



CITY OF STOCKTON

OFFICE OF THE CITY MANAGER

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February 25, 2015

An Open Letter to the Community Stockton Exits Bankruptcy

Dear Community of Stockton:

On June 28, 2012, the City of Stockton filed a petition for protection under chapter 9 of the United States Bankruptcy Code. Today, February 25, 2015, the City's Plan of Adjustment or "bankruptcy exit plan" becomes effective. From a legal perspective this is the date the City officially emerges from bankruptcy.

While the last several years have been a struggle for citizens, employees, and our entire community, years from now, we may well look back at this period of time in our history as the rebirth of Stockton. We emerge from bankruptcy a renewed city, perhaps better prepared for our future than any other city in the State, with a new value system, a thorough understanding of our operations and finances, and the tools to maintain solvency and adjust to economic conditions for decades into the future.

Our fulfilled commitment to the community.

Our commitment to the community was to address the long-term, unsustainable debts and obligations that created structural deficit issues and had pushed the City's General Fund into insolvency. The City Council has had to make many difficult decisions in the years leading up to and throughout the bankruptcy process, which required adopting and adhering to some basic guiding principles. As we exit bankruptcy, we can assure you that the City's Plan of Adjustment delivers on all of these commitments:

- Sustainable and provides for the health, safety, and welfare of the community;
- Balanced among interested parties, while allowing for basic services;
- Results in fiscal stability and solvency, demonstrated by our Long-Range Financial Plan; and
- Protects essential City assets.

Solutions required hard work and significant change.

Over time, the City was facing over \$2 Billion in labor agreements, long-term debt, and other obligations that would not have been possible to address outside of bankruptcy. However, unlike personal bankruptcy, municipal bankruptcy does not erase or “wipe out” debt. Finding solutions required hard work and heavy lifting by everyone involved. Focused by our guiding principles, we have achieved significant, sustainable change.

Our employees worked with us to accomplish equitable labor agreements that brought pay and benefits more in line with the average of the labor market. City retirees, represented by a Retirees Committee, recognized that lifetime City-paid healthcare benefits were not sustainable and agreed to a settlement which helped to address the biggest obligation facing the City’s General Fund – a \$544 million unfunded liability for retiree medical.

Citizens contributed by approving Measure A – a sales tax increase that provides funding for bankruptcy recovery and the Marshall Plan on Crime, allowing us to hire 120 additional police officers to address issues of crime and providing for the health and safety of our community.

Some of our largest debt included bond financing by capital market creditors for City buildings and projects that occurred in the early 2000’s, all of which were paid for or secured by the City’s General Fund. Stress on the City’s General Fund has been relieved by changing terms and conditions of these agreements, extending payment schedules, and providing for an “upside” sharing when economic circumstances and Stockton’s recovery permit.

Other agreements were reached with creative solutions, for example, exchanging surplus real property to settle a lawsuit and creating a more efficient downtown parking district to regain control of parking garages. In addition, we secured a new agreement with the California State Parks Division of Boating and Waterways for the Downtown Marina and revised contracts with local professional sports teams, the Thunder (hockey) and Ports (baseball).

By negotiating new labor agreements with employees, settling with retirees to eliminate free retiree healthcare, and working with our largest creditors toward reasonable agreements that no longer rely on the City’s General Fund as a backstop for long-term debt, the City successfully emerges from bankruptcy solvent and with a sustainable plan.

One “hold out” capital market creditor.

You may continue to hear the rumblings of one dissenting creditor, Franklin High Yield Funds. Franklin is the only capital market creditor that has not reached agreement with the City and has appealed the Judge’s decision to confirm the City’s Plan of Adjustment. Judge Christopher Klein has confirmed the City’s Plan over Franklin’s objections, and his strong written opinion on the matter can be read at www.stocktongov.com/bankruptcy. This order has denied Franklin’s request to stop the City from exiting bankruptcy, and proceeding with recovery, while its appeal is pending.

Going forward requires living within our means.

As we begin the process of recovery, we must maintain our new perspective and value system and not repeat mistakes of the past. We are accountable to you, the community, our employees, and those who have invested in our community. In every decision that we make, we must show the long-term impacts of policy decisions and budget assumptions to ensure that all decisions are conservative and reasonable. To accomplish this level of fiscal discipline, we have committed to a Long-Range Financial Plan, which was the basis of all the agreements made as part of the bankruptcy Plan of Adjustment.

Our resources and funding are lean and do not allow for restoration of services that were reduced or eliminated during our fiscal crisis. With the exception of increases in public safety, all other City services will only be increased through improved efficiencies. We must work to restore finances so that we can weather the impact of future economic downturns or recessions.

Stockton’s future as a sustainable city.

Our Long-Range Financial Plan will allow us to continue to provide basic services, increase public safety through the Marshall Plan on Crime, and maintain amenities that provide a quality of life that allow us to attract more employers and investors. Recovery of other services can occur with improvement in our local economy.

Cities throughout the nation are experiencing fiscal distress of varying degrees. Some have depleted all resources and do not have plans for the future. Because we entered bankruptcy in an organized manner, kept to our guiding principles, developed a Long-Range Financial Plan, and submitted a confirmable Plan of Adjustment, Stockton is on sound fiscal footing.

We thank you for your support and your patience over the years. There is cause for celebration, as the stigma of bankruptcy is lifted, our prospects for exciting economic development are vastly improved. Our future is bright as we move our city forward toward a vibrant and healthy future.

Additional information is available on the City's website. If you have any questions, please visit www.stocktongov.com or call (209) 937-8827.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Kurt O. Wilson', with a long horizontal flourish extending to the right.

KURT O. WILSON
CITY MANAGER