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 City of Stockton
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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. 2012-32118
 D.C. No. OHS-15
 Chapter 9

**DIRECT TESTIMONY
 DECLARATION OF LAURIE
 MONTES IN SUPPORT OF
 CONFIRMATION OF FIRST
 AMENDED PLAN FOR THE
 ADJUSTMENT OF DEBTS OF CITY
 OF STOCKTON, CALIFORNIA
 (NOVEMBER 15, 2013)¹**

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 20 WELLS FARGO BANK, NATIONAL
 ASSOCIATION, FRANKLIN HIGH
 YIELD TAX-FREE INCOME FUND,
 21 AND FRANKLIN CALIFORNIA
 HIGH YIELD MUNICIPAL FUND,
 22 Plaintiffs,

Adv. No. 2013-02315

Date: May 12, 2014
 Time: 9:30 a.m.
 Dept: Courtroom 35
 Judge: Hon. Christopher M. Klein

23 v.
 24 CITY OF STOCKTON, CALIFORNIA,
 Defendant.

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 27 ¹ While this declaration is made in support of confirmation of the Plan, out of an abundance of caution, and because the evidentiary hearing on
 Plan confirmation and the trial in the adversary proceeding share common issues, it is being filed in both the main case and the adversary
 28 proceeding.

1 I, Laurie Montes, hereby declare:

2 1. I am the Deputy City Manager for the City of Stockton, California (“the City” or
3 “Stockton”). I make this declaration in support of confirmation of the City of Stockton,
4 California’s (“City”) First Amended Plan For The Adjustment Of Debts Of City Of Stockton,
5 California (November 15, 2013). In my capacity as Deputy City Manager, I oversee the
6 Administrative Services Department (which includes Finance and Information Technology),
7 Human Resources, the Community Services Department, Entertainment Venues, and Operation
8 Peacekeepers. At different times during my tenure as Deputy City Manager, I have overseen
9 every City department for some period of time.

10 2. I have served as Deputy City Manager since June 2008. Before that, I served as
11 Housing Department Director and as the City’s Budget Officer. I began working for the City in
12 1991 in the Housing and Redevelopment Department before joining the City Manager’s Office in
13 1995. I hold a Bachelor of Science degree in Business Administration and a Master of Public
14 Administration from California State University, Stanislaus.

15 All Requirements Necessary For The Plan To Be Confirmed Have Been Realized

16 3. All of the requirements necessary for the City’s Plan² to be confirmed have been
17 met. On October 3, 2013, the City Council approved the initial versions of the Plan and
18 Disclosure Statement, which the City filed on October 10, 2013. The City’s electorate expressed
19 its support for the Plan by approving Measures A and B on November 5, 2013. Measure A
20 increases the City’s sales tax by 0.75%, and Measure B is an advisory measure advising the City
21 to use 35% of the proceeds from Measure A to “help end the bankruptcy and restore other City
22 services.” The City subsequently filed the Plan on November 15, 2013 and Disclosure Statement
23 on November 21, 2013, with new language reflecting the passage of Measures A and B.

24 4. The City intends to comply with all laws, regulations, and ordinances following
25 confirmation, and nothing in the Plan proposes an action in violation of existing applicable laws.
26 The Plan expressly provides that a condition precedent to the Effective Date is that “[t]he City
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28 ² Capitalized terms used but not defined herein have the meaning ascribed to them in the First Amended Plan for the Adjustment of Debts of City of Stockton, California (November 15, 2013) [Dkt. No. 1204] (“Plan”).

1 shall have received any and all authorizations, consents, regulatory approvals, rulings, no-action
2 letters, opinions, and documents that are necessary to implement the Plan and that are required by
3 law, regulation, or order.” The City is not subject to any governmental regulatory commission
4 regarding its rates. The City will implement the Plan by continuing to operate, after the Effective
5 Date, pursuant to the City Charter, the California Constitution, and applicable state and federal
6 laws. The City has submitted the Plan in good faith, and it has every intention of implementing
7 the Plan if it is confirmed.

8 5. The City has cut every expense that it can while remaining a viable city in an
9 effort to ensure that the Plan will be feasible. As I previously testified in my declaration in
10 support of the City’s eligibility for bankruptcy relief [Dkt. No. 23] (“Eligibility Declaration”),
11 from fiscal year 2008-09 through 2011-12, the City cut approximately \$90 million in General
12 Fund expenses. The City dramatically reduced expenses by eliminating staff positions, slashing
13 pay and benefits to the employees who remain, and taking other cost-cutting measures. The City
14 has reached consensual agreements with all of its major creditors except for Franklin. The City’s
15 settlement with the Retirees Committee, as representative of the Retiree Health Benefit
16 Claimants, eliminates a liability of over \$500 million with a one-time payment of \$5.1 million.

17 *The City’s Real Property Market Remains Weak*

18 6. As I testified in the Eligibility Declaration, at the time of the City’s bankruptcy
19 petition the City had been, since 2008, at or near the top of nationwide foreclosure rates. That
20 statement remains true today. Attached hereto as **Exhibit A** is a true and correct copy of a
21 summary of information gathered from RealtyTrac reflecting that Stockton’s foreclosure rate in
22 2012-2013 was 24.4%—higher than the rates for both Riverside-San Bernardino (20.1%) and
23 Detroit (18.8%). Attached hereto as **Exhibit B** is a true and correct copy of a report prepared by
24 HdL Companies in March 2014 reflecting median home prices in Stockton from 2004 through
25 2014. As Exhibit B reflects, the median home price in the City remains depressed, having
26 dropped from its 2006 peak of \$390,000 to \$151,000 in 2013. As explained in the declaration of
27 Steve Chase being submitted concurrently, the number of new residential dwelling unit permits
28 issued by the City has dropped precipitously since FY 2008-2009 and remains low.

1 7. Because median home prices remain low and foreclosure rates remain high, the
2 recovery period for the City's Proposition 8 parcels³, which comprise 55.6% of City parcels
3 according to HdL, will be prolonged compared to other jurisdictions. As Vanessa Burke testified
4 in her initial declaration in support of the City's eligibility [Dkt. No. 62], the structure of
5 California's property tax system is such that when a change in ownership (like a foreclosure or
6 short sale) results in a lower assessed property value, the new base is "locked in" at the lower
7 value and can only increase at the lesser of the consumer price index or two percent per year. The
8 continued high rate of foreclosure sales and short or distressed sales in Stockton combines with
9 the low median home price to penalize the City by slowing the growth of property taxes going
10 forward.

11 Settlement With The Thunder

12 8. After rigorous negotiation, the City has entered into a settlement resolving its
13 dispute with the Stockton Thunder hockey team. I was involved in this negotiation and am very
14 familiar with the terms of the Thunder Settlement. The Stockton City Council approved the final
15 Thunder Settlement at its April 15, 2014 public session.

16 9. Under the Thunder Settlement, the Thunder's base rent payable to the City will
17 increase by \$2,000 per regular season home game and Catering Services Adjusted Gross Revenue
18 paid to the Thunder will be reduced from 30% to 10%. The Thunder will have the exclusive right
19 to sell team merchandise, and will retain all revenues and bear all the expenses associated with
20 team merchandise sales. The Thunder will purchase the use of five luxury suites from the City
21 each year for a total cost of \$150,000, adjusted annually for any increases in the costs of other
22 luxury suites sold by the City, and will have the right to sublease the luxury suites (but not to
23 current luxury suite lessees of the City or prospective lessees). Revenues received on account of
24 such leases shall be subject to the existing sharing formula of 65% to the City and 35% to the
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26 ³ Under Proposition 8 of 1978, if a parcel's true market value is less than its Proposition 13-limited value, then it can
27 be increased in future years as its true market value increases without respect to the 2% annual growth limit in
28 assessed value that otherwise applies to properties that are not newly constructed or which undergo a change in
ownership. At the point at which a "Prop 8 parcel" changes ownership, or increases in value to meet the value it
would otherwise have been limited to under Proposition 13, that parcel resumes being restricted to 2% annual
increases in assessed value.

1 team. The Thunder will make additional payments to the City once certain performance
2 benchmarks of paid attendees and advertising are reached. The City will endeavor to file the final
3 document memorializing the Thunder Settlement, as approved by the City Council, before the
4 Confirmation Hearing.

5 10. The Thunder Settlement is valuable to the City because it keeps the Thunder in
6 Stockton. The testimony that I and many other City witnesses previously gave in the bankruptcy
7 case regarding service insolvency remains true. A livable city is more than just a collection of
8 police, sewer, and electricity services; it includes recreational events, libraries, and other civic
9 goods. In order to recover, Stockton must be a place where people want to live. Events like the
10 Thunder games contribute to the City's appeal as a place to live and to visit.

11 Settlement Of The Price Claims

12 11. The City has reached an agreement with the Price Judgment Creditors regarding
13 the Price Claims, which arise from a District Court judgment against the City. Under the Price
14 Settlement, the City and the Price Judgment Creditors have agreed on: (1) the manner of
15 calculating the number of replacement housing units the City has produced to date; (2) a
16 methodology for creating a list of persons entitled to preference for housing units, including the
17 creation and monitoring of a list; (3) a means for reaching out to the community about the
18 availability of replacement units, using community support agencies and through other vehicles,
19 and a way to monitor the City's compliance with such obligation; (4) the extinguishing of the
20 City's obligation to make relocation assistance payments; and (5) the recognition that any claim
21 for attorney fees is treated as an unsecured claim in the Plan. The settlement will have no
22 material monetary impact on the City, and will enable the City to fulfill its obligations under the
23 District Court judgment. The Stockton City Council approved the settlement of the Price Claims
24 at its April 15, 2014 public session.

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1 Settlements With Assured, NCFG, Ambac, and DBAW Approved By City Council

2 12. At the April 15, 2014 public session of the Stockton City Council, the Council also
3 approved the City's settlement agreements with Assured, NCFG, and the Department of Boating
4 and Waterways (DBAW), as well as a small modification to the Ambac agreement.

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6 Executed this 21st day of April 2014, at Stockton, California. I declare under penalty of
7 perjury under the laws of the State of California and the United States of America that the
8 foregoing is true and correct.

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10 _____
Laurie Montes

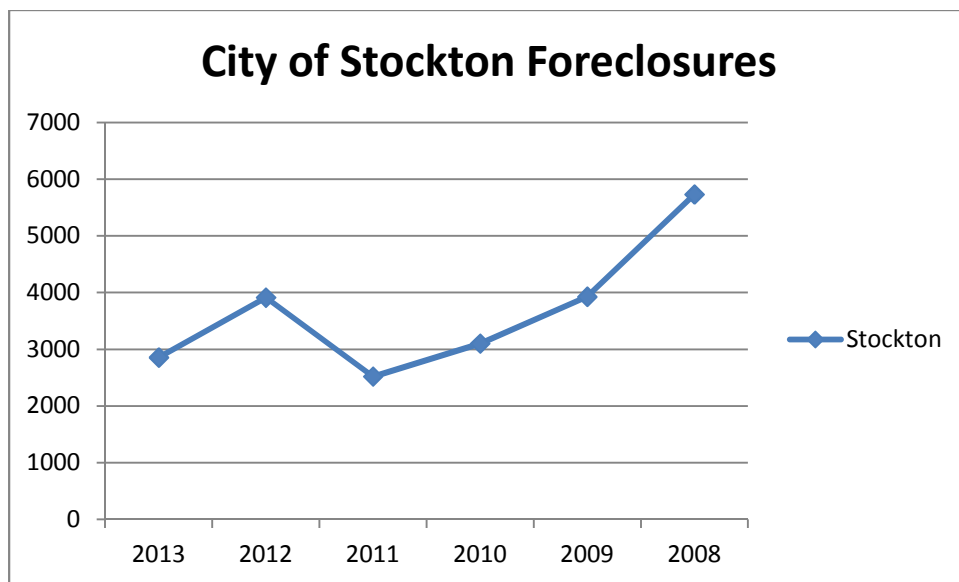
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Exhibit A

Stockton Foreclosure Stats

According to the October 2013 U.S. Residential and Foreclosure Sales Report prepared by RealtyTrac, the markets with the highest percentage of foreclosures include Stockton (24.4%), Las Vegas (23.8%), Cleveland (22.3%), Riverside-San Bernardino (20.1%), Detroit (18.8%), and Phoenix (18%). Stockton remains in the top statistics for high foreclosure rates.

The table below depicts the actual number of foreclosures between 2008 and 2013.



Source: 2008-2011, San Joaquin County Recorder's Office
2012-2013 RealtyTrac

Exhibit B



THE CITY OF STOCKTON SALES VALUE HISTORY

Single Family Residential Full Value Sales (01/01/2004 - 01/31/2014)

Year	Full Value Sales	Average Price	Median Price	Median % Change
2004	4,492	\$270,492	\$268,500	
2005	5,087	\$363,458	\$365,000	35.94%
2006	3,654	\$391,746	\$390,000	6.85%
2007	1,667	\$317,187	\$314,000	-19.49%
2008	4,677	\$175,507	\$165,000	-47.45%
2009	5,584	\$133,728	\$125,000	-24.24%
2010	4,019	\$140,169	\$135,000	8.00%
2011	3,917	\$129,861	\$125,000	-7.41%
2012	3,508	\$131,572	\$126,000	0.80%
2013	3,091	\$159,554	\$151,000	19.84%
2014	188	\$183,732	\$168,250	11.42%



*Sales not included in the analysis are quitclaim deeds, trust transfers, timeshares, and partial sales.

Data Source: San Joaquin County Recorder

This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Coren & Cone