time, Councilmember Fritchen had publicly raised the risk of bankruptcy and developers had begun petitioning the City Council for lower development fees in response to the economic downturn. The City was in shaky economic condition, and the interest rates on the 2009 Golf Course/Park Bonds and their two-term bond structure reflect that risk.</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>
<p>14 11. Based on my 23 years of experience in 15 this field (as of 2009), I believe that the 2009 16 Golf Course/Park Bonds, compared to the 17 City's other existing bond issuances and to 18 bond transactions of other issuers being 19 offered at the time, were sold to Franklin at 20 higher yields and with a term bond structure 21 that clearly compensated Franklin for their 22 risky investment. Attached hereto as <b>Exhibit G</b> is a true and correct copy of the pre-pricing book that I prepared for the August 2009 sale, which contains general market interest rate historical information and recent municipal market articles, and compares the 2009 Golf Course/Park Bonds with other bond deals from the same time period.</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>
<p>23 12. It is part of my normal process when 24 pricing bonds to prepare a pre-pricing book 25 that shows general market interest rates, 26 articles related to the bond market at the time 27 of the sale, and several comparable sales for 28 other transactions being sold around the same time. I use this book to educate the issuer at the time of sale as to the market conditions, allowing the issuer to make an informed decision about the final pricing. As the comparison in Exhibit G demonstrates,</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>

PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>Franklin offered to purchase the deal with two term bonds: one with a coupon of 6.75% with a yield to maturity of 7.00% maturing in 2029 with sinking fund payments from 2013 to 2029, and another with a coupon of 7.00% with a yield to maturity of 7.15% maturing in 2038 with sinking fund payments from 2030 to 2038. Term Bonds are typically used to aggregate the principal amount of the offering into larger single maturities with a single interest rate based on the maturity date. Principal is amortized through sinking account payments that pay off portions of the term bond early. In my experience, this structure is preferred by large institutional buyers who want a large single maturity, and are not willing to accept a lower rate for earlier amortization. In contrast, a serial bond structure takes advantage of the yield curve (the fact that interest rates tend to be lower for shorter maturities) by breaking each principal amortization payment into a separate bond with its own maturity. This achieves a lower overall cost for the issuer, but means many smaller pieces of the bonds and a lower return to an institutional buyer who wants to buy a large amount of a transaction. The 2009 Golf Course/Park Bonds had only two large term bonds, and no serial bonds, because they were designed for a single purchaser – Franklin.</p>	
<p>13. When I compare this to the other deals from the same time period, all of them have both a serial and term structure where the serial maturities allow an issuer to take advantage of lower yields at the shorter end of the yield curve only terming bonds for a particular institution or at the long end of the yield curve where the curve flattens. The presentation I prepared uses the AAA Standard and Poor's ("S&amp;P") scale published each day in the Bond Buyer and compares, on a maturity by maturity basis, the spread to the AAA S&amp;P scale from the date of that sale to the spread on the date of the 2009 Golf Course/Park Bonds sale. The tables also compare the actual spreads between deals.</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>
<p>14. At the time of the issuance of the 2009 Golf Course/Park Bonds, the City was rated A by Standard &amp; Poor's with a Negative Outlook. However, at that time in general, the market considered lease transactions with a general fund promise to pay and underlying</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>

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<p>1 leased assets to be stronger than other 2 transactions, such as redevelopment tax 3 increment or land-secured assessment and 4 Mello-Roos transactions, but not as strong as 5 general obligation transactions with the 6 ability to put the full amount of debt service 7 on the property tax role and collect on 8 property owner tax bills or water and sewer 9 bonds backed by the ability to increase user 10 rates and charges.</p>	
<p>11 15. Comparing the S&amp;P spread allows an 12 issuer to evaluate deals that may be sold at 13 different times. Spreads do widen and narrow 14 from time to time so the closer to the sale 15 date, the less likely the analysis will pick up 16 spread movements. This is not an exact 17 science, and the municipal market is not as 18 efficient as pricing on U.S. Treasuries and 19 stocks. However, as reflected by the 20 Comparable Sales analysis in Exhibit G, the 21 spreads for the BBB-rated (lower rating than 22 the 2009 Golf Course/Park Bonds) San 23 Francisco Redevelopment Financing 24 Authority, Tax Allocation Bonds deal sold on 25 August 20, 2009 ranged anywhere from 26 +217bp in 2013, +187bp in 2029 to +180bp in 27 2038 over the AAA S&amp;P scale. Exhibit G at 28 1. Tax allocation bonds were considered weaker credits because the agencies have no taxing authority and are subject to movements in assessed values, compared with the City's General Fund, the source of payment for the 2009 Golf Course/Park Bonds, which can pay from all available resources. Even the S&amp;P A- rated (same rating as the 2009 Golf Course/Park Bonds) Lancaster Redevelopment Agency deal sold on August 17, 2009 ranged from +225bp in 2013, +196bp in 2029 to +207bp in 2038.</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>
<p>16. One can make the same comparison for each of the deals on the four comparable sales pages. The City of Oakland, General Obligation Bonds from July 22, 2009 show the narrowest spreads, ranging from +83bp in 2013, +92bp in 2029 to +105.2bp in 2038. In contrast, the 2009 Golf Course/Park Bonds range from +531bp in 2013, +243bp in 2029 to +221bp in 2038 for an average non- weighted spread of +308.5bp as compared to the +197.1bp for the San Francisco issue, +216bp for the Lancaster issue, and +101.1bp for the Oakland issue. Moreover, Franklin</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>.</p>

PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>1 offered to buy these as two term bonds with 2 sinking fund payments at 6.75% and 7.00% 3 respectively, meaning that the City pays that 4 interest rate for the entire term of the bond, 5 compared to transactions where a serial and 6 term structure is used to reduce the cost to the 7 issuer. The bottom line is that Franklin 8 obtained a beneficial spread to other 9 comparable issues of between 92.5 bp 10 (.925%) and 207.4 bp (2.074%) for the 2009 11 Golf Course/Park Bonds.</p>	
<p>12 17. In light of this analysis, I believe 13 Franklin saw an investment opportunity 14 where other buyers were wary, and that in 15 exchange, Franklin could obtain higher yields 16 than other comparable issues pricing around 17 the same time.</p>	<p>Franklin objects to the statements in this paragraph because they are not relevant. FED. R. EVID. 401, 402. Franklin incorporates herein its <i>Motion To Exclude Portions Of Testimony Of Kenneth Dieker</i>. To the extent Mr. Dieker offers the testimony in this paragraph in his capacity as a fact witness, Franklin objects to it because it is speculative and lacks foundation. FED. R. EVID. 602. Franklin further objects to this paragraph because it contains improper opinion testimony that is not rationally based on Mr. Dieker's perception and is not helpful to clearly understand his testimony or to determine a fact in issue. FED. R. EVID. 701.</p>
<p>18 19. On pp. 46-47 of its Summary 19 Objection, Franklin presents a chart that 20 purports to show the distributions that the 21 City will make to Ambac, Assured, and 22 NCFG. This chart is seriously misleading, and 23 does not accurately characterize the 24 settlements that the City reached with these 25 creditors.</p>	<p>Franklin objects to the statements in this paragraph because Mr. Dieker misstates the contents of Franklin's objection and his statements as to its contents are not the best evidence of that document. FED. R. EVID. 1002.</p>
<p>26 20. The first major flaw in Franklin's 27 characterization of the settlement distributions 28 to Ambac, Assured, and NCFG is that Franklin fails to take into account the valuable concessions that each settlement gave the City. The most valuable concession was the reduction of the potential exposure for the General Fund to provide any subsidy to make future debt service payments on the restructured transactions. Because of the importance of the General Fund to the City's financial health, limiting its long-term exposure is essential to the City's continuing viability.</p>	<p>Franklin objects to the statements in this paragraph because Mr. Dieker misstates the contents of Franklin's objection and his statements as to its contents are not the best evidence of that document. FED. R. EVID. 1002. To the extent Mr. Dieker offers the testimony in this paragraph in his capacity as a fact witness, Franklin objects to it because it is speculative and lacks foundation. FED. R. EVID. 602. Franklin further objects to this paragraph because it contains improper opinion testimony that is not rationally based on Mr. Dieker's perception and is not helpful to clearly understand his testimony or to determine a fact in issue. FED. R. EVID. 701.</p>

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<p>21. Second, Franklin’s chart fails to mention the collateral implicated by each deal. Ambac, Assured, and NCFG each control collateral that is significantly more valuable to the City’s ongoing health than the leased properties underlying the 2009 Golf Course/Park Bonds. The properties underlying the debt insured by each of these creditors serve important municipal functions, and the City, in the exercise of its business judgment, has determined that they cannot be sacrificed.</p>	<p>Franklin objects to the statements in this paragraph because Mr. Dieker misstates the contents of Franklin’s objection and his statements as to its contents are not the best evidence of that document. FED. R. EVID. 1002. To the extent Mr. Dieker offers the testimony in this paragraph in his capacity as a fact witness, Franklin objects to it because it is speculative, and lacks foundation. FED. R. EVID. 602. Franklin further objects to this paragraph because it contains improper opinion testimony that is not rationally based on Mr. Dieker’s perception and is not helpful to clearly understand his testimony or to determine a fact in issue. FED. R. EVID. 701.</p>
<p>22. Finally, Franklin’s chart is simply wrong on some of the numbers for the settlements with Ambac, Assured, and NCFG:</p> <p><i>Ambac Settlement.</i> The Ambac Bonds, aka the Certificates of Participation, Series 2003 A&amp;B (Housing Projects) (“2003 COPS”), are insured by Ambac. The 2003 COPS were sold as a General Fund lease transaction with the leased premises as the Main Police Facility, Fire Stations 1, 5 and 14 and the Maya Angelou Library. These are essential City assets that provide, at least in the case of the Main Police Facility and the three fire stations, a critical health and safety function for the City. In addition to the lease payments by the City, the 2003 COPS are payable under a Reimbursement Agreement from 20% housing set-aside tax increment which encompasses all of the City’s project areas. The 2003 COPS are also subordinate to tax allocation housing bonds sold by the redevelopment agency in 2006. The City negotiated with Ambac to structure a deal that capped the amount of General Fund subsidy required in any given year to 80.50% of annual debt service. First, to the extent needed, the reserve fund for the bonds will be used to pay any shortfall of debt service until exhausted. If a shortfall remains, the General Fund will subsidize payments up to 80.50% of annual debt service. If the City reaches the 80.50% cap, Ambac will make any remaining payments until bondholders are paid in full. If and when tax increment grows in excess of annual debt service, the Ambac payments will be on the Recognized Obligation Payments Schedule (“ROPS”), a schedule delineating</p>	<p>Franklin objects to the statements in this paragraph because Mr. Dieker misstates the contents of Franklin’s objection and his statements as to its contents are not the best evidence of that document. FED. R. EVID. 1002. To the extent Mr. Dieker offers the testimony in this paragraph in his capacity as a fact witness, Franklin objects to it because it is speculative, and lacks foundation. FED. R. EVID. 602. Franklin further objects to this paragraph because it contains improper opinion testimony that is not rationally based on Mr. Dieker’s perception and is not helpful to clearly understand his testimony or to determine a fact in issue. FED. R. EVID. 701. Franklin also objects to this paragraph because Mr. Dieker’s statements as to the terms and provisions of the referenced settlements are not the best evidence of that agreement. FED. R. EVID. 1002. Franklin incorporates herein its concurrently filed <i>Evidentiary Objections To Direct Testimony Declaration Of Vanessa Burke in Support of Confirmation Of First Amended Plan For The Adjustment Of Debts Of City Of Stockton, California (November 15, 2013)</i>.</p>

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<p>the enforceable obligations of Stockton’s former Redevelopment Agency, to be repaid from tax increment. Once the Ambac payments are repaid in full, any draws on the reserve fund will also be on the ROPS to be repaid from tax increment. Since the structured transaction revolves around changes in assessed values within all the project areas and the ultimate receipt of tax increment from those project areas, it is impossible to predict the present value impairment to Ambac. If economic growth in the City returns, it is likely this obligation will be paid in full. However, the timing of those repayments could be delayed depending on how much tax increment is available each year and how much the Ambac payments accrue interest before they are repaid.</p> <p><u>NPFG SEB Settlement.</u> The NPFG SEB Bonds, aka the 2006 Lease Revenue Refunding Bonds, Series A, were sold as a standard General Fund lease transaction with the Stewart/Eberhart Building and the adjacent parking garage as the leased premises. Also known as the Essential Services Building, the Stewart/Eberhart Building houses many essential city departments including Public Works. Because of the essential status of the leased premises, the City assumed this lease, has made all payments in full and on time and the bonds remain unimpaired.</p> <p><u>NPFG Arena Settlement.</u> The NPFG Arena Bonds, aka the Redevelopment Agency of the City of Stockton, Revenue Bonds, Series 2004, were sold as a General Fund lease transaction pursuant to which the City makes leases payments to the Redevelopment Agency (now the Successor Agency to the Redevelopment Agency) for the right to the use and occupancy of the Stockton Events Center and Arena. In addition, there is a pledge of tax increment from the West End Project Area where Pledge Payments are made to the City under a Pledge Agreement and those monies are used to pay debt service each year. If there is a shortfall, the General Fund provides a backstop to subsidize any required payment not otherwise satisfied. The City and NPFG negotiated knowing that the Pledge Payments will be paid regardless of the General Fund payments. Currently tax increment from the West End project area is</p>	

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<p>not sufficient to fully repay the bonds each year. The City and NPMG agreed to a reduced schedule of payments and took this agreement to the California Department of Finance for approval under AB x1 26 and AB 1484 provisions. The General Fund remains as the backstop, but on a schedule that further reduces the need for future General Fund subsidies. The City was faced with a possible shuttering of the facility and the possible collateral economic damage to the downtown while the local taxpayers would still be paying for the obligation in full from property tax payments paid via tax increment. The actual repayment of this obligation, much like on the 2003 COPs, is dependent upon future assessed values and the flow of tax increment.</p> <p><i>NPMG Parking Settlement.</i> NPMG Parking Bonds aka Lease Revenue Bonds, Series 2004 (Parking and Capital Projects). These bonds were sold as a standard lease transaction with three parking garages (Arena, Ed Coy and Market Street) serving as the leased premises. The City and NPMG agreed to form a new Parking Authority, the City agreed to move all of the City’s parking assets into the new Parking Authority, and NPMG agreed to a reduced payment schedule in exchange for a gross revenue pledge from the new Parking Authority revenues. The leased assets remain the same, and the City anticipates that the parking revenues—as opposed to the General Fund—will pay the debt service on the restructured obligation.</p> <p><i>Assured Guaranty Settlement.</i> The Assured Guaranty Settlement affects both the Pension Obligation Bonds, aka 2007 Taxable Pension Obligation Bonds, Series A and Series B (the “POBs”), and the Assured Office Bonds, aka the Variable Rate Demand Lease Revenue Bonds, 2007 Series A and Taxable 2007 Series B (Building Acquisition Financing Project) (the “VRDOs”). Assured Guaranty has asserted that the POBs have special status because they represent the same underlying liability as the City’s other pension funding obligations (which are being assumed under the Plan) and are thus obligations imposed by law (which City confirmed at the time of issuance of the POBs through a validation action under California Code of Civil Procedure section 860 et seq.). The Assured Guaranty Settlement shifts the</p>	

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<p>proposed “Ask” payments originally slated for the Assured Office Bonds to the POBs along with \$250,000 of additional payments each year starting in 2023. The City also agreed to pay the portion of debt service payable on the POBs from restricted funds to the POBs. These restricted fund payments would otherwise go to pay pension benefits or to repay the POBs; these restricted funds are not part of the General Fund.</p> <p>At the time of the “Ask”, the restricted fund payments were estimated at 17.38%, consisting primarily of water/sewer, gas tax, and Measure W funds. The ratio of City employees compensated solely or partially from the General Fund and those compensated from Restricted Funds varies from year to year, depending on, among other things, the number of employees paid from each fund. Based on historical and projected data, a reasonable estimate of the amount of pension obligations that are funded from Restricted Funds is about 17%. Assured and the City agreed on this percentage as a fixed amount each year. Because approximately 17% of City’s pension obligations may lawfully be funded by special fund revenue, such revenues may be used to pay 17% of the debt service obligations on the POBs.</p> <p>The VRDOs were sold as a standard General Fund lease with 400 E. Main serving as the leased premises. In exchange for shifting the “Ask” payments from the VRDOs to the POBs, Assured agreed to terminate the lease payments under the VRDOs. The City also entered into a near-term lease for office space in the building to turn such space into City Hall. Although from the City’s perspective the VRDOs obligation was terminated, the City agreed to possession by Assured of 400 E. Main with title to shift at some future date. The Assured POBs settlement was an essential part of the overall deal struck between the City and Assured, overseen by Judge Perris, which was necessary to ensure the City’s continued use of 400 E. Main for the next 12 years.</p> <p>The Assured POBs settlement provides for payments from the City’s restricted funds, which the City believes will be available to make those payments. The POBs funded payment of pension benefits for City employees, including current and retired City</p>	

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<p>1 employees whose compensation and benefits                  2 were paid by monies from the General Fund                  3 as well as those whose compensation and                  4 benefits were paid by monies from Restricted                  5 Funds. As explained in the declaration of                  6 Vanessa Burke in support of the City's                  7 eligibility for bankruptcy relief [Dkt. No. 62],                  8 such Restricted Funds may not be used to pay                  9 General Fund obligations unrelated to such                  10 Restricted Funds. They may, however, be                  11 used to pay obligations related to the                  12 Restricted Funds.</p> <p>13 Assured also is entitled to certain                  14 Contingent Payments based on a formula that                  15 measures the amount of those payments by                  16 reference to the amount by which the City's                  17 general fund revenues exceed the City's                  18 budget forecast over time. There is no                  19 assurance that any contingent payments will                  20 be made and the amount of those payments                  21 cannot therefore be calculated or determined                  22 at the present time.</p>	
<p>23 Exhibit G (pre-pricing book)</p>	<p>24 Franklin objects to the admission of this pre-                  25 pricing book because it consists of opinion                  26 testimony that is inadmissible given that Mr.                  27 Dieker's knowledge, skill, experience training                  28 and education do not render him qualified as an                  expert regarding the matters contained therein.                  FED. R. EVID. 702. Franklin incorporates                  herein its <i>Motion To Exclude Portions Of                  Testimony Of Kenneth Dieker.</i></p>

19 Dated: April 25, 2014

JONES DAY

21 By:           /s/ Joshua D. Morse          

22 James O. Johnston  
 23 Joshua D. Morse  
 24 Charlotte S. Wasserstein

25 *Attorneys for Franklin High Yield Tax-Free  
 26 Income Fund and Franklin California High  
 27 Yield Municipal Fund*