



## **CITY OF STOCKTON NEWS RELEASE**

**FOR IMMEDIATE RELEASE:**  
Monday, April 1, 2013

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### **United States Bankruptcy Court Judge Christopher Klein Finds Stockton Eligible to be a Chapter 9 Debtor**

(Stockton, CA) - After hearing arguments and testimony at a trial lasting just three days, Chief United States Bankruptcy Court Judge Christopher M. Klein approved the City of Stockton's petition for chapter 9 bankruptcy relief, filed on June 28, 2012. The City defended its eligibility, while attorneys representing several large financial creditors in the case, the Capital Market Creditors, which includes Assured Guaranty Corp., Assured Guaranty Municipal Corp., National Public Finance Guaranty Corporation, Franklin Advisors, Inc. and Wells Fargo Bank, asked Judge Klein to reject the City's petition. The primary objections were related to the question of good faith and to whether the City was insolvent when the bankruptcy filing was made. Specific objections focused on the City's not requesting that CalPERS restructure or impair employee or retiree pensions and suggesting what the City might have done differently, in the years leading up to its bankruptcy filing, in order to avoid bankruptcy.

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“After nine months and millions of dollars in legal fees, the Judge validated what we have been saying from the beginning, that the City is insolvent and needs the protection of bankruptcy to adjust its debts,” said City Manager Bob Deis. “The next steps are to confirm a Plan of Adjustment through the restructuring of our debt, begin the recovery process and move Stockton forward.”

At the time the City filed for bankruptcy, it had already addressed \$90 million in General Fund deficits in the three prior years and was faced with over \$26 million in General Fund deficits in fiscal year 2012-2013. Prior to bankruptcy, the City had completed 90 days in pre-bankruptcy confidential mediation with its largest creditors, attempting to avoid bankruptcy, and in compliance with new State law. The City paid all the costs of this mediation process when the Capital Market Creditors refused to pay their share. During the mediation, the City submitted a detailed 790-page restructuring proposal for consideration by the creditors. While the City was able to make agreements with its labor unions, the end result was not enough, leaving no alternative but to seek bankruptcy protection.

Despite the millions spent by the Capital Market Creditors in trying to deny Stockton access to bankruptcy protection, the Judge ruled that Stockton officials and financial experts demonstrated the City was indeed insolvent on June 28, 2012. In addition, the Judge determined that evidence and testimony provided by the City and its consultant and expert, reveals that the City acted in good faith. Stockton’s willingness to negotiate was evident in

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the pre-bankruptcy, state-mandated confidential mediation process (AB 506), restructuring proposal (referred to as, the “ASK”), and agreements since reached with all nine of its labor groups and Ambac Assurance Corporation, a bond issuer. It has been the balance of the City’s capital market creditors that have been unwilling to negotiate.

On Monday and Tuesday, in-person testimony was provided by City officials and consultants who were cross-examined by attorneys representing the Capital Market Creditors. City Manager Bob Deis, who testified to the City’s insolvency; poor fiscal practices and accounting errors by prior management; addressing a \$540 million retiree medical unfunded liability; the inability to reduce CalPERS pensions and the need to maintain a competitive pension plan. Chief Financial Officer Vanessa Burke, as the City’s financial expert, answered questions to confirm the City’s cash insolvency, while Deputy City Manager Laurie Montes provided the framework for the City’s fiscal condition. Dave Millican, consultant with Management Partners and former (interim) Chief Financial Officer with the City, described the second opinion and assessment of the City’s fiscal condition, as well as the restructuring proposal presented during AB 506 process. Human Resources Director Teresia Haase answered questions about employee compensation and described significant reductions in employee compensation, and the City’s labor relations consultant Ann Goodrich addressed employee pay and benefits comparisons to other cities and changes that have been implemented over the past two years that have brought City

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employee compensation to at- and below-market levels.

Attorneys for the Capital Market Creditors called Councilmember Kathy Miller to testify as an adverse witness, questioning her about employee compensation, pensions and how the Council addressed decisions related to entering bankruptcy. Councilmember Miller was the only witness called by the objectors to testify in-person. Following her testimony, the Capital Market Creditors rested their case.

“It’s unfortunate that we have been forced to spend millions of dollars, thousands of hours and almost a year on this effort,” continued City Manager Deis. “These are valuable resources and money that could have gone toward addressing the critical safety needs of our community, restoring services, and paying our creditors. With this hurdle out of the way, we hope that, like Ambac, the Capital Market Creditors’ resources are dedicated to negotiating a consensual Plan of Adjustment. We look forward to obtaining a confirmed Plan to emerge from bankruptcy and restoring the City to fiscal health.”

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