



NEWS RELEASE

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Franklin Ends Challenge to City's Bankruptcy

(Stockton, CA) – After nearly four years of addressing the City's daunting financial issues, another milestone has come and gone. Monday, January 11, 2016, was the deadline for Franklin High Yield Fund (Franklin) to continue its appeal of the order confirming the City's Chapter 9 bankruptcy Plan of Adjustment to a higher court, and Franklin chose not to do so.

Just one month ago, on December 11, 2015, the United States Bankruptcy Appellate Panel (BAP) of the Ninth Circuit issued an opinion dismissing Franklin's appeal on most of the claimed grounds for appeal and affirming the rulings of the bankruptcy court on the remaining grounds. Among other rulings, the BAP concluded that the City's Plan was not unfairly discriminatory toward Franklin, that the Plan had been substantially consummated, and that "reversing the Confirmation Order would knock the props out from under the Plan and would leave the bankruptcy court with an unmanageable situation on remand."

The City attempted to avoid Chapter 9 by commencing confidential mediation sessions with its largest creditors in late February 2012. After 90 days, the City had reached agreement with nearly all labor groups, but, absent agreement with its largest creditors, was unable to reverse its insolvency and had no choice but to seek bankruptcy protection on June 28, 2012.

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The confidential mediation continued throughout the bankruptcy case, and the City reached agreement with its labor groups, many creditors and all of its capital markets creditors except Franklin. On October 30, 2014, then-Chief Bankruptcy Judge Christopher Klein ruled that he would confirm the Plan of Adjustment, which was the City’s bankruptcy exit plan.

Two weeks later, Franklin requested that Judge Klein stay the City’s bankruptcy exit pending the resolution of its appeal. Judge Klein rejected Franklin’s request and signed the confirmation order on February 4, 2015. The City then made millions of dollars of payments to its creditors – including to over 1,000 retirees – transferred real estate assets to a new parking authority, and executed numerous documents that consummated the negotiated settlements with its major creditors. Those and other transactions meant that the City officially exited bankruptcy on February 25, with the Franklin appeal pending.

Franklin continued the appeal process. The confirmation decision by Judge Klein was reviewed by a panel of three bankruptcy judges, the BAP, and the panel heard arguments on November 19, 2015. The BAP issued its decision in less than a month, dismissing portions of Franklin’s appeal and affirming the remainder of Judge Klein’s rulings.

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“The City is pleased with the outcome of the bankruptcy court and BAP proceedings. Avoiding the expense and resource demands of yet another appeal will allow the City to focus on continuing its upward trajectory and advancing the policy directives of the City Council,” said City Manager Kurt Wilson. “I’m grateful to our legal team for guiding us as we navigated this difficult path and to the City Council for having the courage to allow staff to stay the course, even in the face of uncertainty and criticism. The sacrifices of our citizens, employees, retirees, and other creditors paved the way to our recent successes.”

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