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City of Stockton

UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA

SACRAMENTO DIVISION

In re: CITY OF STOCKTON, CALIFORNIA, Debtor.	**Case No. 2012-32118** **Chapter 9** **MODIFIED DISCLOSURE STATEMENT WITH RESPECT TO FIRST AMENDED PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA (NOVEMBER 15, 2013)**

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SUMMARY

The following pages summarize certain important information set forth elsewhere in this Disclosure Statement. Capitalized terms are defined in the text of this Disclosure Statement and in the Plan, and any capitalized term used but not defined in the Disclosure Statement shall have the meaning ascribed to it in the Plan. Unless otherwise noted, all references to a "section" are references to a section of title 11 of the United States Code (the "Bankruptcy Code").

The Disclosure Statement contains important information that is not summarized in this Summary and that may influence your decision regarding whether to accept or reject the Plan or may otherwise affect your rights. Please do not rely on this Summary standing alone, and please thoroughly read this entire document and the accompanying materials.

* * * *

The City of Stockton, California (the "**City**"), filed a petition under chapter 9 of the Bankruptcy Code on June 28, 2012 (the "**Petition Date**"), which was designated Case Number 2012-32118 (the "**Chapter 9 Case**"). The United States Bankruptcy Court for the Eastern District of California, Sacramento Division (the "**Bankruptcy Court**"), Chief Judge Christopher M. Klein presiding, entered an order for relief in the Chapter 9 Case on April 1, 2013, as docket no. 843, and the Chapter 9 Case currently is pending before the Bankruptcy Court.

The First Amended Plan For The Adjustment Of Debts Of City Of Stockton, California (November 15, 2013) (the "**Plan**" proposed by the City), involves claims of approximately $299,505,000 of publicly held securities, certain of which evidence and represent undivided fractional interests in General Fund leases of many of the City's capital assets. Some of these assets are important or even essential to municipal operations. The Plan also addresses and resolves the City's obligations to current and former employees and various other claims. While the Plan permits the City to continue to maintain minimally acceptable levels of vital municipal services for its residents and businesses, and while it devotes substantial resources to the repayment of the City's creditors, it nevertheless further defers infrastructure maintenance as well as the optimal staffing of City service units such as police and fire.

The Plan significantly impairs the interests of former employees and retirees with respect to health benefits. Outside of the Plan, retirement benefits for current and future employees already have been impacted by negotiated changes in the City's labor agreements. Retiree health benefits worth approximately $1 billion for current employees have been eliminated as a result of negotiated agreements. This loss of retiree health benefits constitutes an approximate reduction in pension benefits, which along with certain compensation changes for these employees amounts to a 30-50% reduction from what they otherwise would have received. Additionally, pension benefits for new employees hired after January 1, 2013 have been reduced by approximately 50-70% (including lost retiree health benefits) for all employees and in some cases higher for certain types of employees as a result of changes in state law and changes in labor agreements that the City has negotiated. New hires are also required to pay a greater share of their future pension benefits. Additionally, because of compensation reductions of up to 30% in pensionable income negotiated in 2011 and 2012, the future pensions of employees will be lower than they otherwise would have been, though no further reduction is imposed by the Plan. Such reductions in compensation to City employees have the effect of lowering the costs of pension benefits funded by the City. The City intends to fully fund the contributions to be made for the reduced pension benefits of City employees. Such pension contributions will continue to be made to CalPERS in its capacity as trustee for the City's pension trust for its retired workers and their dependents who are the beneficiaries of this trust, as well as for current employees and their beneficiaries (the City has one contract with CalPERS, but there are three contract groups: police, fire, and miscellaneous).

Payment to holders of General Unsecured Claims—which holders include, but are not limited to, holders of lease rejection claims, the Retiree Health Benefit Claimants, and the holders of Leave Buyout Claims—shall receive cash payment on the Effective Date in an amount equal to a set percentage of the Allowed amount of such Claims. The percentage of the Allowed amount paid on such claims will be the Unsecured Claim Payout Percentage (unless the amount of the Retiree Health Benefit Claims changes, that percentage will be equal to 0.93578% (i.e., $5,100,000 divided by $545,000,000) or such other amount as is determined by the Bankruptcy

Court before confirmation of the Plan to constitute a pro-rata payment on such other General Unsecured Claims. While the City regrets that it cannot pay a higher amount to holders of General Unsecured Claims, the fact is that the City lacks the revenues to do so if it is to maintain an adequate level of municipal services such as the provision of fire and police protection, the maintenance and repair of the City's streets and other public facilities, and the continued availability of important municipal services such as library, recreation, and parks.

The Plan does not alter the obligations of those City funds that are restricted by grants, by federal law, or by California law; pursuant to the Tenth Amendment to the United States Constitution and the provisions of the Bankruptcy Code that implement the Tenth Amendment, such funds cannot be impacted in the Chapter 9 Case. Thus, securities payable solely from restricted funds are not altered by the Plan.

The following chart summarizes key information, including the proposed treatment of the various classes of claims:

Debtor	City of Stockton, California.
Bankruptcy Court	United States Bankruptcy Court for the Eastern District of California, Sacramento Division, The Honorable Chief Judge Christopher M. Klein presiding.
Plan	First Amended Plan For The Adjustment Of Debts Of City Of Stockton, California (November 15, 2013).
Purpose of the Disclosure Statement	To provide information of a kind, and in sufficient detail, that would enable a typical holder of claims in a Class Impaired under the Plan to make an informed judgment with respect to voting on the Plan.
Balloting Information	Ballots have been provided with this Disclosure Statement to creditors known to have claims that are Impaired under the Plan. Ballots must be returned to and received by the Ballot Tabulator by no later than 4:30 p.m., Pacific Time, on February 10, 2014. Objections to confirmation also must be filed and served by no later than February 10, 2014.
Ballot Tabulator	Rust Consulting/Omni Bankruptcy, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367.

Confirmation Hearing and Confirmation Objections	A hearing regarding confirmation of the Plan will be held by the Bankruptcy Court on March 5, 2014, commencing at 9:30 a.m., Pacific Time.
Treatment of Claims	If the Court confirms the Plan and the Plan becomes effective, claims will be treated as follows:
Administrative Claims	Postpetition claims meeting the definition of Administrative Claims will be paid in full, except to the extent that the holder of an Administrative Claim agrees to different treatment.
Class 1A Claims of Ambac – 2003 Fire/Police/Library Certificates	**Impaired.** The treatment of the Class 1A Claims will be as set forth in the Ambac Settlement Agreement, which should be consulted for the precise terms of the treatment.
Class 1B Claims of Holders of 2003 Fire/Police/Library Certificates	**Impaired.** The treatment of the Class 1B claimants, the 2003 Fire/Police/Library Certificates holders, is identical to the treatment of Ambac, the Class 1A claimant.
Class 2 SEB Claims of the 2006 SEB Bond Trustee/NPFG – 2006 SEB Bonds	**Unimpaired.** On the Effective Date, the City will assume the SEB Lease Back and the SEB Lease Out under section 365(a) pursuant to the NPFG SEB Settlement. The finding by the Bankruptcy Court that the Plan is feasible shall constitute adequate assurance of future performance of the SEB Lease Back and the SEB Lease Out.
Class 3 Arena Claims of the 2004 Arena Bond Trustee/NPFG – 2004 Arena Bonds	**Impaired.** The treatment of the Class 3 Claims will be as set forth in the NPFG Arena Settlement Documents, which should be consulted for the precise terms of the treatment.
Class 4 Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG – 2004 Parking Bonds	**Impaired.** The treatment of the Class 4 Claims will be as set forth in the NPFG Parking Settlement, which should be consulted for the precise terms of the treatment. The effectiveness of the NPFG Parking Settlement is contingent upon the entry into the SCC 16 Settlement Agreement. In the event the parties are unable to agree to the terms of such settlement that is acceptable to NPFG and the 2004 Parking Bond Trustee, then the City, at the request or direction of the 2004 Parking Bond Trustee or NPFG shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPFG to terminate the Parking Structure Lease Back as part of an alternative arrangement that is acceptable to the City and the

	2004 Parking Bond Trustee that is not conditioned on the occurrence of such settlement.
Class 5 Office Building Claims of the 2007 Office Building Bond Trustee/Assured Guaranty – 2007 Office Building Bonds	**Impaired.** The treatment of the Class 5 Claims will be as set forth in the Assured Guaranty Settlement Documents, which should be consulted for the precise terms of the treatment.
Class 6 Pension Obligation Bonds Claims	**Impaired.** The treatment of the Class 6 Claims will be as set forth in the Assured Guaranty Settlement Documents, which should be consulted for the precise terms of the treatment.
Class 7 Claims of DBW	**Impaired.** The General Fund will not be required to pay debt service on this obligation or to reimburse operating expenses to DBW should DBW take over operations of the Marina Project. DBW will retain its pledge of rents and leases generated from the Marina Project. However, the pledge of gross revenues will be converted to a pledge of revenues net of all reasonable and direct operating expense of the Marina Project, calculated on a fiscal year basis ending June 30 of each year pursuant to section 928(b). Should DBW decide to take over operations of the Marina Project, DBW will be responsible for payment of all operating expenses of the Marina Project and the City will have the right to ensure that the Marina Project is operated in a responsible and safe manner, including providing adequate security, and the City shall have the right to compel DBW to alter its manner of operations if such operations pose a threat to the public welfare or if such operations abet a public nuisance. The General Fund shall have no liability, directly or indirectly, for the Claims of DBW, and the City may decide at any time to cease subsidizing the operating deficits of the operation of the Marina Project. DBW has stated to the City an interest in exercising its remedy of taking possession of the Marina Project. The real property that is the subject of the Marina Project shall be that real property described in Exhibit A to the Plan, and should DBW exercise its remedy of taking possession of the Marina Project, DBW shall succeed to possession and control only over the real property set forth in Exhibit A to the Plan.
Class 8 SCC 16 Claims	**Unimpaired.** To the extent SCC 16 has any offset rights arising under the Construction Agreement or the Disposition and Development Agreement, SCC 16 shall apply any such offsets against amounts owing under the SCC 16 Promissory Note.
Class 9 Thunder Claims	**Impaired.** The treatment of the Class 9 Claims will be as set forth in the Thunder Settlement, which should be consulted for the precise terms of the treatment.

Class 10 Claims of Holders of Restricted Revenue Bond and Note Payable Obligations	**Unimpaired.** The City's Restricted Revenue Bond and Notes Payable Obligations are secured by a pledge of and lien on revenues of various of the City's systems and enterprises, which are restricted revenues pursuant to the California Constitution, and are "special revenues" as defined in section 902(2). These revenues are not a part of or available to the General Fund, and the General Fund is not obligated to make any payment on the Restricted Revenue Bond and Notes Payable Obligations. The City may transfer amounts from the restricted revenues to the General Fund only to pay costs which are incurred by the General Fund to provide facility or enterprise-related services and are allocated to the enterprises on a reasonable basis in accordance with the City's accounting and allocation policies and pursuant to the provisions of the relevant documents related to the Restricted Revenue Bonds and Notes Payable Obligations. Such transfers are treated by the facility or enterprise as operation and maintenance expenses. The City will continue to apply restricted revenues to pay the Restricted Revenue Bond and Notes Payable Obligations as required by the terms of such obligations.
Class 11 Claims of Holders of Special Assessment and Special Tax Obligations	**Unimpaired.** Class 11 consists of Claims of the holders of Special Assessment and Special Tax Obligations, which are secured by special and restricted sources of revenues consisting of specific levies on real property within certain financing districts created by the City. Special Assessment and Special Tax Obligations. The Special Assessment and Special Tax Obligations are secured by certain special assessments and special taxes levied on specific real property within the respective districts for which these obligations were issued. These special assessment and special tax revenues are legally restricted to the payment of debt service on the Special Assessment and Special Tax Obligations under California statutes and the California Constitution, are "special revenues" as defined in section 902(2), and cannot be used for any other purpose or be transferred to the General Fund. The General Fund is not obligated to pay debt service on the Special Assessment and Special Tax Obligations. The City will continue to apply revenues from the applicable special assessments and special taxes to pay the Special Assessment and Special Tax Obligations as required by the terms of such obligations.
Class 12 General Unsecured Claims	**Impaired.** The Claims in this Class include without limitation: (i) the Retiree Health Benefit Claims; (ii) the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (iii) the Leave Buyout Claims; and (iv) Other Postpetition Claims. Pursuant to the Retirees Settlement, on the Effective Date, the City will pay the Retiree Health Benefit Claimants an aggregate amount of $5,100,000 in full satisfaction of Allowed Retiree Health Benefit Claims, and no other retiree health benefits will

	be provided by the City. If required by state or federal law, the City will withhold from the aggregate $5,100,000 payment any taxes or other deductions to be withheld from the individual payment to each Retiree Health Benefit Claimant. The individual recipient is responsible for any tax liability for this payment, and the City will not provide any advice to any recipient as to the taxable impact of this payment. All other General Unsecured Claims shall receive cash on the Effective Date in the amount equal to a percentage of the Allowed Amount of such Claims, which percentage equals the Unsecured Claim Payout Percentage, or such other amount as is determined by the Bankruptcy Court before confirmation of the Plan to constitute a pro-rata payment on such other General Unsecured Claims; *provided*, *however*, that the dollar amount to be paid on account of General Unsecured Claims other than the Retiree Health Benefit Claims on the Effective Date shall not exceed $500,000. If the amounts to be paid exceed $500,000, then such excess amounts shall be made in two (2) equal annual installments on the first and second anniversary of the Effective Date, together with simple interest accruing from and after the Effective Date at 5% per annum. Such excess amounts may be prepaid at the option of the City without penalty.
Class 13 Convenience Class Claims	**Unimpaired.** Holders of Convenience Class Claims will receive cash on the Effective Date in the amount of their Allowed Convenience Class Claim, but not to exceed $100.
Class 14 Claims of Certain Tort Claimants	**Impaired.** The SIR Claim Portion of each Allowed General Liability Claim will be paid on the Effective Date from the Risk Management Internal Service Fund, and will receive the same percentage payment on the dollar of Allowed Claim as will the holders of Allowed Class 12 Claims. The Insured Portion of each Allowed General Liability Claim is not Impaired, and shall be paid by the applicable excess risk-sharing pool.
Class 15 Claims Regarding City's Obligations to Fund Employee Plan Contributions to CalPERS, as Trustee under the CalPERS Pension Plan for the Benefit of CalPERS Pension Plan Participants	**Unimpaired.** CalPERS will continue as the trustee for the City's pension plan for its employees, and the CalPERS Pension Plan will be assumed by the City. The City will continue to honor its obligations to its employees and retirees to fund employee retirement benefits under the CalPERS Pension Plan, and CalPERS as trustee and the CalPERS Pension Plan Participants retain all of their rights and remedies under applicable nonbankruptcy law. Thus, CalPERS and the CalPERS Pension Plan Participants will be entitled to the same rights and benefits to which they are currently entitled under the CalPERS Pension Plan. CalPERS, pursuant to the CalPERS Pension Plan, will continue to be made available to provide pension benefits for participants in the manner indicated under the provisions of the CalPERS Pension Plan and remedies under applicable nonbankruptcy law.

Class 16 Claims of Equipment Lessors	**Unimpaired.** Any equipment leases not specifically rejected by the Rejection Motion will be assumed under the Plan. The City believes that it is current on all such equipment leases and therefore no cure payments are required.
Class 17 Workers Compensation Claims	**Unimpaired.** The City must pay Allowed SIR Claim Portions related to Workers Compensation Claims in full. If not, the City will lose its State workers compensation insurance for those claims in excess of the SIR Claim Portions, exposing the City's current and former workers to grave risk. The City will pay the SIR Claim Portions related to Worker Compensation Claims from the Workers' Compensation Internal Service Fund.
Class 18 SPOA Claims	**Impaired.** The City will honor the SPOA Claims held by SPOA members on the terms and conditions set forth in the SPOA MOU.
Class 19 Price Claims	**Impaired.** The City's settlement with the Price Judgment Creditors will have no material monetary impact on the City, but will enable the City to fulfill its obligations under a previous judgment relating to relocation of residents. The settlement includes agreement on the manner of calculating the number of replacement units the City has produced to date; a methodology for creating a list of persons entitled to preference for housing units; a means for reaching out to the community about the availability of replacement units; the extinguishing of the City's obligation to make relocation assistance payments; and the recognition that any claim for attorney fees is treated as an unsecured claim in the Plan.
Questions:	Questions can be submitted electronically on the City's chapter 9 website (stocktonchapter9.com) or by calling 866-205-3144 and leaving a message. All questions will receive a prompt response.

To the extent that there is any inconsistency between the Plan (including the exhibits and any supplements to the Plan) and the description in the Disclosure Statement, the terms of the Plan (including the exhibits to the Plan) will govern.

I. INTRODUCTION

The City of Stockton, California, filed this Chapter 9 Case on June 28, 2012, less than a week prior to the beginning of its 2012-13 fiscal year. As a result of prior poor fiscal management by the City, overspending on downtown improvement construction projects, the general economic turndown that began in 2008, the resulting decline in real estate transactions and values, high unemployment rates, and generally lower collections of tax revenues and user fees, the City had virtually no General Fund reserves as of the Petition Date. It had slashed its

General Fund workforce by an aggregate of 30% during the preceding three years: sworn police officers were cut by 25%, non-sworn police staffing by 20%, fire staffing by 30%, and non-safety staffing by 43%. It had also reduced compensation by $52 million and cut staffing and service levels by $38 million, for an overall General Fund budget reduction of approximately $90 million during fiscal years 2009-10, 2010-11, and 2012-13.

The City reduced or ceased funding of community-based organizations, stopped replacing worn-out vehicles (including police cars), was sending mechanics in separate vehicles to follow fire engines on emergency calls, and was patching rather than repairing its streets. The City also reduced compensation for all employees from 2008 through 2012. Employee compensation reductions varied, but averaged 10% to 33%, of which 7% to 30% was in pensionable income reductions that would impact future pensions as well as current income. Changes in overtime calculation, health, and other insurance benefits and leave time also occurred. The reduction in compensation resulted in litigation against the City by labor organizations, and labor relations were at an all-time low.

Despite having taken these desperate measures, as of June 2012 the City's General Fund budget for the impending fiscal year was still $25.9 million underwater.[1] The negative balance meant that the General Fund was prohibited from borrowing from the City's restricted funds and that the City therefore could not pay the first payroll of the fiscal year, which was due in July 2012. The City was instead forced to enact its "Pendency Plan" budget, described in Section III.A. below, which enabled it to meet payroll and debt obligations during the Chapter 9 Case.

The City entered bankruptcy only after unsuccessful mediation with its major creditors, although the mediation did produce agreements with the City's labor organizations. The Chapter 9 Case was contentious from the outset, with the so-called capital markets creditors contending that the City was ineligible for bankruptcy relief. Their objections were overruled by the Bankruptcy Court, but only after many months of costly discovery, briefing, legal

[1] *See* City of Stockton Annual Budget, 2012-13, p. D-1, *available at* http://www.stocktongov.com/files/COS_2012_2013_ProposedAnnualBudget_2012_5_15.pdf.

maneuvering, and ultimately a trial on the City's eligibility to be a chapter 9 debtor. But prior to filing the Chapter 9 Case, during the case, and even during the litigation phase, the City and its creditors were engaging in mediation under the auspices of a court-appointed mediator—a United States Bankruptcy Judge from Oregon. The mediation is ongoing and has resulted in several settlements, the key one relating to retiree health benefits that was negotiated with the Retirees Committee that represents the interests of the retirees. The City has reached settlement agreements with Ambac, NPFG, and Assured Guaranty, but has not reached agreement with Franklin, the holder of approximately $35,080,000 of bond debt.

The Plan, filed with the Bankruptcy Court as of the date hereof, as set forth on **Exhibit A**, represents the City's proposed adjustment of its debts. The Plan is a spartan one. It returns the City to financial and public service provider solvency, but, in the absence of agreements with City creditors whose obligations are secured by leases of City real estate, the Plan includes the potential loss of City control of certain City properties.

The holders of General Unsecured Claims in Class 12, including retiree health benefit claimants, will be paid a percentage of their claims equal to the Unsecured Claim Payout Percentage (unless the amount of the Retiree Health Benefit Claims changes, that percentage will be equal to 0.93578% (i.e., $5,100,000 divided by $545,000,000) or such other amount as is determined by the Bankruptcy Court before confirmation of the Plan to constitute a pro-rata payment on such other general unsecured claims. That is all the City can afford to pay and still maintain even a bare minimum level of City services. In fact, the constituencies that will bear the greatest burden as a result of the City's inability to meet its financing obligations are its current employees, and its retirees who collectively hold approximately $545 million in claims against the City, but who have agreed, after months of negotiations, to accept $5.1 million in satisfaction of those claims. Retirees who are receiving a CalPERS pension but no health benefits from the City will not be affected by the Plan. Retirees who are receiving a CalPERS pension plus health benefits will have their health benefits eliminated.

Current employees of the City have also agreed to forgo health benefits in retirement, which along with changes in compensation results in the loss of their retirement "spike" and reduces their postemployment benefits by 30-50%. The loss of retiree health benefits is a substantial concession of approximately $1 billion that has already been agreed to without compensation for this loss. In addition, most current employees hired before January 1, 2013 have also agreed to a 7-30% reduction in pensionable compensation, which will reduce their future CalPERS pension from what it otherwise would have been.

The Plan will enable the City to pay its future bills, including the reduced compensation payable to its employees, and including its obligations to CalPERS, which will fund pension contributions for its current and former employees. The maintenance of pensions is critical to the City in order to retain employees—particularly police officers—rather than losing them to other local governments, all of which have defined benefit pension plans similar in benefit structure to CalPERS, and the overwhelming majority of which have pension plans administered by CalPERS.

Unlike a corporate chapter 11 debtor, a city in chapter 9 simply cannot be allowed to fail. It must continue to provide police and fire protection to its residents, to maintain streets and highways, to treat its employees and retirees fairly, and generally to create an environment in which its residents can prosper. Unlike a corporation, its assets cannot be liquidated or sold to a competitor in order to satisfy its debts. The City believes that the financial restructuring set forth in its Plan is its current best option for achieving such goals. It will continue to negotiate with its creditors in an attempt to achieve settlements that provide better returns for creditors and better economics for the City. If any additional agreements are reached, the Plan and Disclosure Statement will be modified to reflect those agreements.

As described more fully herein, the City believes that the Plan provides the greatest and earliest possible recoveries to holders of claims while preserving necessary City services and operations. The City thus believes that acceptance of the Plan is in the best interests of creditors and parties in interest, as well as in the best interests of the City's residents and businesses, and that any alternative debt adjustment or restructuring would result in additional delay, uncertainty, expense, litigation, and, ultimately, smaller or no distributions to creditors. Accordingly, **the City urges that you cast your ballot in favor of the Plan.**

A. <u>The Purpose of This Disclosure Statement</u>.

The Bankruptcy Code requires that the proponent of a plan of adjustment in a chapter 9 case prepare and file a "disclosure statement" that provides information of a kind, and in sufficient detail, that would enable a typical holder of claims in a class Impaired under that plan to make an informed judgment with respect to the plan. *See* 11 U.S.C. § 1125. This Disclosure Statement provides such information. ***Creditors and parties in interest should read this Disclosure Statement, the Plan, and all of the exhibits accompanying these documents in their entirety in order to ascertain:***

1. How the Plan will affect their claims against the City;
2. Their rights with respect to voting for or against the Plan;
3. Their rights with respect to objecting to confirmation of the Plan; and
4. How and when to cast a ballot with respect to the Plan.

This Disclosure Statement, however, cannot and does not provide creditors with legal or other advice or inform such parties of all aspects of their rights. Claimants are advised to consult with their attorneys and/or financial advisors to obtain more specific advice regarding how the Plan will affect them and regarding their best course of action with respect to the Plan. As noted below, retirees are advised to consult with the Retirees Committee, which was appointed in April 2013 by the Office of the United States Trustee to represent the interests of the City's approximately 2,400 retirees in the Chapter 9 Case.

This Disclosure Statement has been prepared in good faith and in compliance with applicable provisions of the Bankruptcy Code. Based upon information currently available, the City believes that the information contained in this Disclosure Statement is correct as of the date of its filing. This Disclosure Statement, however, does not and will not reflect some events that occur after October 10, 2013 (and, where indicated, specified earlier dates), and the City assumes no duty and presently does not intend to prepare or distribute any amendments or supplements to reflect such events.

B. **<u>Summary of Entities Entitled to Vote on the Plan and of Certain Requirements Necessary for Confirmation of the Plan</u>.**

Holders of Allowed Claims in the following Classes are entitled to vote on the Plan because the Claims in each such Class are "impaired" under the Plan within the meaning of section 1124: 1A, 1B, 3, 4, 5, 6, 7, 9, 12, 14, 18, and 19.

The Bankruptcy Court may confirm the Plan only if at least one Class of Impaired Claims has voted to accept the Plan (without counting the votes of any insiders whose claims are classified within that Class) and if certain statutory requirements are met as to both nonconsenting members within a consenting Class and as to any dissenting Classes. A Class of claims has accepted the Plan only when at least more than one-half in number **<u>and</u>** at least two-thirds in amount of the Allowed Claims actually voting in that Class vote in favor of the Plan.

In the event of a rejection of the Plan by any of the voting Classes, the City will request that the Bankruptcy Court confirm the Plan in accordance with those portions of section 1129(b) that are applicable to the Chapter 9 Case, which provisions permit confirmation by a process known as "cramdown" notwithstanding such rejection if the Bankruptcy Court finds, among other things, that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to each rejecting Class. Other sections of this Disclosure Statement provide a more detailed description of the requirements for acceptance and confirmation of the Plan.

C. **<u>Voting Procedures, Balloting Deadline, Confirmation Hearing, and Other Important Dates, Deadlines, and Procedures</u>.**

1. **<u>Voting Procedures and Deadlines</u>.**

The City has provided copies of this Disclosure Statement and ballots to all known holders of Impaired Claims in the voting Classes. Those holders of an Allowed Claim in each of the voting Classes who seek to vote to accept or reject the Plan **<u>must</u>** complete a ballot and return it to the Court-appointed ballot tabulator, Rust Consulting/Omni Bankruptcy, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367 (the "**<u>Ballot Tabulator</u>**")—so that their ballots actually are received by no later than the Balloting Deadline (as defined in the following paragraph), and must be returned directly to the Ballot Tabulator, **not** to the Bankruptcy Court. Note that Ballots do not constitute proofs of claim.

All ballots, including ballots transmitted by facsimile, must be completed, signed, returned to, and actually received by the Ballot Tabulator by not later than February 10, 2014, at 4:30 p.m. Pacific Time (the "Balloting Deadline"). Neither Ballots received after the Balloting Deadline, nor ballots returned directly to the Bankruptcy Court rather than to the Ballot Tabulator, shall be counted in connection with confirmation of the Plan.

2. Date of the Confirmation Hearing and Deadlines for Objection to Confirmation of the Plan.

The hearing to determine whether the Bankruptcy Court will confirm the Plan (the "**Confirmation Hearing**") will commence on March 5, 2014, at 9:30 a.m. Pacific Time in the Courtroom of the Honorable Christopher M. Klein, Chief United States Bankruptcy Judge for the Eastern District of California, in his Courtroom on the 6th floor of the United States Courthouse, 501 I Street, Sacramento, CA 95814. The Confirmation Hearing may be continued from time to time, including by announcement in open court, without further notice.

Any objections to confirmation of the Plan must be filed with the Bankruptcy Court and served on the following entities so as to be **actually received** by no later than February 10, 2014: (a) John M. Luebberke, City Attorney's Office, 425 N. El Dorado Street, 2nd Floor, Stockton, CA 95202; (b) Marc A. Levinson, Orrick, Herrington & Sutcliffe LLP, 400 Capitol Mall, Suite 3000, Sacramento, CA 95814-4497 (counsel to the City); (c) Steven H. Felderstein, Felderstein, Fitzgerald, Willoughby & Pascuzzi LLP, 400 Capitol Mall, Suite 1750, Sacramento, CA 95814 (counsel to the Retirees Committee); (d) Debra A. Dandeneau, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, NY 10153 (counsel to NPFG); (e) Jeffrey E. Bjork, Sidley Austin LLP, 555 West 5th Street, Los Angeles, CA 90013 (counsel to Assured Guaranty); (f) David Dubrow, Arent Fox LLP, 1675 Broadway, New York, NY 10019-5820 (counsel to Ambac); (g) James O. Johnston, Jones Day, 555 South Flower Street, 50th Floor, Los Angeles, CA 90071 (counsel to Franklin); (h) William W. Kannel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111 (counsel to the Indenture Trustee); and (i)

Michael J. Gearin, K&L Gates LLP, 925 Fourth Avenue, Suite 2900, Seattle, WA 98104 (counsel to CalPERS). Objections that are not timely filed and served may not be considered by the Bankruptcy Court. ***Please refer to the accompanying notice of the Confirmation Hearing for specific requirements regarding the form and nature of objections to confirmation of the Plan.***

D. <u>Important Notices and Cautionary Statements</u>.

The historical financial data relied upon in preparing the Plan and this Disclosure Statement is based upon the City's books and records. Although certain professional advisors of the City assisted in the preparation of this Disclosure Statement, in doing so such professionals relied upon factual information and assumptions regarding financial, business, and accounting data provided by the City and third parties, much of which has not been audited. The City's most recent audited financial statement (i.e., its Comprehensive Annual Financial Report, or CAFR), which covers the fiscal year ended June 30, 2011, is 282 pages in length, and is not attached hereto. However, it is available on the City's website or upon written request.[2]

The City's professional advisors have not independently verified the financial information provided in this Disclosure Statement, and, accordingly, make no representations or warranties as to its accuracy. Moreover, although reasonable efforts have been made to provide accurate information, the City does not warrant or represent that the information in this Disclosure Statement, including any and all financial information and projections, is without inaccuracy or omissions, or that actual values or distributions will comport with the estimates set forth herein.

No entity may rely upon the Plan or this Disclosure Statement or any of the accompanying exhibits for any purpose other than to determine whether to vote in favor of or against the Plan. Nothing contained in such documents constitutes an admission of any fact or liability by any party, and no such information will be admissible in any proceeding involving the

[2] To locate the CAFR go to <u>http://www.stocktongov.com/files/2011_CAFR.pdf</u>. Alternatively, from the City's website, http://<u>www.stocktongov.com</u>: (1) click "Administrative Services"; (2) then click "Financial Reporting"; (3) then click "Financial Reports"; and (4) then click "CAFR 2011". A printed copy will be mailed to you upon your request mailed to the following address: City Clerk, City Hall, 425 N. El Dorado Street, Stockton, CA 95202. The City's reproduction fee schedule will apply to any such request. More current unaudited financial statements for the City are available on the Electronic Municipal Market Access website maintained by the Municipal Securities Rulemaking Board, available at: http://emma.msrb.org.

City or any other party, nor will this Disclosure Statement be deemed evidence of the tax or other legal effects of the Plan on holders of claims in the Chapter 9 Case. This Disclosure Statement is not intended to be a disclosure communication to the public capital markets and should not be relied upon by investors as such in determining whether to buy, hold, or sell any securities of the City or related entities.

Certain information included in this Disclosure Statement and its exhibits contains forward-looking statements. The words "believe," "expect," "anticipate," and similar expressions identify such forward-looking statements. The forward-looking statements are based upon information available when such statements are made and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. A number of those risks and uncertainties are described below. Readers therefore are cautioned not to place undue reliance on the forward-looking statements in this Disclosure Statement. The City undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Neither the Securities and Exchange Commission nor any other regulatory agency has approved or disapproved this Disclosure Statement, nor has any such agency determined whether this Disclosure Statement is accurate, truthful, or complete.

E. Additional Information.

If you have any questions about the procedures for voting on the Plan, desire another copy of a ballot, or seek further information about the timing and deadlines with respect to confirmation of the Plan, please write to Rust Consulting/Omni Bankruptcy as follows: Rust Consulting/Omni Bankruptcy, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367 (facsimile: 818-783-2737), or write to counsel for the City as follows: Marc A. Levinson, Orrick, Herrington & Sutcliffe LLP, 400 Capitol Mall, Suite 3000, Sacramento, CA 95814-4497 (facsimile: 916-329-4900, email malevinson@orrick.com). Please note that counsel for the City cannot and will not provide creditors with any legal advice, including advice regarding how to vote on the Plan or the effect that confirmation of the Plan will have upon claims against the City. For additional information, City retirees should contact the Retirees Committee. The primary contact for the Retirees Committee is its chairperson, Dwane Milnes, 209-467-0224, dwane.milnes@sbcglobal.net. The secondary contact for the Retirees Committee is Retirees Committee member Gary Ingraham, 209-403-0076, gcingraham@comcast.net.

II. BACKGROUND INFORMATION

A. The City.

The City is a municipal corporation and charter city formed and organized under its charter and the California Constitution. Its governing body is a seven-member City Council (including the position of Mayor, who is elected by popular vote). The City encompasses approximately 65 square miles in northern San Joaquin County. Approximately 300,000 people reside within the City.

B. The City's Financial Problems.

Over the past several years, the City has struggled with massive budget deficits. These deficits have been the result of a combination of plummeting revenues and increasing costs. In the wake of the Great Recession, housing prices plunged while unemployment skyrocketed, which led to substantial declines in the City's property tax and sales tax revenues. Stockton has been among the top-ranked American cities in terms of foreclosures and declines in home prices for the past several years. The median home price has dropped from $397,000 in 2006 to $109,000 as of 2012, a decline of 72%. This collapse in property values and the flood of foreclosures reduced the City's gross property tax collections by roughly 29%, from $61.1 million in fiscal year 2007-08 to $43.6 million in fiscal year 2012-13. Because of California tax laws under Proposition 13, embodied in article 13A of the California Constitution, changes in ownership that occurred at the bottom of the market due to foreclosures and short sales will suppress property values for many years into the future. Adverse economic conditions also caused a drop in the City's income from assessments and development fees.

As the economy suffered, so too did the City's residents, as the City saw its unemployment rate rise steadily from 2007, peaking in early 2011 at 22%. The unemployment rate within the City was 15.5% as of July 2013, and the unemployment rate for the Stockton Metropolitan Area (including San Joaquin County) ranks ninth worst among 372 metropolitan areas nationwide at 12.8%, compared to the national unemployment rate of 7.7%. Partially as a result of the City's employment troubles, the City's sales tax revenues also plummeted, from a peak of $47.0 million in fiscal year 2005-06 to $32.7 million in 2009-10 (a drop of roughly 30%).

In addition, the fiscal crisis had an impact on public safety. As Judge Klein recounted, "[i]n 2010, Stockton's violent crime rate bucked a nationwide drop and rose to rank it 10th nationally, with 13.81 violent crimes per 1,000 residents. Homicides were at an all-time record." *In re City of Stockton, California*, 493 B.R. 772, 780 (Bankr. E.D. Cal. 2013). Yet, while homicides increased from 28 in 2008 to 71 in 2012, budget reductions carved away the Stockton Police Department: 99 police officers, 50 civilian positions, 40 part-time positions, and the narcotics unit have been eliminated since 2009.[3] In response, in 2012 the City began the planning process for the "Marshall Plan: Violence Reduction Strategy, Stockton, California," written by David M. Bennett and Donna D. Lattin and adopted by the City Council (the "**Marshall Plan**"). Named after the original Marshall Plan that guided Europe's economic recovery after World War II, the City's Marshall Plan aims to reduce homicides and gun violence in the City. One of the Marshall Plan's recommendations is to increase the Stockton Police Department staffing ratio of sworn officers to population, which is well below the average for cities of its size.[4] However, implementation of the Marshall Plan, including the hiring of additional police officers, will require new funding.

While the City's revenues have been dwindling, its expenses have either remained constant or increased as a result of the City's population boom. Between 2000 and 2007, the City's population grew from roughly 243,000 to 285,000, an increase of around 17%. Since 2007, there has been a more moderate increase to approximately 300,000 today. Not only did the additional number of residents put an increased demand on existing City services during that period, but the City also took on substantial financial obligations to expand infrastructure, civic amenities, and essential public services. Moreover, as discussed above, the City is also subject to

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[3] David M. Bennett and Donna D. Lattin, *The Marshall Plan: Violence Reduction Strategy, Stockton, California*, March 7, 2013, submitted to Stockton City Council, at 50, *available at* http://www.stocktongov.com/files/Council Agenda_2013_4_02_item_15_01_MarshallPlan.pdf.
[4] *Id.* at 53-54.

significant ongoing obligations in the form of pensions, health care, compensation, and other benefits for its current and former employees.

A large part of the City's current economic difficulties are the result of imprudent fiscal decisions and poor accounting practices during better economic times. When the City was flush with cash, it made financial decisions and commitments based on the assumption that its economic growth would continue indefinitely. These commitments included unsustainable labor costs, retiree health benefits, and public debt. Past inadequate accounting practices also obscured the severity of the City's impending financial difficulties and in some cases resulted in additional unrecognized liabilities to the City's General Fund. As a result, when the Great Recession hit, the City found its financial obligations quickly outpacing its revenues. Compounding these economic challenges, the City—like all California cities—is limited by law in its ability to generate new revenues. Under California law, the City was unable to increase tax revenues without voter approval. As described herein, on November 5, 2013, Stockton voters passed Measure A, a 3/4 cent sales tax measure that the City placed on the ballot to generate necessary revenues that will enable it to both continue to provide services to its residents and to fund its obligations to its employees and creditors.

C. <u>The City's Pension Obligations</u>.

As noted elsewhere herein, the City has negotiated compensation reductions and staff reductions that in turn have reduced the City's obligations to fund contributions to the pension plans of the City's employees (although overall compensation costs and pension obligations will once again rise with the hiring of additional police officers contemplated by the Marshall Plan). Even assuming it were legally possible for the City to further reduce its pension obligations by unilaterally trimming its funding of employee pensions through CalPERS (while somehow providing City employees the level of pension benefits specified in its various labor agreements), the City does not believe underfunding of its CalPERS pension obligations would be in the best interests of either the City or its employees.

The City's employee and retiree pensions are managed through the California Public Employees' Retirement System ("**<u>CalPERS</u>**"). The City's General Fund CalPERS obligation for the funding of retirement benefits for its employees in fiscal years 2008-09 through 2010-11, before the City's pension reforms were fully implemented, averaged 13.3% of total General Fund expenditures. By comparison, the City has forecast that its pension obligations from fiscal year 2011-12 through fiscal year 2020-21 (including the CalPERS portion of costs from additional staffing under the Marshall Plan for improved public safety services) will average 15.5% of total General Fund expenditures.[5] A CalPERS defined benefit pension is the industry standard for city employees throughout California. Over 97% of California cities contract with CalPERS for pension benefits, and more than 99% of California city employees are covered by CalPERS or a similar defined benefit plan. Additionally, all county employees in California receive a defined benefit plan from CalPERS or another similar system, and all state employees receive a CalPERS pension. Moreover, of the 26 new cities created in California since 1990, approximately 92% have contracted with CalPERS or a similar plan. When it comes to public employee pensions in California, CalPERS is the primary, and often only, option. This has provided a consistent pension benefit package available to persons employed in public-sector jobs.

The City has no ready, feasible, and cost-effective alternative to the CalPERS system. The City believes that its obligations to CalPERS constitute an executory contract between the two. Under bankruptcy law, executory contracts can only be assumed or rejected (absent some consensual restructuring of the obligations of the executory contract). CalPERS's position is that, under the California statutes governing its activities and operations, it does not have any legal authority to negotiate changes to the pension plans authorized by the California State Legislature to provide reduced benefits, different payment structures for the City, or other modification that would provide material financial relief to the City. Thus, the City believes it has two paths to pursue: assumption of the CalPERS contract or rejection of the CalPERS contract. Under the Plan, the City assumes the CalPERS contract.

City leadership believes that rejecting its CalPERS contract would impose a significant reduction in the City's pension benefits to current retirees—by approximately two-thirds, according to CalPERS. This is in addition to the previously mentioned reductions. This would

[5] See Exhibit B ("Long Range Financial Plan of City of Stockton") to this Disclosure Statement.

result in many retirees receiving benefits below the poverty level. Meanwhile, current employees would likely lose approximately two-thirds of their current-to-date earned benefit. Moreover, such pension cuts would be in addition to the elimination of retiree health benefits that the City has already imposed: the City has completely eliminated retiree health benefits for those approximately 1,100 retirees who were receiving retiree health benefits. The elimination of City-paid health benefits for current retirees and their dependents on average amounted to 30% of their total postemployment benefits (the loss of City-paid health benefits given up by current employees will reduce their future total postemployment benefits 28-41%). Thus, unless the City were in a position to immediately restore approximately two-thirds of the pension benefits of all of its employees, a rejection of the CalPERS contract would violate the City's contracts with its nine labor organizations. Given the City's finances, it is no position to immediately fund two-thirds of the pension benefits of all of its employees.

The City believes that the only means of obtaining relief from its obligation to make contributions to CalPERS to fund the pension plans of its employees is through direct negotiations with the employees and their union representatives, which the City already has accomplished. The City's recent labor agreements made substantial cuts to compensation and benefit packages for current employees, including eliminating their future retirement health coverage (worth approximately $26,000 per employee per year), requiring current employees to pay 100% of the employee share of their CalPERS contribution (7-9% of salary), and imposing compensation reductions that varied, but averaged 10% to 33%, of which 7% to 30% was in pensionable income reductions that would impact future pensions as well as current income.

The City believes that the compensation changes made over the last three years, along with the changes in pension benefits for new hires, have eliminated the excesses in its compensation/pension system. Through changes in labor agreements as well as changes in state law, the City has reduced the pension and health benefits for new hires after January 1, 2013 by 50-70% for all new employees and higher for some types of new hires. The major compensation reductions that have occurred in the last three years will also reduce employee pensions from what they would have been due to reductions in pensionable income.

In light of the severe cuts that City employees and retirees already have experienced, the City believes that any further significant reduction in pension benefits would almost certainly lead to a mass exodus of City employees, as well as leaving the City hampered in its future recruitment of new employees—especially experienced police officers—on account of the noncompetitive compensation package it would be offering new hires. Moreover, due to recent changes in California law, the exodus of City employees would be massive and sudden. In order to preserve their pension benefit levels under new state law, Stockton employees would need to leave the City's employ and obtain employment with another public agency with CalPERS or County Employees Retirement Act of 1937 benefits within six (6) months of the rejection of the City's CalPERS contract. Such a sudden loss of trained and experienced staff would be catastrophic and would seriously jeopardize the City's ability to provide even the most basic of essential public protections.

The City is unwilling to further reduce or eliminate pensions thereby defaulting on its contracts with its nine labor organizations, and, in effect, roll the dice to see if employees flee. In addition to critically impairing the City's ability to recruit new employees, were the City to reject its CalPERS contract, California state law provides that such rejection would also trigger a termination penalty, which CalPERS calculates at $946 million. Even then, the City would still have to fund and operate an alternate pension plan providing market-level benefits in order to remain a competitive employer. The City believes that even if it could locate or establish such a plan, it could not do so at a cost materially lower than the cost of remaining in the CalPERS plan. Additionally, because the City has not participated in the federal Social Security program since 1978, City employees receive no federal pension benefits from that source, and their CalPERS pension is the only "retirement" provided by the City.

The City thus cannot unilaterally abandon the CalPERS system without incurring additional obligations and seriously jeopardizing its ability to recruit qualified employees. The current CalPERS benefits are 85-90% funded according to CalPERS and can be contrasted to the City's retiree health program, which was 0% funded before being terminated.

D. <u>The City's Attempts to Avoid Insolvency</u>.

In light of its economic crisis, the City took drastic steps in an attempt to avoid insolvency, including depleting its reserves, renegotiating labor contracts, unilaterally imposing compensation reduction, cutting jobs and services, defaulting on bond payments, and deferring payouts to retiring employees, among others.

More specifically, the City instituted massive reductions in its workforce and employee compensation. Between fiscal years 2008-09 and 2011-12, the City reduced its General Fund full-time work force by 30%, including large reductions in sworn police positions (25%), non-sworn police positions (20%), fire positions (30%), and non-safety staffing (43%).[6] The City also reduced its pay and benefits to City employees, imposed furloughs, imposed a hiring freeze, and reduced City operational hours. By taking these extreme measures, the City was able to cut approximately $90 million in General Fund expenses over three years from fiscal year 2008-09 through 2011-12.

Despite these heroic efforts, however, the City continued to project annual deficits in the tens of millions of dollars. Revenues remained low, and labor costs, though markedly reduced, were still higher than the City could afford to pay, and were expected to increase. And after four consecutive years of reducing employee staffing, the City could not continue to make additional service reductions without jeopardizing the health, safety, and welfare of its residents. As a result, the City was forced to take further radical steps to balance its budget for fiscal year 2011-12, which included sweeping its remaining available unrestricted funds into its General Fund (thereby depleting critical funds such as workers compensation reserves, liability insurance reserves, equipment replacement funds, and the like), suspending some payments to separating employees, and electing not to pay over $2 million in debt service owed between March 2012 and June 2012. These measures were necessary for the City to maintain sufficient liquidity to continue to operate through June 30, 2012 (the end of fiscal year 2011-12). Even with such measures, however, as of the June 28, 2012, filing of its bankruptcy petition, the City effectively

[6] See City Budgets for 2008-09, 2009-10, 2010-11, and 2011-12, available on the website of the City of Stockton at http://www.stocktongov.com (from the homepage, click "City Government" and then click "Budget).

had no remaining reserves, and was facing a projected budget shortfall of almost $26 million in fiscal year 2012-13.

E. <u>The City's Participation in Pre-Bankruptcy Negotiations</u>.

Pursuant to Assembly Bill 506 ("**<u>AB 506</u>**"), codified at California Government Code section 53760 *et seq*., the City participated in a "neutral evaluation process" with most of its largest creditors prior to seeking bankruptcy relief. These negotiations occurred over a three (3)-month span, from March 27, 2012 through June 25, 2012, and were conducted under the auspices of the Honorable Ralph Mabey, a former bankruptcy judge and highly accomplished bankruptcy lawyer and mediator. Judge Mabey was selected jointly by the City and its creditors.

While the City was unable to avoid insolvency and bankruptcy through the mediation process, the City was able to reach agreements with almost all of its labor unions. The nine labor unions with which the City conducted negotiations are: (1) Operating Engineers 3 ("**<u>OE3</u>**")—Operations and Maintenance Unit ("**<u>O&M</u>**"); (2) OE3—Water Supervisory Unit; (3) OE3—Trades and Maintenance Unit ("**<u>STAMA</u>**"); (4) IAFF Stockton Firefighters Local 456—Fire Unit; (5) IAFF Stockton Firefighters Local 456—Fire Management Unit, (6) Stockton Police Officers' Association ("**<u>SPOA</u>**"); (7) Stockton Police Management Association ("**<u>SPMA</u>**"); (8) Stockton City Employees' Association ("**<u>SCEA</u>**"); and (9) Mid-Management/Supervisory Level Unit ("**<u>B&C</u>**").[7]

The City reached agreements with eight of these nine labor unions before or not long after the Petition Date. These agreements, in addition to providing for further compensation and benefit cuts, also eliminated retiree health benefits and other compensation claims that these groups would have had against the City in bankruptcy. An agreement with the SPOA, discussed in the section titled "Post-Bankruptcy Negotiations Conducted by Judge Elizabeth L. Perris," was reached in December 2012.

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[7] In addition, the Parking Attendant Services Unit is a bargaining unit of part-time parking attendant workers, but they have little to no benefits and do not regularly negotiate. They are represented by OE3.

III. ADMINISTRATION OF THE CHAPTER 9 CASE

A. Pendency Plans.

On June 26, 2012, the City Council adopted a "Pendency Plan" budget based on the assumption that it would file its chapter 9 petition prior to the start of the 2012-13 fiscal year less than a week later. The Pendency Plan provided for balanced General Fund expenditures in fiscal year 2012-13, but only by unilaterally modifying the City's financial obligations in ways that, outside of bankruptcy, would otherwise violate the City's contractual obligations or state law. Specifically, the City was able to impose further cuts in health care benefits and payments to retirees, as well as suspend General Fund payments on some of its bonds. While these cuts allowed the City to continue operating under a "balanced" budget, the effectiveness of the reductions made under the Pendency Plan ultimately depend upon the confirmation of a plan of adjustment. The City has continued to operate under subsequent versions of the Pendency Plan during the Chapter 9 Case.

B. Eligibility Litigation.

On June 5, 2012, the City Council voted to authorize the City to file a petition for relief under chapter 9 of the Bankruptcy Code in the event that its pre-bankruptcy negotiations did not enable it to avoid insolvency. Following the conclusion of the pre-bankruptcy negotiations, the City filed its chapter 9 petition on June 28, 2012.

Certain of the City's creditors—National Public Finance Guarantee Corporation, Assured Guaranty Corp., Assured Guaranty Municipal Corp., Franklin High Yield Tax Free Income Fund, and Franklin California High Yield Municipal Fund—objected to the City's petition for an order for relief under chapter 9. Their objections were joined by Wells Fargo Bank in its capacity as indenture trustee. Following nine (9) months of discovery and briefing, on March 25-27, 2013, the Bankruptcy Court conducted a trial to determine whether the City was eligible for bankruptcy protection. On April 1, 2013, the Bankruptcy Court delivered its oral ruling that the City had established its eligibility, and the Bankruptcy Court entered an order for chapter 9 relief later that day. On June 12, 2013, the Bankruptcy Court issued a written Opinion Regarding Chapter 9

Order for Relief, elaborating on its reasons for its ruling. *In re City of Stockton*, 493 B.R. 772 (Bankr. E.D. Cal. 2013).

C. <u>Post-Bankruptcy Negotiations Conducted by Judge Elizabeth L. Perris</u>.

In July 2012, the Honorable Alex Kozinski, Chief Judge of the United States Court of Appeals for the Ninth Circuit, appointed the Honorable Elizabeth L. Perris, a United States Bankruptcy Judge for the District of Oregon, to serve as a judicial mediator in the Chapter 9 Case [Dkt. Nos. 384, 385]. Judge Perris conducted an initial meeting on August 30, 2012, inviting key creditors and the City. Thereafter, and continuing through the date hereof, Judge Perris has devoted countless (but certainly hundreds of) hours conducting face-to-face negotiations among the parties to the Chapter 9 Case. Such negotiations are confidential, and cannot be revealed, but the City can and does represent that it continues to believe that if it is able to reach agreement with certain key creditors hereafter, such agreement will occur only with the continued proactive participation of Judge Perris.

One of the parties with which the City reached agreement in the mediation conducted by Judge Perris is the SPOA. On December 11, 2012, the City Council adopted the Memorandum of Understanding between the City of Stockton and the SPOA. For further discussion of the relevant terms of the SPOA MOU, see Section V(A)(2)(s) below.

Judge Perris brokered the settlements between Ambac and the City and between Assured Guaranty and the City, the terms of which are reflected in the Plan.

After long and arduous negotiations, concluding just before the City first went public with the Plan, Judge Perris also successfully guided the parties to an extremely complex settlement between the City and NPFG, involving no less than three bond issues and three sets of financing leases involving numerous City properties.

D. <u>Formation of an Official Committee to Represent Retirees</u>.

On April 1, 2013, with the support of the City, the United States Trustee appointed the members of the Official Committee of Retirees ("**<u>Retirees Committee</u>**"). As the name indicates, the Retirees Committee represents only the interests of retirees from the City. The Retirees Committee does not represent current City employees or any other creditors. The Retirees

Committee consists of retired City employees—namely Dwane Milnes (Chair), Robert Sivell, L. Patrick Samsell, Mark Anderson, Larry Long, Mary Morley, Cynthia Neely, Morris Allen, Rick Butterworth, Anthony Delgado, Shelley Green, Gary Ingraham, and Frank Johnston. The Retirees Committee is represented by Felderstein, Fitzgerald, Willoughby & Pascuzzi LLP.

Since its appointment, the Retirees Committee has met with the City and discussed the claims of its constituencies. The overwhelming majority of such claims in dollar amount relate to two categories of claims: (1) health benefits promised by the City and then reduced in the first Pendency Plan for fiscal year 2012-13 and eliminated for the following fiscal year and thereafter (which the City and the Retirees Committee estimate to amount to approximately $545 million for the approximately 1,100 retirees eligible for health benefits); and (2) pension benefits paid through the CalPERS Pension Plan. As discussed below, the Plan proposes to pay $5.1 million on the Effective Date in full satisfaction of the health benefit claims, and the Plan assumes the City's obligations to CalPERS, preserving in full the pension benefits of the approximately 2,400 current recipients thereof and of current employees who are participating in CalPERS. The Retirees Committee has agreed to support the Plan and recommends that retirees vote to accept the Plan.

E. <u>Motions for Relief from Stay to Pursue or Commence Litigation</u>.

Pursuant to sections 362 and 922, the filing of the Chapter 9 Case imposed an automatic stay, which, among other things, prohibits the commencement or continuation of actions against the City on account of claims that arose prior to the commencement of the Chapter 9 Case. The automatic stay provisions also bar any actions to obtain possession of or control over City property. Section 922 extends the automatic stay to actions against officers or inhabitants of the City that seek to enforce claims against the City. The Bankruptcy Court specifically addressed the application of the automatic stay to suits against City officers in *In re City of Stockton*, 484 B.R. 372 (Bankr. E.D. Cal. 2012) ("*Hittle*"). In *Hittle*, the City's former Fire Chief sued the City, City Manager, and Deputy City Manager for wrongful termination. The Court, however, ruled that the stay imposed by section 922 prevented the suit against the officers as an indirect means of suing the City, which is required by state law to indemnify its officers. *Id.* at 376, 378; CAL. GOV'T CODE §§ 825, 825.2 (requiring indemnification of officers).

Several motions requesting relief from the automatic stay have been filed by plaintiffs in lawsuits pending in other courts in which damages have been sought based on allegations of civil rights violations and other General Liability Claims. The City stipulated to relief from the stay being granted in those cases in which the movant agreed to liquidate its claims in another forum, agreed not to enforce any claim so liquidated against City assets or property, agreed to look exclusively to insurance proceeds, or agreed to proceed with its underlying lawsuit but seek further leave of the court should it obtain a monetary award (but only in cases in which the continuance of the underlying action would not impose a burden on the Office of the City Attorney). The City has not opposed relief from the automatic stay for parties with claims strictly against City Restricted Funds, which are not a part of the Chapter 9 Case (*e.g.*, Preston Pipelines, Dkt. Nos. 1045, 1092). Nor has the City opposed relief from the automatic stay for the Indenture Trustee to distribute funds it has collected acting pursuant to a state court receivership order [Dkt. Nos. 506, 533, 695, 721, 1080, 1097]. The City has also not opposed the commencement or continuation of actions challenging certain political processes, on the grounds that such actions are not within the scope of the automatic stay (Ralph Lee White [Dkt. No. 560], Dean Andal [Dkt. No. 1035]). The Bankruptcy Court agreed with the City's position on such cases in an opinion rendered in connection with the Dean Andal motion [Dkt. No. 1110]. The City has successfully opposed other motions for relief from the automatic stay, including motions brought in *Hittle*, the Association of Retired Employees of the City of Stockton (*see Association of Retired Employees of the City of Stockton v. City of Stockton, California (In re City of Stockton, California)*), 478 B.R. 8 (Bankr. E.D. Cal. 2012)), Greg and Beverly Kent [Dkt. No. 892], and Salvador Benavides [Dkt. No. 622].

IV. <u>THE CITY'S LIABILITIES AND ASSETS</u>

As noted in Section I(D) and in footnote 2 above, the City's CAFR for its fiscal year ending June 30, 2011, is not attached, but is available online or by written request. The CAFR provides all manner of information and financial data and includes the City's independently audited financial statements. Set forth below is a summary of the liabilities and assets that are relevant to the Plan.

A. <u>Liabilities</u>.

1. <u>Liabilities Listed by the City in Its Filings on the Petition Date</u>.

As required by sections 924 and 925, Bankruptcy Rules 1007(a) and 1007(d), and Rule 1007-1 of the Local Rules of Bankruptcy Procedure, on the Petition Date the City filed a list of creditors and claims (the "**<u>Creditors' List</u>**") [Dkt. No. 2] and a list of creditors holding the 20 largest unsecured claims against the City (the "**<u>20 Largest List</u>**") [Dkt. No. 4]. The cover sheet to the Creditors' List disclosed as follows:

> The Creditors' List represents obligations of the City's General Fund as well as obligations of the City's designated special use funds, for example the Municipal Water Utility Fund. Such obligations are included on the Creditors' List for purposes of full disclosure. The City maintains that California or federal law prohibits the use of such special use funds to pay General Fund obligations. Moreover, certain of such obligations are payable only from such special use funds. Thus, such special use funds are beyond the scope of this chapter 9 case pursuant to Bankruptcy Code §§ 903 and 904.

While the City believes that the Creditors' List and 20 Largest List were accurate at the time they were filed, subsequent events have negated if not eliminated the relevance of the amounts disclosed therein. For example, in the Plan, the City assumes the retiree pension obligations to CalPERS listed in the 20 Largest List. And the over $255 million listed in the 20 Largest List as amounts owed to the Indenture Trustee is being adjusted under the Plan. In short, the City submits that while the Creditors' List and 20 Largest List may have been helpful tools at the outset of this case, they are largely irrelevant for purposes of the Plan and the Disclosure Statement.

2. <u>Liabilities Listed by the City in Its Amended Creditors' List</u>.

On October 16, 2013, the City filed an Amended List of Creditors and Claims Pursuant to 11 U.S.C. §§ 924 and 925 (Retiree Health Benefit Claims) ("**<u>Amended Creditors' List</u>**"). [Dkt. No. 1150]. The Amended Creditors' List constitutes the list of Retiree Health Benefit

Claims and represents the City's obligations to Retiree Health Benefit Claimants on the Retiree Health Benefit Claims.

3. Proofs of Claim.

The Bankruptcy Court established three deadlines for filing proofs of claim against the City. The first bar date, August 16, 2013, applied to all claims except those specifically excluded by the relevant order [Dkt. No. 960]. The excluded claims were primarily those relating to pension benefits and the loss of retiree healthcare benefits. The second bar date, September 30, 2013, which was set by the same order, was limited to claims of governmental units. The third bar date, November 26, 2013, which was established by an order filed on October 7, 2013 [Dkt. No. 1126], was limited to claims relating to the loss of retiree healthcare benefits.

Approximately 241 proofs of claim were filed on or prior to the August 16, 2013, bar date. Though many of the proofs of claim did not specify their classification as general unsecured, priority, secured, etc., the City classified these claims to the best of its ability based on other groups of claims received and on the City's knowledge of property pledged to secure certain claims. Accordingly, the City catalogued approximately 104 General Unsecured Claims, 16 Unsecured Priority Claims, and 69 Secured Claims. Approximately 34 of the proofs of claim, rather than listing a specific amount being sought, were filed with amounts shown as "unknown," "to be determined," or "unliquidated." The proofs of claim listing a specific amount aggregate approximately $1.181 billion, comprised of approximately $158 million of General Unsecured Claims as calculated by the filing entities, $2.8 million of Unsecured Priority Claims, and $1.021 billion of Secured Claims.

Approximately 12 proofs of claim were filed by governmental units prior to the September 30, 2103 bar date applicable to governmental units. Altogether, the proofs of claim filed by governmental units assert approximately $38.3 million in claims.

As of November 19, 2013, only two of the approximately 1,100 Retiree Health Care Benefit Claimants had filed proofs of claim asserting Retiree Health Benefit Claim amounts different than the amounts set forth in the Amended Creditors' List. The amounts asserted in such proofs of claim exceed the amounts listed in the Amended Creditors' List by approximately $200,000 in one proof of claim and by $9 in the other.

In furtherance of its continuing claims analysis and resolution process, the City will be filing a series of omnibus objections and specific objections to various classes of Claims. Such objections will be both on the merits as well as to claims based on obligations for which the City contends it is not liable.

Finally, General Liability Claims, as filed, amount to an aggregate of $156 million. The $1 million SIR Claim Portions of such Claims will be Class 14 Claims under the Plan and will receive the same pro-rata payment received by General Unsecured Creditors in Class 12.

Note that although the City is confident in its defenses to the disputed Claims, there is no assurance that the City will succeed in eliminating or reducing any or all of these claims.

4. General Unsecured Claims, Including General Liability Claims.

Through August 16, 2013, a total of 104 proofs of claim were filed as General Unsecured Claims. The General Unsecured Claims include, but are not limited to: (1) the Retiree Health Benefit Claims; (2) the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (3) the Leave Buyout Claims; and (4) Other Postpetition Claims.

By its analysis and calculations, the City believes that the Allowed amount of General Unsecured Claims in Class 12 will aggregate approximately $550 million to $575 million. This estimate is comprised of Claims for (1) loss of retiree healthcare benefits of approximately $545 million; (2) approximately $806,000 related to leave buyouts; (3) approximately $10 million for lease rejection claims for the Golf Course/Park leases, as capped by section 502(b)(6); and (4) miscellaneous other claims.

The General Unsecured Claims, as filed, greatly exceed the high end of such range, and, as noted above, the City has engaged in a process aimed at ascertaining the differences between the amounts asserted in the proofs of claim and the amounts reflected as owing to the claimants in the City's books and records or as otherwise evaluated by the City.

If the City's estimate of the allowable amounts of the General Unsecured Claims is too low, the City would likely need to amend the Plan to, among other possibilities, provide for a payout over a term of years as opposed to payment in cash on the Effective Date as is proposed in the Plan.

5. Priority Unsecured Claims.

Sixteen proofs of claim were filed as priority unsecured Claims, which assert an aggregate of approximately $2.8 million in obligations against the City.

The City believes that most, if not all, of these claims are properly characterized as General Unsecured Claims and treats them as such in this Disclosure Statement. Moreover, because chapter 9 incorporates only those administrative claims allowed under section 507(a)(2), as discussed in Section V(A)(1)(a) below, the City submits that virtually all Claims filed as priority Claims are not entitled to priority status under chapter 9. Accordingly, the City intends to object to the characterization of virtually every Claim filed as a priority Claim. The City expects that this objection and reclassification will substantially reduce the priority claim pool, if not eliminate it altogether.

6. Secured Claims.

The City has categorized one proof of claim as a Secured Claim: the SCC 16 Claims. SCC 16 asserts a Secured Claim against the City in the amount of $455,123.99. The City has not yet verified the balance of the SCC 16 Claims as of the Petition Date or as of the date hereof.

The SCC 16 Claims relate to any Claim of SCC 16 arising out of the Construction Agreement, to the extent of any right to offset from any monies owing from SCC 16 to the City pursuant to the Construction Agreement. In the event the Parking Structure Lease Back is terminated, the Master Lease between the City and SCC 16, dated as of February 26, 2008 (as amended and supplemented) likewise, will terminate, and the Claim by SCC 16 will be treated as a General Unsecured Claim.

7. Workers Compensation Liabilities.

As of June 30, 2013 (the most recent date for which data is available), the City had an outstanding liability of approximately $51,087,000 in workers compensation claims. Pursuant to the Plan, such claims will be paid in the ordinary course of business as holders of Class 17 claims. Accordingly, no proofs of claim were required for members of Class 17.

8. <u>Claims Relating to the Lease Out/Lease Back Transactions</u>.

a. <u>Background</u>.

The City has a number of outstanding General Fund financing lease obligations. The lease financing transactions involving Ambac, Assured Guaranty, and NPFG as insurers of the related bond issues have been compromised and settled during the case (the terms of which are incorporated in the Plan), one will be assumed and thus will be Unimpaired, and the financing leases involving Franklin as the sole holder of the related bonds will be rejected.

In general, the financing lease obligations have a similar structure: a lease out of City-owned property to either the Financing Authority or the Successor Agency, and the simultaneous lease back of the same property to the City by the Financing Authority or the Successor Agency. The lease out generally involved pre-paid rent for the entire term of the lease or a token payment of rent plus delivery of the related bond proceeds to the Financing Authority or the Successor Agency. The lease back involved the City paying rent semi-annually for the leased premises.

The Financing Authority or the Successor Agency then assigned its right to receive rental payments (along with certain other rights relevant to the enforcement of remedies) under the applicable lease back to an Indenture Trustee. Finally, the Financing Authority or the Successor Agency issued bonds, or the Indenture Trustee executed and delivered certificates of participation, and transferred the proceeds to the City for expenditure on capital improvements. Payment of the principal of and interest on the bonds and certificates is made through the applicable Indenture Trustee, pursuant to, *inter alia*, the terms of the related indenture or trust agreement, from the proceeds of rental payments received from the City pursuant to the terms of the applicable lease back and related assignment.

For transactions involving certificates of participation, the lease payments are divided into "principal components" and "interest components," the sum of which in each rental period make up the rent payable for that rental period. This allocation is required in order for the interest components to be treated as tax-exempt under federal tax law. The sum of the principal components is referred to as the principal amount of the transaction. Transactions such as the ones into which the City entered are structured this way to comply with the so-called "lease exception" to the indebtedness limitations in article 16, section 18 of the California Constitution, as described in *City of Los Angeles v. Offner*, 19 Cal. 2d 483 (1942) and *Dean v. Kuchel*, 35 Cal. 2d 444 (1950), the California Supreme Court cases that establish the lease exception. These types of leases are often referred to as "Offner-Dean" leases (referred to herein as financing leases).[8]

An important feature of these leases is that they cannot be accelerated, which is a corollary to the requirement of the *Offner* and *Dean* cases that the City's obligation to pay rent under the leases back is limited to payment for beneficial use and occupancy of the leased premises during the rental period for which payment is due.

b. <u>2003 Fire/Police/Library Leases</u>.

The Ambac Settlement Agreement restructures the City's obligations with respect to the 2003 Fire/Police/Library Certificates (defined below) and provides additional liquidity for the City. The Plan does not modify, amend, or alter the amounts due to the holders of the 2003 Fire/Police/Library Certificates or the obligations of Ambac to pay principal or redemption price of, or interest on the 2003 Fire/Police/Library Certificates as and when such amounts become due under the 2003 Fire/Police/Library Certificates Trust Agreement, which payments shall be made by Ambac in accordance with, and subject to, the terms of the Ambac Insurance Policy.

(i) *Financial Instruments Involved.*

The financial instruments involved in this transaction are the City of Stockton Certificates of Participation (Redevelopment Housing Projects) Series 2003A, issued on June 27, 2003, in the original principal amount of $1,160,000 (the "**<u>2003A Fire/Police/Library Certificates</u>**") and the Certificates of Participation (Redevelopment Housing Projects) Taxable Series 2003B, issued on June 27, 2003, in the original principal amount of $12,140,000 (the "**<u>2003B Fire/Police/Library Certificates</u>**", and together with the 2003A Fire/Police/Library Certificates, the "**<u>2003 Fire/Police/Library Certificates</u>**"). Wells Fargo is the trustee under the 2003 Fire/Police/Library Certificates Trust Agreement (together with any successor trustee, the "**<u>2003 Fire/Police/Library Certificates Trustee</u>**"). A reserve fund exists for the 2003A

[8] Were the obligations to stretch over more than one year, they would require voter approval as per article 16, section 18.

Fire/Police/Library Certificates with a balance as of September 3, 2013 of $70,976.58 and for the 2003B Fire/Police/Library Certificates with a balance as of September 3, 2013 of $695,634.51 (together, the "**2003 Fire/Police/Library Certificates Reserve Fund**"). The funds in the 2003 Fire/Police/Library Certificates Reserve Fund are pledged to support payment of the lease payments under the Fire/Police/Library Lease Out evidenced and represented by the 2003 Fire/Police/Library Certificates. The 2003 Fire/Police/Library Certificates are insured by Ambac. The City also entered into a Reimbursement Agreement, dated as of June 1, 2003 (the "**2003 Fire/Police/Library Certificates Reimbursement Agreement**"), with the City, acting solely in its capacity as Successor Agency, as successor in interest to the former Redevelopment Agency of the City of Stockton (the "**Successor Agency**") pursuant to the provisions of California Assembly Bill AB x1 26 (2011-12), which dissolved California's redevelopment agencies as of February 1, 2012. Pursuant to the terms of the 2003 Fire/Police/Library Certificates Reimbursement Agreement, the Successor Agency is obligated to reimburse the City for lease payments the City makes under the Fire/Police/Library Lease Bank (as defined below) from Housing Set-Aside Amounts (as defined in the 2003 Fire/Police/Library Certificates Reimbursement Agreement).

(ii) *Leased Properties.*

As described in more detail below, the properties that are involved in this transaction are three fire stations, the City's Main Police Facility, and the Maya Angelou Southeast Branch Library (collectively, the "**Fire/Police/Library Properties**"). In order to facilitate the financing to be provided by the 2003 Fire/Police/Library Certificates, the City, as owner of the Fire/Police/Library Properties, leased the properties to the Financing Authority pursuant to that certain Site and Facility Lease dated as of June 1, 2003, for a term ending on June 1, 2033, with a possible extension of the term to the date upon which the 2003 Fire/Police/Library Certificates are paid in full (the "**Fire/Police/Library Lease Out**"). Pursuant to section 510 of the City Charter, the term of the Fire/Police/Library Lease Out cannot extend for more than 55 years or to May 31, 2058. The City contemporaneously leased the Fire/Police/Library Properties back from the Financing Authority for the same number of years pursuant to the terms of a Lease Agreement dated as of June 1, 2003 (the "**Fire/Police/Library Lease Back**"). Thus, the City is the lessor and the Financing Authority is the tenant under the Fire/Police/Library Lease Out, and the Financing Authority is the lessor and the City is the tenant in the Fire/Police/Library Lease Back.

As tenant under the Fire/Police/Library Lease Out, the Financing Authority paid rent for the entire lease term in a lump sum payment in the amount of $11,838,678.30, being the net proceeds of the 2003 Fire/Police/Library Bonds. As tenant under the Fire/Police/Library Lease Back, the City agreed to make payments, including certain semi-annual rental payments in varying amounts (the "**Fire/Police/Library Lease Back Rental Payments**"). The Financing Authority assigned to the 2003 Fire/Police/Library Certificates Trustee its rights, other than certain retained rights, under the Fire/Police/Library Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Fire/Police/Library Lease Back Rental Payments from the City, to support the repayment of the 2003 Fire/Police/Library Certificates. The repayment obligation is non-recourse to the Financing Authority, and the 2003 Fire/Police/Library Certificates are payable solely from the 2003 Fire/Police/Library Certificates Reserve Fund and the Fire/Police/Library Lease Back Rental Payments.

The subject properties are the Fire/Police/Library Properties, which consist of City's Main Police Facility, located at 22 E. Market Street; the Maya Angelou Southeast Branch Library, located at 2324 Pock Lane; Fire Station No. 1, located at 1818 Fresno Avenue; Fire Station No. 5, located at 3499 Manthey Road; and Fire Station No. 14, located at 3019 McNabb Street.

- **Fire Stations.** The City owns 13 fire stations, of which 12 are operating. Fire Stations No. 1, 5, and 14 were built in 1995-96. Each station primarily serves the neighborhood in which it is located and occupies a half-acre site with a building of approximately 5,000 square feet. Station No. 1 is located in the south area of the City in the South Stockton Redevelopment Project Area; it was closed as a result of budget cuts. Station No. 5 is located in the south area off Interstate 5 in the Weston Ranch Subdivision. Station No. 14 is located in the north area in a newer residential community commonly referred to as Spanos Park located off Interstate 5 and Eight Mile Road.

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- **Main Police Facility.** The Main Police Facility is located in the downtown area of the City. It was built in 1970 on a two-acre site and includes approximately 44,000 square feet of building space with 140 parking spaces.
- **Library.** The Maya Angelou Southeast Branch Library is located in the south area of the City. It was built in 1996 on a 1.8-acre site and includes approximately 20,000 square feet of building space. The library serves the residents of both the City and San Joaquin County in multiple South Stockton neighborhoods and is one of 12 libraries that comprise the Stockton-San Joaquin County Public Library System.

(iii) *Ambac Settlement Agreement.*

On February 26, 2013, the City filed a motion with the Bankruptcy Court in which it requested the Bankruptcy Court to enter an order approving the Ambac Settlement Agreement [Dkt. No. 723]. A copy of the Ambac Settlement Agreement is attached as Exhibit A to the Declaration of Robert Deis in Support of the City of Stockton's Motion Under Bankruptcy Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed on February 26, 2013 [Dkt. No. 725]. On April 24, 2013, the Bankruptcy Court entered its order granting the Ambac Settlement Agreement Motion in its entirety and approving the Ambac Settlement Agreement in its entirety [Dkt. No. 888].

Pursuant to the Ambac Settlement Agreement, Ambac and the 2003 Fire/Police/Library Certificates Trustee will forbear from exercising their rights under the 2003 Fire/Police/Library Certificates in exchange for payment of their attorneys' fees, certain General Fund Payments (as defined in the Ambac Settlement Agreement) towards the principal of and interest on the Certificates, the assignment to the 2003 Fire/Police/Library Certificates Trustee of the City's rights under the Certificates, the collateral assignment and pledge to the 2003 Fire/Police/Library Certificates Trustee of all of the City's rights, title and interest under the 2003 Fire/Police/Library Certificates Reimbursement Agreement, including its right to the Housing Set-Aside Amounts (the "**2003 Housing Set-Aside Rights**"), the further assignment of the 2003 Housing Set-Aside Rights by the 2003 Fire/Police/Library Certificates Trustee to Ambac if and when required by the terms of the 2003 Fire/Police/Library Certificates Supplemental Trust Agreement (as defined below), and the sale of certain City and Successor Agency properties for proceeds that will be paid toward the principal of and interest on the Certificates. It also requires that the 2003 Fire/Police/Library Certificates Reserve Fund be distributed toward the principal of and interest on the Certificates. Finally, the agreement requires that Ambac support and vote in favor of the Plan so long as it is consistent with the agreement approved by the Bankruptcy Court.

c. <u>2004 Arena Leases</u>.

The Plan does not modify, amend, or alter the 2004 Arena Bonds (defined below) or the obligations of NPFG to pay principal or redemption price of, or interest on the 2004 Arena Bonds as and when such amounts become due under the 2004 Arena Bond Indenture, which payments shall be made by NPFG in accordance with, and subject to, the terms of the 2004 Arena Bond Insurance Policy. Pursuant to the terms of the NPFG Arena Settlement and the Plan, the City will assume the Arena Lease Out and the Arena Lease Back as modified by the NPFG Arena Settlement.

(i) *Financial Instruments Involved.*

The financial instruments involved in this transaction are the Redevelopment Agency of the City of Stockton Revenue Bonds, Series 2004, (Stockton Events Center – Arena Project) issued on March 16, 2004, in the aggregate principal amount of $47,000,000 (the "**<u>2004 Arena Bonds</u>**"). Wells Fargo is the indenture trustee under the 2004 Arena Bond Indenture (together with any successor trustee, the "**<u>2004 Arena Bond Trustee</u>**"). A reserve fund exists for the 2004 Arena Bonds with a balance as of September 3, 2013, of $3,511,392.02 (the "**<u>2004 Arena Bond Reserve Fund</u>**"). The funds in the 2004 Arena Bond Reserve Fund are pledged to support repayment of the 2004 Arena Bonds. The 2004 Arena Bonds are insured by NPFG.

As described in more detail below, the property and facility involved in this transaction is the Stockton Arena (as more particularly described below, the "**<u>Arena</u>**"). In order to facilitate the financing provided by the 2004 Arena Bonds, the City, as owner of the Arena, leased the Arena to the Successor Agency pursuant to that certain Site Lease dated as of March 1, 2004, for a term ending on September 1, 2036, with a possible extension of the term, or reduction in term, to the date upon which the 2004 Arena Bonds are paid in full (the "**Arena Lease Out**"). Under section 510 of the City Charter, the Arena Lease Out may not extend for more than 55 years, or until February 28, 2059. The City contemporaneously leased the Arena back from the Successor Agency for the same number of years (but the lease term cannot extend beyond September 1, 2046) pursuant to the terms of that certain Lease Agreement dated as of March 1, 2004 (the "**Arena Lease Back**"). Thus, the City is the lessor and the Successor Agency is the tenant under the Arena Lease Out transaction, and the Successor Agency is the lessor and the City is the tenant in the Arena Lease Back transaction.

As tenant under the Arena Lease Out, the Successor Agency paid rent for the entire lease term in the amount of $1.00. The Successor Agency agreed under the Arena Lease Back to allow the City to use the proceeds of the 2004 Arena Bonds to construct the Arena facilities. As tenant under the Arena Lease Back, the City agreed to make payments, including certain semi-annual rental payments in varying amounts ($2,570,687 for fiscal year 2012-13, $2,621,346 for fiscal year 2013-14, $2,673,221 for fiscal year 2014-15, etc.) (the "**Arena Lease Back Rental Payments**"). The Successor Agency assigned its rights under the Arena Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Arena Lease Back Rental Payments from the City, to support the repayment of the 2004 Arena Bonds. In addition, pursuant to the terms of that certain Pledge Agreement between the City as pledgor and the Successor Agency as pledgee dated as of March 1, 2004 (the "**Arena Pledge Agreement**"), the City pledged certain incremental tax revenues (the "**Pledged Tax Increment**") expected to be collected from the West End Urban Renewal Project No. 1, a former development project area consisting of 642 acres surrounding and including the Arena, located in the heart of downtown Stockton, just north of the City's Crosstown Freeway and east of Interstate 5, containing a mix of commercial, industrial, and residential uses (the "**West End Project Area**"). As a result of the enactment of Assembly Bill X1 26 ("**AB 26**") as modified by Assembly Bill 1484 ("**AB 1484**"), amending certain sections of the California Health and Safety Code, which together effected the dissolution of redevelopment agencies in the State of California, certain other tax increment monies formerly allocated to the former redevelopment agencies have been transferred to their successor agencies (in this case, the City acting in that capacity) and are available in addition to pledged revenues to pay enforceable obligations such as the Arena Pledge Agreement (the "**Additional Tax Increment Revenues**"). No other revenues or assets are pledged to support the repayment of the 2004 Arena Bonds, the repayment obligation is non-recourse to the Successor Agency, and the 2004 Arena Bonds are payable solely from the 2004 Arena Bond Reserve Fund, the Arena Lease Back Rental Payments, the Pledged Tax Increment, and the Additional Tax Increment Revenues.

(ii) *Leased Property*.

The subject property is the land described as Parcel 4, as shown on the Parcel Map filed for record in the office of the Recorder of the County of San Joaquin, State of California, on March 4, 2003, in Book 23 of Maps, Page 15, and the Arena located thereon, an indoor facility capable of hosting events such as ice hockey, indoor football, indoor soccer, concerts, boxing events, rodeos, and other such indoor events, and located at 248 West Fremont Street in downtown Stockton. The Arena includes officials' facilities, media facilities, food services facilities, 24 luxury suites for approximately 288 patrons, the Record Press Club Level with 344 Club Seats, 5,000 square feet of conference space, and ample backstage amenities. The Arena can be configured for 8,600 to 12,000 seats, based upon the nature of the event. The Arena sports an 85 by 200 foot ECHL regulation ice sheet and is home to the Stockton Thunder ice hockey team.

The Arena is part of the Stockton Events Center project (the "**Events Center Project**"), which also includes a baseball stadium with a seating capacity of approximately 5,000 people, the University Plaza Waterfront Hotel and University Lofts, the Stockton Events Center Parking Structure, and approximately 60,000 square feet of retail/commercial space. The Events Center Project, including the Arena, is located in downtown Stockton on approximately 24 acres immediately north of and adjacent to the Stockton Channel and within the West End Project Area.

The Arena currently operates at a net loss before debt service and requires a General Fund subsidy to support operations.

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(iii) NPFG Arena Settlement.

The City has reached an agreement with NPFG regarding the Arena Lease Out, the Arena Lease Back, and the Pledged Tax Increment. The terms are contained in the NPFG Arena Settlement; the NPFG Settlement Term Sheet is attached hereto as **Exhibit C**. In general, with respect to the Arena, the NPFG Arena Settlement provides that, subject to the modification of the payment terms of the Arena Lease Back in accordance with the terms of the NPFG Arena Settlement, on the Effective Date, the City will assume the Arena Lease Back (as modified), and as a result, the City will continue to remain in possession, custody, and control of the Arena.

d. 2004 Parking Structure Leases.

The Plan does not modify, amend, or alter the 2004 Parking Bonds (defined below) or the obligations of NPFG to pay principal or redemption price of, or interest on the 2004 Parking Bonds as and when such amounts become due under the 2004 Parking Bond Indenture, which payments shall be made by NPFG in accordance with, and subject to, the terms of the 2004 Parking Bond Insurance Policy. Pursuant to the terms of the NPFG Parking Settlement and the Plan, the City will assume the Parking Structure Lease Out and the Parking Structure Lease Back as modified by the NPFG Parking Settlement.

(i) Financial Instruments Involved.

The financial instruments involved in this transaction are the Stockton Public Financing Authority Lease Revenue Bonds, Series 2004, (Parking and Capital Projects) issued on June 25, 2004, in the aggregate principal amount of $32,785,000 (the "**2004 Parking Bonds**"). Wells Fargo is the indenture trustee under the 2004 Parking Bond Indenture (together with any successor trustee, the "**2004 Parking Bond Trustee**"). A reserve fund exists for the 2004 Parking Bonds with a balance as of September 1, 2013, of $78,693.23 (the "**2004 Parking Bond Reserve Fund**"). The funds in the 2004 Parking Bond Reserve Fund are pledged to support repayment of the 2004 Parking Bonds. The 2004 Parking Bonds are insured by NPFG.

As described in more detail below, the properties and facilities involved in this transaction are the Edmund S. Coy Parking Structure, the Stockton Events Center Parking Structure, and the Market Street Garage (as more particularly defined below, the "**Parking Structure Properties**").

In order to facilitate the financing provided by the 2004 Parking Bonds, the City, as owner of the Parking Structure Properties, leased the properties to the Financing Authority, pursuant to a site and facility lease dated as of June 1, 2004, for a term ending on September 1, 2034, with a possible extension of the term to the date upon which the 2004 Parking Bonds are paid in full (the "**Parking Structure Lease Out**"). Pursuant to section 510 of the City Charter, the term of the Parking Structure Lease Out cannot extend for more than 55 years or to May 31, 2059. The City contemporaneously leased the properties back from the Financing Authority for the same number of years pursuant to the terms of the Lease Agreement dated as of September 1, 2004 (the "**Parking Structure Lease Back**"). Thus, the City is the lessor and the Financing Authority is the tenant under the Parking Structure Lease Out transaction, and the Financing Authority is the lessor and the City is the tenant in the Parking Structure Lease Back transaction.

As tenant under the Parking Structure Lease Out, the Financing Authority paid rent for the entire lease term in the amount of $1.00. Pursuant to the Parking Structure Lease Back, the Financing Authority agreed to provide to the City the net proceeds of the 2004 Parking Bonds (with gross proceeds equal to $32,785,000), which were used by the City to fund the construction of the Edmund S. Coy Parking Structure (described below) and other capital improvements. As tenant under the Parking Structure Lease Back, the City agreed to make payments, including certain semi-annual rental payments in varying amounts ($1,960,916 for fiscal year 2012-13) (the "**Parking Structure Lease Back Rental Payments**"). The Financing Authority assigned its rights under the Parking Structure Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Parking Structure Lease Back Rental Payments from the City, to support the repayment of the 2004 Parking Bonds. No other revenues or assets are pledged to support the repayment of the 2004 Parking Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2004 Parking Bonds are payable solely from the Parking Structure Lease Back Rental Payments.

Even before filing the Chapter 9 Case, due to a lack of revenues generated by the Parking Structure Properties, and as a result of the deteriorating finances of the City, the City defaulted in the payment of the Parking Structure Lease Back Rental Payments. As a result of these circumstances, the 2004 Parking Bond Trustee filed suit to enforce the Parking Structure Lease Back, with the result that the Superior Court of the State of California for the County of San Joaquin issued two decisions on April 19, 2012, one granting the 2004 Parking Bond Trustee "Judgment of Possession After Unlawful Detainer" and also appointing a receiver for the Parking Structure Properties under an "Order Appointing Receiver." *See Wells Fargo Bank, National Association v. City of Stockton*, Superior Court of the State of California, County of San Joaquin, case no. 39-2012-00277622-CU-UD-STK. The Judgment of Possession found the City to be in unlawful detainer of the Parking Structure Properties and awarded possession of the Parking Structure Properties to the 2004 Parking Bond Trustee. Under the Judgment of Possession, the 2004 Parking Bond Trustee can operate and re-let the Parking Structure Properties for the account of the City. The Judgment of Possession also entitles the 2004 Parking Bond Trustee to reimbursement of its costs for the unlawful detainer proceeding, as well as reimbursement of its attorney fees and expenses under the Parking Structure Lease Back.

(ii) *Leased Properties.*

The subject properties consist of three parking structures that continue to be owned by the City (subject to the Parking Structure Lease Out to the Financing Authority and the Parking Structure Lease Back from the Financing Authority) (the "**Parking Structure Properties**").

(a) Edmund S. Coy Parking Structure.

This structure is located at N. Hunter Street and E. Channel Street in downtown Stockton. The six-story parking structure provides approximately 575 parking spaces to the Central Business District to accommodate parking for existing retail, commercial, and office development. The structure has approximately 7,500 square feet of ground-level commercial/retail fronting E. Channel Street and was constructed using a single-threaded helix design. The total cost of construction was originally estimated at $9,540,000, with all such amounts provided by proceeds of the 2004 Parking Bonds.

(b) Stockton Events Center Parking Structure.

This structure is located in the vicinity of Fremont and Van Buren Streets in downtown Stockton. The seven-story parking structure provides approximately 600 parking spaces on the north shore of the Stockton Channel to accommodate sports fans, concert goers, and event attendees. The structure has approximately 7,500 square feet of ground-level commercial/retail fronting Fremont Street and was constructed using a single-threaded helix design. The total cost of construction was originally estimated at $9,595,000, with all such amounts provided by proceeds of the 2004 Parking Bonds.

(c) Market Street Garage.

This structure is located within the City's Central Parking District on Market Street between Sutter and California Streets and was constructed in 1989. The four-story parking structure provides approximately 780 parking spaces and provides both monthly parking for employees of downtown businesses and hourly parking for patrons of downtown businesses. The structure also houses the Central Parking District management offices.

(iii) *NPFG Parking Settlement.*

The City has reached an agreement with NPFG regarding the Parking Structure Lease Out and the Parking Structure Lease Back. The terms are contained in the NPFG Parking Settlement; the NPFG Settlement Term Sheet is attached hereto as **Exhibit C**. In general, with respect to the Parking Structure Properties, the NPFG Parking Settlement provides that the City will create a new parking authority for the City that will be comprised of the Parking Structure Properties plus other downtown parking structures and lots, and downtown parking meters and parking enforcement revenues; that revenues from the newly created parking authority will be pledged to the 2004 Parking Bond Trustee to make payments from the revenues of the parking authority; and that the City's General Fund will have no liability for the modified payment schedule.

The effectiveness of the NPFG Parking Settlement is contingent upon the entry into the SCC 16 Settlement Agreement. In the event the parties are unable to agree to the terms of such settlement that is acceptable to NPFG, then the City, at the request or direction of the 2004 Parking Bond Trustee or NPFG, shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPFG to terminate the Parking Structure Lease Back as part of an alternative arrangement that is acceptable to the City and the 2004 Parking Bond Trustee that is

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not conditioned on the occurrence of such settlement. As a result, the parking authority will obtain possession, custody, and control of the Parking Structure Properties.

e. <u>2006 SEB Leases</u>.

The Plan does not modify, amend, or alter the 2006 SEB Bonds (defined below) or the obligations of NPFG to pay principal or redemption price of, or interest on the 2006 SEB Bonds as and when such amounts become due under the 2006 SEB Bond Indenture, which payments shall be made by NPFG in accordance with, and subject to, the terms of the 2006 SEB Bond Insurance Policy. On the Effective Date, pursuant to the NPFG SEB Settlement, the City will assume the SEB Lease Back and the SEB Lease Out under section 365(a).

(i) *Financial Instruments Involved.*

The financial instruments involved in this transaction are the Stockton Public Financing Authority 2006 Lease Revenue Refunding Bonds, Series A, issued on April 6, 2006, in the aggregate principal amount of $13,965,000 (the "**<u>2006 SEB Bonds</u>**"). Wells Fargo is the indenture trustee under the 2006 SEB Bond Indenture (together with any successor trustee, the "**<u>2006 Bond Trustee</u>**"). A reserve fund exists for the 2006 SEB Bonds in an amount equal to the initial reserve requirement funded by a surety policy for the reserve fund issued by NPFG, which such initial reserve requirement equals $919,093.75 (the "**<u>2006 SEB Bond Reserve Fund</u>**"). The funds in the 2006 Bond Reserve Fund are pledged to support repayment of the 2006 SEB Bonds. Payment of principal of and interest on the 2006 SEB Bonds is insured by NPFG pursuant to the terms of the 2006 SEB Bond Insurance Policy.

As described in more detail below, the properties that are involved in this transaction are the Stewart/Eberhardt Building and the adjacent parking facility (the "**<u>SEB Properties</u>**"). In order to facilitate the financing to be provided by the 2006 SEB Bonds, the City, as owner of the SEB Properties, leased the properties to the Financing Authority pursuant to that certain Ground Lease dated as of March 1, 2006, for a term ending on August 1, 2031, with a possible extension of the term to the date upon which the 2006 SEB Bonds are paid in full, but in any event no later than August 1, 2041 (the "**<u>SEB Lease Out</u>**"). The City contemporaneously leased the SEB Properties back from the Financing Authority for the same number of years pursuant to the terms of Lease Agreement dated as of March 1, 2006 (the "**SEB Lease Back**"). Thus, the City is the lessor and the Financing Authority is the tenant under the SEB Lease Out transaction, and the Financing Authority is the lessor and the City is the tenant in the SEB Lease Back transaction.

As tenant under the SEB Lease Out, the Financing Authority paid rent for the entire lease term in the amount of $1.00. As tenant under the SEB Lease Back, the City agreed to make payments, including certain semi-annual rental payments in varying amounts ($907,494 for fiscal year 2012-13, $906,194 for fiscal year 2013-14, $909,194 for fiscal year 2014-15, etc.) (the "**SEB Lease Back Rental Payments**"). The Financing Authority assigned to the 2006 SEB Bond Trustee its rights under the SEB Lease Back, including the rights to enforce the lease after default by the City, and including the stream of SEB Lease Back Rental Payments from the City, to support the repayment of the 2006 SEB Bonds. No other revenues or assets are pledged to support the repayment of the 2006 SEB Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2006 SEB Bonds are payable solely from the 2006 Bond Reserve Fund and the SEB Lease Back Rental Payments. The City is not in default under the SEB Lease Back, and to date all amounts due on the 2006 SEB Bonds have been paid in full and on time.

(ii) *Leased Properties.*

The subject properties consist of the Stewart/Eberhardt Building (the "**Eberhardt Building**") located at 22 East Weber Avenue and the adjacent public parking facility located at 15 North El Dorado Street in downtown Stockton, both of which continue to be owned by the City (subject to the SEB Lease Out to the Financing Authority and the SEB Lease Back from the Financing Authority) (as described below, the "**SEB Properties**").

(a) Stewart/Eberhardt Building.

The Eberhardt Building is a four-story, 99,792-square-foot, steel and precast concrete-clad office building constructed in 2001. It was designed to meet the standard for, and is certified as, an Essential Services Building, as defined in the Essential Services Buildings Seismic Safety Act of 1986, commencing with section 16000 of the California Health and Safety Code. It currently houses several city departments including Human Resources, Police Investigations, Public Works, and the Police Crime Lab.

(b) <u>SEB Parking Facility.</u>

The SEB public parking facility is a 284,423-square-foot, eight-level, reinforced masonry and cast-in-place concrete structure with approximately 780 parking spaces. Constructed in 2001, it also includes approximately 7,000 square feet for Police Department property storage and a "sally port" exclusively for police functions on the ground floor.

(iii) *Lease Assumption; NPFG SEB Settlement.*

The City has determined that the SEB Properties constitute mission-critical facilities for the continued operations of City departments housed in the SEB Properties, and that rejection of the SEB Lease Back and the SEB Lease Out and the resulting need for the City to provide alternative facilities for the City departments located at the SEB Properties, would result in serious jeopardy to the uninterrupted provision of essential services to the citizens of the City, and would cause the City to incur significant relocation expenses and alternative facility expenses. As a result, the City has decided to assume the SEB Lease Back and the SEB Lease Out under section 365(a).

The City has reached an agreement with NPFG regarding the SEB Lease Out and the SEB Lease Back. The terms are contained in the NPFG SEB Settlement; the NPFG Settlement Term Sheet is attached hereto as **<u>Exhibit C</u>**. In general, with respect to the SEB Properties, the NPFG SEB Settlement provides that the City will assume the SEB Lease Back, and as a result, the City will continue to remain in possession, custody and control of the SEB Properties.

f. <u>2007 Office Building Leases</u>.

The Plan does not alter payment of principal of, or payment of interest on, the 2007 Office Building Bonds (defined below), which payments shall be made by Assured Guaranty in accordance with, and subject to, the terms of the 2007 Office Building Bond Insurance Policy.

(i) *Financial Instruments Involved.*

The financial instruments involved in this transaction are the Stockton Public Financing Authority Variable Rate Demand Lease Revenue Bonds, 2007 Series A (Building Acquisition Financing Project), issued on November 29, 2007, in the aggregate principal amount of $36,500,000 (the "**<u>2007 Series A Bonds</u>**") and the Stockton Public Financing Authority Taxable

Variable Rate Demand Lease Revenue Bonds, 2007 Series B (Building Acquisition Financing Project), issued on November 29, 2007, in the aggregate principal amount of $4,270,000 (the "**2007 Series B Bonds**" and together with the 2007 Series A Bonds, the "**2007 Office Building Bonds**"). Wells Fargo is the indenture trustee under the 2007 Office Building Bond Indenture (together with any successor trustee, the "**2007 Office Building Bond Trustee**"). The 2007 Office Building Bonds are insured by Assured Guaranty.

As described in more detail below, the property that is involved in this transaction is an office building that was purchased with the net proceeds of the 2007 Office Building Bonds and located at 400 E. Main Street in Stockton (the "**400 E. Main Office Building Property**"). In order to facilitate the financing to be provided by the 2007 Office Building Bonds, the City, as prospective owner of the 400 E. Main Office Building Property, leased the property to the Financing Authority pursuant to that certain Site and Facility Lease dated as of November 1, 2007, for a term ending on September 1, 2048, with a possible extension of the term to the date upon which the 2007 Office Building Bonds are paid in full, but in any event no later than September 1, 2058 (the "**Office Building Lease Out**"). The City contemporaneously leased the 400 E. Main Office Building Property back from the Financing Authority for the same number of years pursuant to the terms of the Lease Agreement dated as of November 1, 2007 (the "**Office Building Lease Back**"). Thus, the City is the lessor and the Financing Authority is the tenant under the Office Building Lease Out transaction, and the Financing Authority is the lessor and the City is the tenant in the Office Building Lease Back transaction.

As tenant under the Office Building Lease Out, the Financing Authority paid rent for the entire lease term in the amount of $1.00. Pursuant to the Office Building Lease Back, the Financing Authority agreed to provide to the City the net proceeds of the 2007 Office Building Bonds (with gross proceeds equal to $40,355,000), which the City then used to acquire the 400 E. Main Office Building Property. As tenant under the Office Building Lease Back, the City agreed to make payments, including certain annual rental payments in the amount of interest accruing on the 2007 Office Building Bonds plus principal amortization specified in the Office Building Lease Back (such principal amortization is scheduled as $155,000 due on September 1, 2012,

$165,000 due on September 1, 2013, and $175,000 due on September 1, 2014, etc.) (the "**Office Building Lease Back Rental Payments**"). The Financing Authority assigned its rights under the Office Building Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Office Building Lease Back Rental Payments from the City, to support the repayment of the 2007 Office Building Bonds. No other revenues or assets are pledged to support the repayment of the 2007 Office Building Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2007 Office Building Bonds are payable solely from the Office Building Lease Back Rental Payments. Even before filing its Chapter 9 Case, due to a lack of revenues generated by the 400 E. Main Office Building Property, and as a result of the deteriorating finances of the City, the City defaulted in the payment of the Office Building Lease Back Rental Payments. As a result, the 2007 Office Building Bond Trustee filed suit to enforce the Office Building Lease Back, with the result that the Superior Court of the State of California for the County of San Joaquin entered a Judgment of Possession on May 31, 2012 authorizing Main Street Stockton LLC, as designee of the 2007 Office Building Bond Trustee, to enter into possession of the 400 E. Main Office Building Property. *See* Judgment of Possession, filed May 31, 2012, *Wells Fargo Bank, National Association v. City of Stockton*, Superior Court of California, County of San Joaquin, case no. 39-2012-00280741-CU-UD-STK. Under the Judgment of Possession, the 2007 Office Building Bond Trustee can operate and re-let the 400 E. Main Office Building Property for the account of the City, but cannot cause the fee interest or the leasehold interest of the City in the 400 E. Main Office Building Property to be sold. The Judgment of Possession also entitles the 2007 Office Building Bond Trustee to reimbursement of its costs for the unlawful detainer proceeding, as well as reimbursement of its attorney fees and expenses under the Office Building Lease Back.

The 2007 Office Building Bonds were issued as variable rate demand bonds under the terms of which the interest rate was reset on a weekly basis. Holders of the 2007 Office Building Bonds had the right to tender their bonds for purchase by the 2007 Office Building Bond Trustee, acting as tender agent, on any date. Tendered bonds were to be remarketed to other investors pursuant to a remarketing agreement between the Financing Authority and a registered broker dealer. In order to provide liquidity to holders of the 2007 Office Building Bonds in the event that the tendered bonds could not be so remarketed, the Financing Authority and the City entered into a Standby Bond Purchase Agreement, dated as of November 29, 2007 (the "**Office Building Standby Agreement**"), with Dexia. Under the Office Building Standby Agreement, Dexia agreed to purchase any 2007 Office Building Bonds that could not be remarketed. In the event of such a purchase, the bonds so purchased ("**Bank Bonds**") were subject to adjustments to their terms so long as they were held by Dexia. On February 28, 2012, the City Council voted to commence the AB 506 process, and on April 26, 2012 an event of default of occurred in the payment by the City of the amounts due under the Office Building Lease Back. As a result of the announcement of the commencement of the AB 506 process, the occurrence of the default, and the filing of the Chapter 9 Case, all of the 2007 Office Building Bonds were tendered for purchase and were unable to be remarketed (the final tender date for the 2007 Series A Bonds is February 29, 2012, and the final tender date for the 2007 Series B Bonds is September 14, 2012). Accordingly, Assured Guaranty purchased the 2007 Office Building Bonds and is now the sole holder thereof. As Bank Bonds, the 2007 Office Building Bonds now bear interest at the Default Rate under the Office Building Standby Agreement, which is equal to the Base Rate plus 3% (currently, 6.25%).[9] In addition, the Bank Bonds are subject to mandatory early redemption over a seven-year period, and Assured Guaranty is obligated to insure payment of such early redemption amounts pursuant to its bond insurance policy.

(ii) *Leased Property.*

The 400 E. Main Office Building Property is located at 400 East Main Street, Stockton. It consists of a Class A, eight-story, steel-framed office building totaling approximately 246,541 square feet. The office building is situated on a 2.07-acre site, which is a square block fronting on East Main Street, Market Street, South California Street, and South Sutter Street. The building

[9] As defined in the Office Building Standby Agreement, Default Rate "means a rate per annum equal to the Base Rate plus an amount equal to three hundred basis points (3.00%)." Base Rate "means the higher of (a) the fluctuating rate per annum equal to the 'prime rate' listed daily in the 'Money Rate' section of *The Wall Street Journal*, or if *The Wall Street Journal* is not published on a particular Business Day, then, the 'prime rate' published in any other national financial journal or newspaper selected by Dexia, and if more than one such rate is listed in the applicable publication, the highest such rate shall be used or (b) the Fed Funds Rate plus fifty basis points (0.5%). Any change in the Base Rate shall take effect on the date specified in the announcement of such change."

has an "H"-shaped floor plate with office wings flanking a central lobby on the first floor. The lower three floors step back successively to form terraces extending around the building at Floors 2, 3, and 4, while the tower above Floor 4 has planar walls. The building's exterior consists of polished granite walls with tinted single-pane glass window and painted bronze aluminum sections. It was constructed in 1988 and is supported by a foundation of cast-in-place concrete pile in the form of a two-floor subterranean parking garage, which offers a parking ratio of approximately 2.1 per 1,000 square feet, for a total of approximately 518 stalls. The 400 E. Main Office Building Property continues to be owned by the City (subject to the Office Building Lease Out to the Financing Authority and the Office Building Lease Back from the Financing Authority).

The City entered into the Office Building Lease Back in the expectation of making the 400 E. Main Office Building Property its new City Hall—replacing the outdated and crumbling City Hall built over 100 years ago. While the 400 E. Main Office Building Property did not become the new City Hall, the City did move certain of its operations there, including its information technology, and invested several million dollars in upgrades to provide the necessary cabling and chillers for its main computer servers and related equipment.

Because of this investment, after the 2007 Office Building Bond Trustee took possession of the 400 E. Main Office Building Property, the City and the 2007 Office Building Bond Trustee entered into a short-term lease pursuant to which the City occupies the fourth floor of the building (the "**Fourth Floor Lease of 400 E. Main**"). As described in the Assured Guaranty Settlement Term Sheet, attached hereto as **Exhibit D**, the Fourth Floor Lease of 400 E. Main, will be superseded by the New 400 E. Main Lease. The City currently occupies (and pays above market rent for) only the fourth floor of the 400 E. Main Office Building Property. Including the City's occupancy, the 400 E. Main Office Building Property was approximately 60% vacant as of September 2013, and barely breaks even on an operating basis before debt service. Under the New 400 E. Main Lease, however, the City will enjoy exclusive use of approximately 65,000 square feet of rentable space and joint use of the common areas and will be relieved of the

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approximately $1.8 million cost of relocating its information technology operations. In addition, its rent will be below market.

(iii) *Assured Guaranty Settlement as Applicable to the 400 E. Main Office Building Property.*

The City has reached an agreement with Assured Guaranty regarding the treatment under the Plan of the Claims arising out of the Office Building Lease Back Transaction (as well as the Pension Obligation Bonds). The terms are contained in the Assured Guaranty Settlement. In general, with respect to the 400 E. Main Property, the Assured Guaranty Settlement provides that the Office Building Lease Out and Lease Back will be terminated. The City will transfer fee title, and Main Street Stockton, LLC will transfer possessory interest, in the 400 E. Main Office Building Property to Assured Guaranty or its designee at Assured Guaranty's election, subject to the New 400 E. Main Lease. Assured Guaranty may elect to keep the property or sell it at some future date to another purchaser, subject to the New 400 E. Main Lease. Assured Guaranty shall be entitled to all rent and profits of the property after the transfer, and to all of the sales proceeds of the property should Assured Guaranty elect to sell the property. The City shall be released from any and all liability with respect to the 2007 Office Building Bonds and the terminated Office Building Lease Out and Lease Back and other related bond documents.

Further, the Assured Guaranty Settlement provides that the New 400 E. Main Lease shall include the terms set forth in the Assured Guaranty Term Sheet, including without limitation the following: the initial term shall begin on the Effective Date and end on June 30, 2022; the City shall enjoy exclusive use of the City Space (as defined in the Assured Guaranty Term Sheet); the City shall make monthly rent payments as specified in the Assured Guaranty Term Sheet; the New 400 E. Main Lease supersedes the Fourth Floor Lease of 400 E. Main.

Main Street Stockton, LLC is currently in possession, custody and control of the 400 E. Main Property, and will remain in possession, custody and control of the 400 E. Main Property through the Effective Date. The parties may later agree that a receiver will be put in possession, custody and control of the 400 E. Main Property, and that Assured Guaranty will be granted an option to purchase. From and after the Effective Date, the Assured Guaranty Settlement

Documents will dictate and control which entity shall continue in possession, custody and control of the 400 E. Main Property.

g. <u>2009 Golf Course/Park Leases</u>.

(i) *Financial Instruments Involved.*

The financial instruments involved in this transaction are the Stockton Public Financing Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects), issued on September 9, 2009, in the aggregate principal amount of $35,080,000 (the "**<u>2009 Golf Course/Park Bonds</u>**"). Wells Fargo is the indenture trustee (together with any successor trustee, the "**<u>2009 Golf Course/Park Bond Trustee</u>**") under the Indenture of Trust, dated as of September 1, 2009, by and between the Financing Authority and the 2009 Golf Course/Park Bond Trustee. A reserve fund exists for the 2009 Golf Course/Park Bonds with a balance as of September 1, 2013, of $904,380.81 (the "**<u>2009 Golf Course/Park Bond Reserve Fund</u>**"). The funds in the 2009 Golf Course/Park Bond Reserve Fund are pledged to support repayment of the 2009 Golf Course/Park Bonds. The 2009 Golf Course/Park Bonds are not insured; however, Franklin is the sole holder of the bonds.

(ii) *Leased Properties.*

As described in more detail below, the properties that are involved in this transaction are Oak Park, the Van Buskirk Golf Course, and the Swenson Golf Course (as defined below, the "**<u>Golf Course/Park Properties</u>**"). In order to facilitate the financing to be provided by the 2009 Golf Course/Park Bonds, the City, as owner of the Golf Course/Park Properties, leased the properties to the Financing Authority, pursuant to a site and facility lease dated as of September 1, 2009, for a term ending on September 1, 2038, with a possible extension of the term to the date upon which the 2009 Golf Course/Park Bonds are paid in full. Pursuant to section 510 of the City Charter, the term of the lease cannot extend for more than 55 years or to August 31, 2064 (the "**<u>Golf Course/Park Lease Out</u>**"). The City contemporaneously leased the properties back from the Financing Authority for the same number of years pursuant to the terms of the Lease Agreement dated as of September 1, 2009 (the "**<u>Golf Course/Park Lease Back</u>**"). Thus, the City is the lessor and the Financing Authority is the tenant under the Golf Course/Park Lease

Out transaction, and the Financing Authority is the lessor and the City is the tenant in the Golf Course/Park Lease Back transaction.

As tenant under the Golf Course/Park Lease Out, the Financing Authority paid rent for the entire lease term in a lump sum payment in the amount of $1.00. Pursuant to the terms of the Golf Course/Park Lease Back, the Financing Authority agreed to provide the net proceeds of the 2009 Golf Course/Park Bonds (with gross proceeds equal to $35,080,000) to the City for the purpose of financing various capital projects. As tenant under the Golf Course/Park Lease Back, the City agreed to make payments, including certain semi-annual rental payments in varying amounts ($2,415,838 fiscal year 2012-13, $2,923,119 for fiscal year 2013-14, $2,926,332 for fiscal year 2014-15, etc.) (the "**Golf Course/Park Lease Back Rental Payments**"). The Financing Authority assigned to the 2009 Golf Course/Park Bond Trustee its rights under the Golf Course/Park Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Golf Course/Park Lease Back Rental Payments from the City, to support the repayment of the 2009 Golf Course/Park Bonds. No other revenues or assets are pledged to support the repayment of the 2009 Golf Course/Park Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2009 Golf Course/Park Bonds are payable solely from the Golf Course/Park Lease Back Rental Payments. A default occurred on March 1, 2012 in the payment by the City of amounts due under the Golf Course/Park Lease Back.

The subject properties consist of three separate properties, each of which continues to be owned by the City (subject to the Golf Course/Park Lease Out to the Financing Authority and the Golf Course/Park Lease Back from the Financing Authority) (as described below, the "**Golf Course/Park Properties**").

(a) Oak Park.

This property is a public park of approximately 61.2 acres, bounded on the east by Union Pacific railroad tracks, on the north by East Fulton Street, on the south by East Alpine Street, and on the west by North Sutter and Alvarado Streets. This park features group picnic areas, 20 picnic tables, two tot lots, 15 barbecue pits, and four restrooms. In addition, Oak Park features 11 tennis courts; two regulation softball fields; the Billy Hebert Field; a 6,000 seat, regulation professional minor league baseball field (renovated in 2002); a multi-use field; a community swimming pool complex with changing facilities; and an approximately 13,875-square-foot ice-rink facility with seating for 350. A one-story senior center of approximately 5,000 square feet, which is available for rental to the public is also located at Oak Park.

(b) Swenson Golf Course.

This property was opened in 1952 and is located on approximately 219 acres at 6803 Alexandria Place. Swenson Golf Course features a classic championship 18-hole, par 72 course; a nine-hole executive, par three course; a 15-station driving range; two putting greens and a practice bunker; and paved cart paths. Also located on this property is a clubhouse, an approximately 2,000-square-foot pro shop, an approximately 5,000-square-foot maintenance and storage facility, and an approximately 2,500-square-foot café with seating.

(c) Van Buskirk Golf Course.

This property was opened in 1962 and is located on approximately 214.0 acres at 1740 Houston Avenue. The Van Buskirk Golf Course features a classically designed par 72, 18-hole course, an all-grass driving range with 15 stations, two practice greens, and partially paved cart paths. Also located on this Property is a clubhouse, an approximately 2,000-square-foot pro shop, an approximately 5,000-square-foot maintenance and storage facility, and an approximately 2,500-square-foot cafe with seating. The Van Buskirk real property is subject to a senior reversionary interest, and if it were to be converted from a public recreational use it may revert to private parties.

All three properties are zoned for their current use, and it would be unlikely that the zoning could be changed for commercial development, even assuming that commercial development of any of the properties would be economically viable given Stockton's current real estate market. As owner of the fee interest in the property, the City would have to approve any application for a zoning change.

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(iii) Operating Revenue Shortfalls Experienced for the Golf Course/Park Properties.

The Golf Course/Park Properties generate revenues, but these revenues have historically been short of the amounts necessary to cover operating expenses.

The table below lists revenues, expenses, and operating deficits for the two golf courses:[10]

	FY 2010-11 Actual ($)	FY 2011-12 Unaudited Actual ($)	FY 2012-13 Projected ($)
Revenues			
Swenson Golf Course	1,126,374	1,260,192	1,073,415
Van Buskirk Golf Course	532,091	597,066	495,366
Expenses			
Swenson Golf Course	1,195,093	1,390,097	1,289,120
Van Buskirk Golf Course	802,591	816,755	702,248
Operating Deficit			
Swenson Golf Course	(68,719)	(129,905)	(215,705)
Van Buskirk Golf Course	(270,500)	(219,689)	(206,882)

Operating deficits for Oak Park are difficult to calculate with precision because revenues for certain facilities, such as the pool, the softball fields, and the senior center, are pooled with revenues from related City facilities. For the past three years, however, these operating deficits are estimated to be approximately $400,000 per year.

As a result, each of the properties generates no revenues at all to service the debt obligations of the 2009 Golf Course/Park Bonds. Instead, the City has historically utilized certain unpledged revenues and made expenditures from the General Fund to cover the operating shortfalls of the Golf Course/Park Properties and to pay debt service on the 2009 Golf Course/Park Bonds.

(iv) Lease Rejection by City.

The City has determined that it cannot afford to pay the debt service on the 2009 Golf Course/Park Bonds from General Fund revenues or from other unpledged revenues. As a result,

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[10] Data from "Community Services Department, Golf – 481, 2013-14 Adopted Budget," in *City of Stockton 2013-2014 Annual Budget* (2013) at H-23, *available at* http://www.stocktongov.com/files/2013-2014_Adopted_Budget.pdf.

the City has decided to reject the Golf Course/Park Lease Out and the Golf Course/Park Lease Back under section 365(a).

The practical consequences of such lease rejection are difficult to predict. As a result of the rejection by the City of the Golf Course/Park Lease Out, the 2009 Golf Course/Park Bond Trustee, as the nominal tenant pursuant to the assignment from the Financing Authority of all of the rights of the Authority under the Golf Course/Park Lease Out, may have the option under section 365(h) to take possession of the Golf Course/Park Properties for the balance of the term of the Golf Course/Park Lease Out so long as the rent is paid and other amounts to be paid by it under the Golf Course/Park Lease Out are paid (and the City reserves its rights to contest or place limitations upon such election), or to treat the rejection of the Golf Course/Park Lease Out as a termination of the same and thereby allow possession and control of the Golf Course/Park Properties to remain with the City. Should the 2009 Golf Course/Park Bond Trustee succeed in taking possession and control of the Golf Course/Park Properties from the City, the City would be relieved of the obligation under the Golf Course/Park Lease Back to pay for expenses associated with the Golf Course/Park Properties, including utilities, insurance, and maintenance expenses, all of which would instead be borne by the 2009 Golf Course/Park Bond Trustee. The rent under the Golf Course/Park Lease Out was paid in a lump sum from the proceeds of the 2009 Golf Course/Park Bonds, so no further rent would be due and owing.

The City would have an interest, however, in ensuring that the Golf Course/Park Properties are run in a responsible, safe and professional manner.

The actual decision will likely be made by Franklin, as the current holder of the 2009 Golf Course/Park Bonds, or its successor(s) should Franklin transfer ownership of the bonds. Franklin would have at least these options: (1) treat the rejection as a breach of the lease, make a claim for damages for breach of lease, and allow possession and control of the Golf Course/Park Properties to remain with the City (and the City would then need to make the decision of whether to continue to operate the Golf Course/Park Properties and underwrite the operating losses or close the Golf Course/Park Properties and pay for the closure, maintenance, security and other holding costs); (2) attempt to exercise the option under section 365(h) to take over possession and either operate the Golf Course/Park Properties (and underwrite the operating deficits, likely in the hope that such operating deficits can be converted into operating profits), or hold the Golf Course/Park Properties without operating them (and underwrite the closure, maintenance, security and other holding costs) in order to sell the rights to the remaining term of the Golf Course/Park Lease Out to a third party. Although theoretically possible, the City believes it is unlikely that Franklin would decide to enter into possession of the Golf Course/Park Properties for the balance of the term of the Golf Course/Park Lease Out and shut the properties down, which would obligate Franklin to pay all of the closure, maintenance, security and other holding costs of the Golf Course/Park Properties without realizing any revenue at all from the operation of the properties.

The City is party to executory contracts with vendors, managers and operators of services and facilities located at the Golf Course/Park Properties (e.g., the Golf Courses are operated by a management company, as is the ice rink, etc.). Should the City not be in a position to continue to operate the Golf Course/Park Properties (because Franklin is successful in causing the 2009 Golf Course/Park Bond Trustee to take over possession), the City will likely reject the executory contracts related to the properties. However, if the City remains in possession and control of the properties, the City will likely re-negotiate such contracts or may assume such executory contracts.

At this time the City does not know whether the 2009 Golf Course/Park Bond Trustee/Franklin would decide to attempt to enter into possession (which the City may contest or attempt to impose conditions upon). When the City is in a position to make such decisions, the City will decide to reject, assume or renegotiate executory contracts with such vendors and other parties.

Should the 2009 Golf Course/Park Bond Trustee/Franklin decide to and be successful in taking possession of the Golf Course/Park Properties from the City, at the end of the term of the Golf Course/Park Lease Out, possession, custody and control of the Golf Course/Park Properties will revert to the City as the owner of the Golf Course/Park Properties.

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(v) Limits/Restrictions Upon the Right of the Golf Course/Park Bond Trustee/Franklin to Take Over Possession of the Golf Course/Park Properties.

As a result of the lease/leaseback transaction described herein, the City is currently in possession, custody and control of the Golf Course/Park Properties, but section 365(h) may provide the Golf Course/Park Bond Trustee/Franklin the right to enter into possession and control of the Golf Course/Park Properties. However, the Golf Course/Park Lease Out states in section 5 thereof, entitled "Purpose": "The Authority shall use the Site and the Facility solely for the purpose of leasing the Site and the Facility to the City, pursuant to the Lease Agreement . . ." Thus, the Golf Course/Park Bond Trustee/Franklin (having succeeded to the rights of the Authority by assignment) may not have any rights to the Golf Course/Park Properties other than to lease them to the City, and specifically may not have the right to operate the Golf Course/Park Properties for their own account. The City is still considering the merits of such an argument.

Further, the Golf Course/Park Bond Trustee/Franklin is not currently in possession of the Golf Course/Park Properties and if they wished to invoke section 365(h), the changeover in possession and control from the City to the Golf Course/Park Bond Trustee/Franklin would not be nearly as straightforward and uncomplicated as the typical situation in which a commercial tenant merely remains in possession of its existing leased premises. The City would have an ongoing and continuing interest in ensuring that the golf courses and the park would continue to be operated in a responsible, safe and professional manner so as not to endanger the citizens of Stockton and not let the properties go into disrepair or worse, abandonment. Finally, the Golf Course/Park Properties are subject to use restrictions that mandate that the properties be used only for the existing activities and uses.

Franklin disputes the foregoing characterization of its rights and remedies in respect to the 2009 Golf Course/Park Bonds, including the alleged limits or restrictions upon its right to possess and use the Golf Course/Park Properties.

(a) Rather Than Maintaining the Status Quo, a Takeover by Franklin Would Interrupt the Status Quo and Require Planning, Transition, and Coordinated Implementation

Should the Golf Course/Park Bond Trustee/Franklin decide, for some reason, to take over the operations at the Golf Course/Park Properties, there will be a fairly massive change to the operations of the Golf Course/Park Properties. In order to plan for such a takeover, and in the absence of agreement with the Golf Course/Park Bond Trustee/Franklin on such issues, the City would request that the Court enter an order outlining a process and timelines for the decision-making process (e.g., when would the Golf Course/Park Bond Trustee/Franklin need to make a final decision about whether to take over such operations? When would the changeover of possession occur? Which vendors would the Golf Course/Park Bond Trustee/Franklin like to retain and which vendors would they terminate (assuming they could even do so)?), as well as protections for the City to ensure the responsible, safe and professional operation of the facilities throughout the years of the Golf Course/Park Lease Out term (liability insurance satisfactory to the City would need to be maintained, adequate measures for security at all three facilities would need to be in place or in prospect, measures to ensure that access to all three facilities by members of the public would not be interrupted, changeover in billing arrangements for utilities such as water, gas, electricity, and telephone would need to be in place, arrangements with any new vendors would need to be in place, arrangements satisfactory to the City for the maintenance and upkeep and replacement of obsolete or non-functional equipment located at the facilities and maintenance and capital improvements of the facilities themselves would need to be in place, arrangements for allowing City personnel to access infrastructure and other public facilities located on the subject properties would need to be in place, etc.). The City would want to be protected from the uncertainty of not knowing when or if the Golf Course/Park Bond Trustee/Franklin would decide to enter into possession of the Golf Course/Park Properties. The City would want protection from Franklin attempting to provide the public with the idea that the City and the citizens of the City would lose access to and the use of the Golf Course/Park Properties unless Franklin's payment demands are met. The City would want protection from Franklin taking possession of the Golf Course/Park Properties to simply cease operations at the facilities, or worse, operate the facilities in an unsafe manner or allow the facilities to fall into disrepair and neglect. And, the City would want protection from the chaos and public confusion that could result if there are not guidelines and timetables for the transition from City-operated properties to privately-operated properties.

(b) <u>The Golf Courses Must Continue to Be Operated as Golf Courses, and Oak Park Must Continue to Be Operated as a Park</u>

Should the Golf Course/Park Bond Trustee/Franklin decide, for some reason, to take over the operations at the Golf Course/Park Properties, the current usage of the facilities could not be altered by the Golf Course/Park Bond Trustee/Franklin, to say, construction of residential housing or construction of office or retail buildings.

Van Buskirk Golf Course, Swenson Golf Course, and Oak Park are all designated "Parks and Recreation" by the 2035 Stockton General Plan. According to the General Plan, “Allowed Uses” under the Parks and Recreation designation include "City and county parks, golf courses, marinas, community centers, public and quasi-public uses, and other similar and compatible uses". Pages 3-7 of the Goals and Policies Report, December 2007.

These three properties are designated PF (Public Facilities) by the Stockton Development Code (Zoning Ordinance). The PF Zoning District includes not just parks, but City facilities throughout the City. As such, the list of permissible land uses is somewhat broader, with provisions for auditoriums, libraries, and similar civic uses. However, very few of these land uses are permitted without a discretionary permit from either the Community Development Director or the Planning Commission. With each discretionary permit, the review authority must make a written finding that the request is consistent with the General Plan. Referring back to the "Parks and Recreation" General Plan designation and its limited list of acceptable uses, the review authority would be precluded from making this finding for any proposed non-conforming use and, therefore, could not approve any of these additional uses. Instead, the only permissible uses would be those listed in the General Plan.

In addition, the Van Buskirk Golf Course is subject to a restrictive condition upon title providing that if the property is not used for public purposes, the property reverts to the prior owner of the property.

(vi) *Adversary Proceeding*

On October 14, 2013, the 2009 Golf Course/Park Bond Trustee, Franklin High Yield Tax-Free Income Fund, and Franklin California High Yield Municipal Fund commenced an adversary proceeding against the City by filing a Complaint for Declaratory Relief in the Bankruptcy Court. [Dkt. No. 1181, commencing Adversary Case 13-2315] (the "**Franklin Re-characterization Adversary Proceeding**"). In this complaint, the plaintiffs seek a declaration: (1) that the Golf Course/Park Lease Out and the Golf Course/Park Lease Back are not in fact true leases of nonresidential real property under section 365 and therefore cannot be rejected by the City; (2) that their claims with respect to the Golf Course/Park Lease Out and the Golf Course/Park Lease Back are instead secured claims under section 506(a) secured by an interest in the Golf Course/Park Properties; and (3) in the alternative, if the Bankruptcy Court concludes that the Golf Course/Park Lease Out and the Golf Course/Park Lease Back are in fact true leases under section 365, that all rent payable under them from the Petition Date through the effective date of rejection is an administrative expense payable under sections 365(d)(3) and 503.

The City believes that there is no merit to the Franklin Re-characterization Adversary Proceeding and plans to vigorously defend the same. The City further believes that even if the plaintiffs are successful in re-characterizing the Golf Course/Park Lease Out transaction as a secured loan obligation, the security for such loan would be the remaining term of the leasehold interest in the Golf Course/Park Properties, and that such leasehold interest has little or no value. As discussed above, given the current zoning and use restrictions, the subject properties would need to be operated, after foreclosure on the leasehold interests by the plaintiffs, as golf courses and a park, which operations have historically been cash flow negative, that is, subsidized by the City because the direct costs of the operations far exceed the gross revenues generated by the Golf Course/Park Properties.

9. <u>Pension Obligation Bonds</u>.

The Plan does not modify, amend, or alter the Pension Obligation Bonds (defined below) or the obligations of Assured Guaranty to pay principal or redemption price of, or interest on Pension Obligation Bonds as and when such amounts become due under Pension Obligation Bond Indenture, which payments shall be made by Assured Guaranty in accordance with, and subject to, the terms of the Pension Obligation Bond Insurance Policy.

The financial instruments involved in this transaction are the City of Stockton 2007 Taxable Pension Obligation Bonds issued on April 5, 2007 in the aggregate principal amount of $125,310,000 (the "**<u>Pension Obligation Bonds</u>**") pursuant to articles 10 and 11 (commencing with section 53570) of chapter 3 of part 1 of division 2 of title 5 of the Government Code of the State of California and an Indenture of Trust, dated as of April 1, 2007, by and between the City and Wells Fargo, as indenture trustee (together with any successor trustee, the "**<u>Pension Obligation Bond Trustee</u>**"), to refinance a portion of the obligation of the City to make payments to CalPERS for retirement benefits accruing to the City's employees and retirees. The Pension Obligation Bonds are insured by Assured Guaranty. As of the Petition Date, the unpaid principal balance of the Pension Obligation Bonds is approximately $124,280,000 plus accrued and unpaid interest and costs due to Assured Guaranty.

The City has reached an agreement with Assured Guaranty regarding the treatment under the Plan of the Claims arising out of the Pension Obligation Bonds (as well as the Office Building Lease Back Transaction). The terms are contained in the Assured Guaranty Settlement. In general, with respect to the Pension Obligation Bonds, this agreement provides as follows:

- The City agrees to make non-contingent payments on the Pension Obligation Bonds in each fiscal year equal to the sum of the 2007 Lease Ask Payments, Special Fund Payments, and Supplemental Payments (all as defined in the Assured Guaranty Term Sheet) on the dates and in the amounts set forth in the Assured Guaranty Term Sheet. The City has historically allocated a portion of the debt service on the Pension Obligation Bonds to its various restricted funds to account for those funds' allocable share of pension costs, based on a variable allocation methodology that in some years would result in a higher or lower allocation of such debt service that the amount of the Special Fund Payments. Such allocated amounts are treated as operation and maintenance costs under the documents governing the obligations listed in Class 10. The City believes that the change in allocation method reflected in the Special Fund Payments does not alter the status of the Special Fund Payments as operation and maintenance costs under the documents governing the obligations listed in Class 10; however, in the event for any reason that such Special Fund Payments are determined not to be properly treated as operation and maintenance costs, the Assured Guaranty Settlement will provide that such payments shall be paid from the restricted revenues associated with each of the Class 10 obligations only to the extent permitted by the Class 10 documents and applicable law but the City shall otherwise remain obligated to make such payments in accordance with the Assured Guaranty Settlement.

- Assured Guaranty (and if Assured Guaranty has defaulted on its obligations with respect to the Pension Obligation Bonds, the Pension Obligation Bond Trustee) shall also be entitled to Contingent Payments in accordance with the City's Contingent Payment Model, a copy of which is attached to the Assured Guaranty Term Sheet as Exhibit A. If the City does not exceed its baseline financial projections in the upcoming years, Assured Guaranty would receive no Contingent Payments. However, if the City were to exceed its financial projections over the years—which the City and Assured Guaranty believe may be achievable—Assured Guaranty would receive Contingent Payments until Assured Guaranty has received payment in full on the Pension Obligation Bond Class 6 Claims; *provided*, that the last date a Contingent Payment is required to be paid is June 1, 2052, unless any Contingent Payments have been suspended pursuant to the terms of the Assured Guaranty Settlement Documents, in which event such Contingent Payments shall be paid in accordance with the Assured Guaranty Settlement Documents.

Contingent Payments will be based upon the City's budget in each year, subject to adjustment following year-end audit.

- Contingent Payments on the Pension Obligation Bonds for each fiscal year shall be paid on June 1 of such fiscal year, commencing June 1, 2018 and ending on June 1, 2052, subject to adjustment based on audits as mentioned above.

This settlement structure may result in Assured Guaranty receiving payment in full on account of the Pension Obligation Bonds depending on the level and timing of future Core Revenue growth of the City.

10. Statement Regarding Liabilities.

While the City's review and analysis of Claims is ongoing, the City disputes a number of the Claims that have been asserted against it. Given the inherent uncertainty of litigation, no assurance can be given regarding the successful outcome of any litigation that may be initiated in objection to Claims or regarding the ultimate amount of unsecured Claims that will be allowed against the City.

As described below, the Plan enables the City to file objections to Claims at any time within one hundred eighty (180) days after the Effective Date. The Plan also provides for the City to retain any and all defenses, offset and recoupment rights, and counterclaims that may exist with respect to any disputed Claim, whether under the Bankruptcy Code or otherwise. The City reserves all rights with respect to the allowance and disallowance of any and all Claims. **In voting on the Plan, creditors may not rely on the absence of a reference in this Disclosure Statement or the Plan or the absence of an objection to their proof(s) of claim as any indication that the City ultimately will not object to the amount, priority, security, or allowance of their Claims.**

B. Assets.

1. Capital Assets; Valuation and Sale Thereof.

The City owns numerous and varied capital assets, including buildings, roads, infrastructure and utility improvements, parks, undeveloped real property and service vehicles (such as fire trucks, police cars and street equipment). Virtually all of these municipal assets are used daily in the performance of public functions and cannot be easily liquidated, particularly in current market conditions. They are valued in the City's books and records at depreciated historical cost, which does not represent the cash value that could be recognized by the City in a voluntary sale. California law does not permit the levy on or sale of a city's assets in order to satisfy a court judgment. CAL. GOV'T CODE § 900 *et seq*. Thus, the City has not sought a valuation of or attempted to sell its necessary capital assets. It has valued its structures for insurance purposes. Such values, however, do not and cannot reflect the value to the City and its residents of, for example, fire and police stations or libraries.

On May 21, 2013, the City Council authorized the City Manager to approve the sale within predetermined guidelines of certain surplus real properties owned by the City. The surplus properties approved for sale do not relate to core City functions, and include older residential properties, vacant commercial buildings, vacant parcel remnants with potential reuse value, and grazing pasture. The guidelines authorized by the City Council permit the City Manager to approve the sale of a surplus property without formal bidding procedures so long as the sale price is 85% of the property's appraised value or greater. Individual sales of $500,000 or more must also be approved by the City Council. The City Manager's authority to approve sales of these surplus properties under the guidelines approved by the City Council ends on May 21, 2015 unless otherwise extended by the City Council.

The City's property broker, CBRE, Inc., has provided broker's opinions of value for the City-owned surplus properties approved for sale. The aggregated broker's opinions of value total from $2.3 million to $3 million. The City has sold one of these City-owned surplus properties for $65,000. Five of the City-owned surplus properties, valued collectively at $973,500, were transferred as part of the City's settlement with Marina Towers LLC, which settled the eminent domain action known as *City of Stockton v. Marina Towers LLC et al.*, San Joaquin Superior Court, case no. CV022054, and related litigation.[11] Pursuant to the settlement, Marina Towers

[11] By this eminent domain action, the City took two parcels of real property from Marina Towers LLC to develop the Stockton Event Center, a project that now includes a public ballpark and arena, public parking and related services. The east parcel was unimproved, and the west parcel was improved with a five-story office building that had been vacant since 1989. Extended state-court litigation over the City's right to take, pre-condemnation damages, valuation and other issues ensued from 2003 to 2010. The San Joaquin Superior Court entered a Judgment of Condemnation

LLC agreed to withdraw its proof of claim for $1,875,000. The settlement with Marina Towers LLC puts these five properties back on the tax roll in the hands of a capable developer. In addition, it resolves a legal issue of first impression regarding the interplay between eminent domain and bankruptcy law.

2. <u>Claims and Causes of Action Against Third Parties</u>.

Parties in interest may not rely on the absence of a reference in this Disclosure Statement or in the Plan as any indication that the City ultimately will not pursue any and all available claims, rights and causes of action against them. **All parties who previously dealt with the City are hereby on notice** that the Plan preserves the City's rights, claims, causes of action, interests and defenses. The City expects that any and all meritorious claims will be pursued and litigated after the Effective Date to the extent they remain vested in the City.

C. <u>Financial Projections Regarding City Finances.</u>

Judge Perris has successfully mediated negotiations between the City and Ambac, Assured Guaranty, and NPFG. Judge Perris also mediated negotiations with representatives of Franklin, but to date a settlement with this creditor has not been forthcoming. Although the City cannot discuss in any detail the content of privileged settlement negotiations, it is clear to the City that reaching agreement with such parties on a consensual plan of adjustment will greatly increase the payments that must be made out of the General Fund in the coming years.

There can be no assurances that the finances of the City in future years will be consistent with any of the financial projections submitted herewith and creditors should review such financial statements with this caveat in mind (see the discussion of risk factors associated with the Plan in Section VII below).

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on October 13, 2006, but the defendants appealed. After a long procedural battle, the parties finally resolved the litigation by agreeing to the entry of a Stipulated Judgment in Condemnation, which the San Joaquin Superior Court entered on June 29, 2010. Subsequently, however, the City filed the Chapter 9 Case. The parties then commenced another series of negotiations, this time mediated by the Honorable Elizabeth L. Perris, which successfully resolved their disputes.

D. Impact of Measure A upon Future City Finances and Ability of City to Confirm the Plan.

The City believes that Measure A, which Stockton voters passed on November 5, 2013, will produce approximately $28 million per year in new revenue from a 3/4 of one percent increase in sales taxes (from 8.25% to 9%), and that such revenue is critical to the viability of the Plan. The Plan Financial Projections, attached hereto as **Exhibit B**, assume the approval of Measure A. Also on November 5, 2013, Stockton voters passed an advisory measure (Measure B) that advises the City Council to use approximately 65% of the revenue generated by Measure A over time to enhance depleted police services under the Marshall Plan and the remainder to fund the City's ongoing expenses, including the cost of implementing the Plan.

V. SUMMARY OF THE PLAN OF ADJUSTMENT

The discussion of the Plan set forth below is qualified in its entirety by reference to the more detailed provisions set forth in the Plan and its exhibits, the terms of which are controlling. Holders of claims and other interested parties are urged to read the Plan and its exhibits, filed concurrently herewith, in their entirety so that they may make an informed judgment regarding the Plan.

The Plan involves claims of approximately $299,505,000 of publicly held securities, certain of which evidence and represent undivided fractional interests in General Fund leases of many of the City's capital assets. Some of these assets are important or even essential to municipal operations. The Plan also addresses and resolves the City's obligations to current and former employees and various other claims. While the Plan permits the City to continue to maintain minimally acceptable levels of vital municipal services for its residents and businesses, and while it devotes substantial resources to the repayment of the City's creditors, it nevertheless further defers infrastructure maintenance as well as the optimal staffing of City service units such as police and fire.

The Plan significantly impairs the interests of former employees and retirees with respect to health benefits. Outside of the Plan, retirement benefits for current and future employees already have been impacted by negotiated changes in the City's labor agreements. Retiree health benefits worth approximately $1 billion for current employees have been eliminated as a result of negotiated agreements. This loss of retiree health benefits constitutes an approximate reduction in pension benefits, which along with certain compensation changes for these employees amounts to a 30-50% reduction from what they otherwise would have received. Additionally, pension benefits for new employees hired after January 1, 2013 have been reduced by approximately 50-70% (including lost retiree health benefits) for all employees and in some cases higher for certain types of employees as a result of changes in state law and changes in labor agreements that the City has negotiated. New hires are also required to pay a greater share of their future pension benefits. Additionally, because of compensation reductions of up to 30% in pensionable income negotiated in 2011 and 2012, the future pensions of employees will be lower than they otherwise would have been, though no further reduction is imposed by the Plan. Such reductions in compensation to City employees have the effect of lowering the costs of pension benefits funded by the City. The City intends to fully fund the contributions to be made for the reduced pension benefits of City employees. Such pension contributions will continue to be made to CalPERS in its capacity as trustee for the City's pension trust for its retired workers and their dependents who are the beneficiaries of this trust, as well as for current employees and their beneficiaries (the City has one contract with CalPERS, but there are three contract groups: police, fire, and miscellaneous).

Payment to holders of General Unsecured Claims—which holders include, but are not limited to, holders of lease rejection claims, the Retiree Health Benefit Claimants, and the holders of Leave Buyout Claims—shall receive cash payment on the Effective Date in an amount equal to a set percentage of the Allowed amount of such Claims. The percentage of the Allowed amount paid on such claims will be the Unsecured Claim Payout Percentage (unless the amount of the Retiree Health Benefit Claims changes, that percentage will be $5,100,000/$545,000,000 = 0.93578%) or such other amount as is determined by the Bankruptcy Court before confirmation of the Plan to constitute a pro-rata payment on such other General Unsecured Claims. While the City regrets that it cannot pay a higher dividend to holders of General Unsecured Claims, the fact is that the City lacks the revenues to do so if it is to maintain an adequate level of municipal services such as the provision of fire and police protection, the maintenance and repair of the City's streets and other public facilities, and the continued availability of important municipal services such as library, recreation, and parks.

The Plan does not alter the obligations of those City funds that are restricted by grants, by federal law, or by California law; pursuant to the Tenth Amendment to the United States Constitution and the provisions of the Bankruptcy Code that implement the Tenth Amendment, such funds cannot be impacted in the Chapter 9 Case. Thus, securities payable solely from restricted funds are not altered by the Plan.

A. Classification and Treatment of Claims.

1. Unclassified Claims.

Section II of the Plan governs the treatment of certain claims that are not classified into Classes under the Plan.

a. Administrative Claims.

Administrative Claims, as defined in the Plan, are dealt with in Section II(A) of the Plan. Throughout the course of the Chapter 9 Case, the City has endeavored to satisfy postpetition expenses as they became due. Accordingly, the City believes that most claims that otherwise would constitute Allowed Administrative Claims previously have been or will be satisfied in the ordinary course of business prior to and after the Effective Date.

(i) *Treatment of All Other Administrative Claims Other Than Professional Claims.*

The Plan provides that, except as provided in Section II(B) of the Plan, with respect to Professional Claims, or to the extent that the holder of an Allowed Administrative Claim agrees to a different treatment, the City or its agent will pay to each holder of an Allowed Administrative Claim, in full satisfaction, release, and discharge of such claim, cash in an amount equal to such Allowed Administrative Claim on the later of (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Administrative Claim, or as soon thereafter as is practicable.

Professional Claims are claims of professionals for services and costs during the Chapter 9 Case or incident to the Plan to be paid by the City. Section II(B) of the Plan provides that pursuant to section 943(a)(3), all amounts paid following the Effective Date or to be paid following the Effective Date for services or expenses in the Chapter 9 Case or incident to the Plan must be disclosed to the Bankruptcy Court and must be reasonable. There shall be paid to each holder of a Professional Claim, in full satisfaction, release, and discharge of such Claim, Cash in an amount equal to that portion of such Claim that the Bankruptcy Court approves as reasonable, on or as soon as reasonably practicable following the date on which the Bankruptcy Court enters a Final Order determining such reasonableness. The City, in the ordinary course of its business, and without the requirement for Bankruptcy Court approval, may pay for professional services rendered and costs incurred following the Effective Date.

During the course of the Chapter 9 Case, the City has, in the ordinary course of business, paid the fees (and reimbursed the costs) of its various counsel (including bankruptcy counsel, labor counsel, litigation counsel, and elections counsel). The City has also paid the fees of management and financial professionals, as well as the fees of counsel for the Retirees Committee, on a regular basis during the Chapter 9 Case.

The fees described in the preceding paragraph **are not** Professional Fees because they have been paid prior to the Effective Date. Nor are such fees subject to Bankruptcy Court review or approval, as sections 326 *et seq*. do not apply in chapter 9 cases. As of the date of this Disclosure Statement, the City is not aware of any Claims for Professional Fees.

b. Bar Date for Assertion of Requests for Payment of Administrative Claims (Other Than Ordinary Course Administrative Claims) and Professional Claims.

Section II(D) of the Plan provides that all requests for approval of Administrative Expense and Professional Claims must be filed with the Bankruptcy Court and served upon the City no later than thirty (30) days after the date on which the Notice of Effective Date is mailed pursuant to the Plan.

Any request for payment of an Administrative Claim, and any request for a finding that a Professional Claim is reasonable, that is not timely filed by that deadline will be forever barred, and holders of such claims will be barred from asserting such claims in any manner against the City.

2. Classified Claims

a. Class 1A – Claims of Ambac – 2003 Fire/Police/Library Certificates.

Ambac's Claims shall receive the treatment set forth in the Ambac Settlement Agreement, which is attached as Exhibit A to the Declaration of Robert Deis in Support of the City of Stockton's Motion under Bankruptcy Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed in the Chapter 9 Case on February 26, 2013 [Dkt. No. 725]. The Plan does not modify, amend, or alter the amounts due to the holders of the 2003 Fire/Police/Library Certificates or the obligations of Ambac to pay principal or redemption price of, or interest on, the 2003 Fire/Police/Library Certificates as and when such amounts become due under the 2003 Fire/Police/Library Certificates Trust Agreement, which payments shall be made by Ambac in accordance with, and subject to, the terms of the Ambac Insurance Policy. Ambac, as the holder of the Class 1A Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

b. Class 1B – Claims of Holders of 2003 Fire/Police/Library Certificates.

The treatment of the Class 1B claimants, the 2003 Fire/Police/Library Certificates holders, is identical to the treatment of Ambac, the Class 1A claimant. The deemed holder of the Class 1B Claims is Ambac, who, as the deemed holder of the Class 1B Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

c. Class 2 – SEB Claims of the 2006 SEB Bond Trustee/NPFG – 2006 SEB Bonds.

The deemed holder of the Class 2 Claims is NPFG. On the Effective Date, the City will assume the SEB Lease Back and the SEB Lease Out under section 365(a) pursuant to the NPFG SEB Settlement. The finding by the Bankruptcy Court that the Plan is feasible shall constitute adequate assurance of future performance of the SEB Lease Back and the SEB Lease Out. The Plan does not modify, amend, or alter the 2006 SEB Bonds or the obligations of NPFG to pay principal or redemption price of, or interest on, the 2006 SEB Bonds as and when such amounts become due under the 2006 SEB Bond Indenture, which payments shall be made by NPFG in accordance with, and subject to, the terms of the 2006 SEB Bond Insurance Policy. Class 2 is not Impaired by the Plan since the treatment of this Class will not affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, NPFG, as the deemed holder of the Class 2 Claims, is not entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

d. Class 3 – Arena Claims of the 2004 Arena Bond Trustee/NPFG – 2004 Arena Bonds.

The deemed holder of the Class 3 Claims is NPFG. The treatment of the Class 3 Claims will be as set forth in the NPFG Arena Settlement Documents, which should be consulted for the precise terms of the treatment. In summary, with respect to these Claims, after modification of the payment terms of the Arena Lease Back, as provided in the NPFG Arena Settlement, on the Effective Date, the City will assume the Arena Lease Back (as modified), and as a result, the City will continue to remain in possession, custody, and control of the Arena. The Plan does not modify, amend, or alter the 2004 Arena Bonds or the obligations of NPFG to pay principal or redemption price of, or interest on the 2004 Arena Bonds as and when such amounts become due under the 2004 Arena Bond Indenture, which payments shall be made by NPFG in accordance with, and subject to, the terms of the 2004 Parking Bond Insurance Policy. NPFG, as the deemed holder of the Class 3 Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

e. Class 4 – Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG – 2004 Parking Bonds.

The deemed holder of the Class 4 Claims is NPFG. The treatment of the Class 4 Claims will be as set forth in the NPFG Parking Settlement Documents, which should be consulted for the precise terms of the treatment. In summary, with respect to these Claims, the City will create a new parking authority for the City and will transfer ownership and control of the Parking Structure Properties, other downtown parking structures and lots, and downtown parking meters, as well as parking enforcement revenues, to the parking authority. The City Council members will sit *ex officio* as the board members of the new parking authority. Revenues from the newly created parking authority will be pledged to the 2004 Parking Bond Trustee in support of a new schedule of installment payments to NPFG in exchange for (i) transfer of the possessory interest currently held by the 2004 Parking Bond Trustee on behalf of NPFG and the bondholders to the new parking authority and (ii) a forbearance agreement on the part of NPFG and the 2004 Parking Bond Trustee with respect to remedies for default on the Parking Structure Lease Back. The General Fund will have no liability for such new installment payments schedule, nor any obligation to make payments under the Parking Structure Lease Back.

The effectiveness of the NPFG Settlement is contingent upon the entry into the SCC 16 Settlement Agreement. In the event the parties are unable to agree to the terms of such settlement that is acceptable to NPFG and the 2004 Parking Bond Trustee, then the City, at the request or direction of the 2004 Parking Bond Trustee or NPFG shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPFG to terminate the Parking Structure Lease Back as part of an alternative arrangement that is acceptable to the City and the 2004 Parking Bond Trustee that is not conditioned on the occurrence of such settlement.

The Plan does not modify, amend, or alter the 2004 Parking Bonds or the obligations of NPFG to pay principal or redemption price of, or interest on, the 2004 Parking Bonds as and when such amounts become due under the 2004 Parking Bond Indenture, which payments shall be made by NPFG in accordance with, and subject to, the terms of the 2004 Parking Bond Insurance Policy.

NPFG, as the deemed holder of the Class 4 Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

f. <u>Class 5 – Office Building Claims of the 2007 Office Building Bond Trustee/Assured Guaranty</u>

The holder of the Class 5 Claims is Assured Guaranty. The treatment of the Class 5 Claims will be as set forth in the Assured Guaranty Settlement Documents, which should be consulted for the precise terms of the treatment. A summary of the treatment follows:

- The Office Building Lease Out and Lease Back will be terminated, and the City shall have no obligations under the same. The City will transfer fee title, and Main Street Stockton, LLC will transfer possessory interest, in the 400 E. Main Office Building Property to Assured Guaranty or its designee at Assured Guaranty's election, subject to the New 400 E. Main Lease. Assured Guaranty may elect to keep the property or to sell it at some future date, subject to the New 400 E. Main Lease. Assured Guaranty shall be entitled to all net rent and profits of the property after the transfer and to all of the sales proceeds of the property should Assured Guaranty elect to sell the property, and Assured Guaranty shall be obligated to pay all costs of operation and maintenance of the property. The City shall be released from any and all liability with respect to the 2007 Office Building Bonds and associated documents and the terminated Office Building Lease Out and Lease Back and other related bond documents.
- The New 400 E. Main Lease shall include the terms set forth in the Assured Guaranty Term Sheet, including without limitation the following: the initial term shall begin on the Effective Date and end on June 30, 2022; the City shall enjoy exclusive use of the City Space (as defined in the Assured Guaranty Term Sheet); the City shall make monthly rent payments as specified in the Assured Guaranty Term Sheet; the New 400 E. Main Lease supersedes the Fourth Floor Lease of 400 E. Main.
- The Plan does not modify, amend, or alter the 2007 Office Building Bonds or the obligations of Assured Guaranty to pay principal or redemption price of, or interest on the 2007 Office Building Bonds as and when such amounts become due under the 2007 Office Building Bond Indenture, which payments shall be made by Assured Guaranty in accordance with, and subject to, the terms of the 2007 Office Building Bond Insurance Policy.

Assured Guaranty, as the holder of the Class 5 Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

g. Class 6 – Pension Obligation Bonds Claims

The deemed holder of the Class 6 Claims is Assured Guaranty. The treatment of the Class 6 Claims will be as set forth in the Assured Guaranty Settlement Documents, which should be consulted for the precise terms of the treatment. A summary as it relates to these Claims follows.

- The City agrees to make non-contingent payments on the Pension Obligation Bonds in each fiscal year equal to the sum of the 2007 Lease Ask Payments, Special Fund Payments, and Supplemental Payments (all as defined in the Assured Guaranty Term Sheet) on the dates and in the amounts set forth in the Assured Guaranty Term Sheet. The City has historically allocated a portion of the debt service on the Pension Obligation Bonds to its various restricted funds to account for those funds' allocable share of pension costs, based on a variable allocation methodology that in some years would result in a higher or lower allocation of such debt service that the amount of the Special Fund Payments. Such allocated amounts are treated as operation and maintenance costs under the documents governing the obligations listed in Class 10. The City believes that the change in allocation method reflected in the Special Fund Payments does not alter the status of the Special Fund Payments as operation and maintenance costs under the documents governing the obligations listed in Class 10; however, in the event for any reason that such Special Fund Payments are determined not to be properly treated as operation and maintenance costs, the Assured Guaranty Settlement will provide that such payments shall be paid from the restricted revenues associated with each of the Class 10 obligations only to the extent permitted by the Class 10 documents and applicable law but the City shall otherwise remain obligated to make such payments in accordance with the Assured Guaranty Settlement.
- Assured Guaranty (or in the event Assured Guaranty has defaulted on its obligations under the Pension Obligation Bond Insurance Policy, the Pension Obligation Bonds Trustee) shall also be entitled to Contingent Payments in

accordance with the City's Contingent Payment Model, a copy of which is attached to the Assured Guaranty Term Sheet as Exhibit A. If the City does not exceed its baseline financial projections in the upcoming years, Assured Guaranty would receive no Contingent Payments. However, if the City were to exceed its financial projections over the years—which the City and Assured Guaranty believe may be achievable—Assured Guaranty would receive Contingent Payments until Assured Guaranty has received payment in full on the Pension Obligation Bond Class 6 Claims; *provided*, that the last date a Contingent Payment is required to be paid is June 1, 2052, unless any Contingent Payments have been suspended pursuant to the terms of the Assured Guaranty Settlement Documents, in which event such Contingent Payments shall be paid in accordance with the Assured Guaranty Settlement Documents. Contingent Payments will be based upon the City's budget in each year, subject to adjustment following year-end audit.

- Contingent Payments on the Pension Obligation Bonds for each fiscal year shall be paid on June 1 of such fiscal year, commencing June 1, 2018 and ending on June 1, 2052, subject to adjustment based on audits as mentioned above.
- The Plan does not modify, amend, or alter the Pension Obligation Bonds or the obligations of Assured Guaranty to pay principal or redemption price of, or interest on Pension Obligation Bonds as and when such amounts become due under Pension Obligation Bond Indenture, which payments shall be made by Assured Guaranty in accordance with, and subject to, the terms of the Pension Obligation Bond Insurance Policy.

Assured Guaranty, as the deemed holder of the Class 6 Claims, is entitled to vote to accept or reject the Plan in accordance with the Plan Solicitation Order.

h. Class 7 – Claims of DBW.

The DBW Construction Loan Claim, defined and described below, is a Claim against the City. The DBW Marina Planning Report Loan Claim, also defined and described below, is a claim against the Successor Agency and is discussed herein for information only.

As evidenced by that certain Stockton Waterfront Marina $13,300,000 Loan Contract dated as of June 21, 2004 (as amended, the "**Marina Construction Loan Agreement**"), DBW made a loan to the City in the amount of $13,300,000 (the "**Marina Construction Loan**"), bearing interest at 4.5% per year with interest and principal payments due annually on August 1 of each year for thirty (30) years commencing on the August 1 after the final disbursement of loan proceeds, secured by a Collateral Assignment of Rents and Leases for the Project Area respectively). This loan was made for the stated purpose of construction of the "**Marina Project**" (as defined and described in the Marina Construction Loan Agreement).

The Marina Project has generated no net operating revenues since its official opening on October 30, 2009. The City General Fund subsidy for the Marina Project totals $1,905,299 from fiscal year 2010-11 through the adopted budget for fiscal year 2013 14. The Marina Construction Loan Agreement provides that DBW, upon default, may take over the operations of the Marina Project and charge the costs of operations to the City; however, under the debt limit imposed by article XVI, section 18 of the California Constitution (the "**Debt Limit**"),[12] the City is not liable for such payments in future fiscal years because the Marina Construction Loan was not approved by a 2/3 vote of the voters of the City. Pursuant to the terms of the Marina Construction Loan Agreement, any obligation to repay the Marina Construction Loan from the General Fund is subject to the Debt Limit. DBW has asserted a Claim under the Marina Construction Loan Agreement (the "**DBW Construction Loan Claim**"), secured by a pledge of gross revenues under the terms of a Collateral Assignment of Rents and Leases for the Project Area, which pledge is converted to a pledge of net revenues by virtue of section 928(b). Because the Marina Construction Loan was not submitted to and approved by 2/3 of the voters of the City, any obligation of the City's General Fund to make payments under the Marina Construction Loan is *void ab initio*, and the unsecured portion of this Claim is not an Allowed Claim.[13]

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[12] *See In re County of Orange v. Fuji Securities Inc.*, 31 F. Supp. 2d 768 (C.D. Cal. 1998).

[13] The obligation to pay the Marina Construction Loan from revenues of the Marina Project—as opposed to the General Fund—does not violate the Debt Limit because the Marina Project operates as an enterprise fund. *See City of Oxnard v. Dale*, 45 Cal. 2d 729, 737, 290 P.2d 859, 863 (1955).

As evidenced by that certain Stockton Waterfront Marina $180,000 Planning Loan Contract (also titled the Planning Study Contract, Stockton Waterfront Marina Study Loan) dated as of September 13, 1996, DBW made an unsecured loan to the Successor Agency in the amount of $280,000, bearing interest at 4.5% per year with a repayment term of ten (10) years, with equal annual installment payments due on August 1 of each year commencing on August 1, 2003 (as amended from time to time (the "**Marina Planning Report Loan**"). DBW has asserted a Claim under the Marina Planning Report Loan (the "**DBW Marina Planning Report Loan Claim**"). This claim is an unsecured claim against the Successor Agency, is not a claim against the City, and is included herein for information only.

Under the Plan, the General Fund will not be required to pay debt service on the DBW Construction Loan Claim, or to reimburse operating expenses to DBW should DBW take over operations of the Marina Project. DBW will retain its pledge of rents and leases generated from the Marina Project. However, the pledge of gross revenues will be converted to a pledge of revenues net of all reasonable and direct operating expense of the Marina Project, calculated on a fiscal year basis ending June 30 of each year pursuant to section 928(b). Should DBW decide to take over operations of the Marina Project, DBW will be responsible for payment of all operating expenses of the Marina Project, and the City will have the right to ensure that the Marina Project is operated in a responsible and safe manner, including providing adequate security, and the City shall have the right to compel DBW to alter its manner of operations if such operations pose a threat to the public welfare or if such operations abet a public nuisance. The General Fund shall have no liability, directly or indirectly, for the Claims of DBW, and the City may decide at any time to cease subsidizing the operating deficits of the operation of the Marina Project. DBW has stated to the City an interest in exercising its remedy of taking possession of the Marina Project. The real property that is the subject of the Marina Project shall be that real property described in Exhibit A to the Plan, and should DBW exercise its remedy of taking possession of the Marina Project, DBW shall succeed to possession and control only over the real property set forth in Exhibit A to the Plan.

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i. <u>Class 8 – SCC 16 Claims</u>.

To the extent SCC 16 has any offset rights arising under the Construction Agreement or the Disposition and Development Agreement, SCC 16 shall apply any such offsets against amounts owing under the SCC 16 Promissory Note.

j. <u>Class 9 – Thunder Claims</u>.

The treatment of the Class 9 Claims will be as set forth in the Thunder Settlement. The Thunder Settlement is summarized as follows (the Thunder Settlement Term Sheet, attached hereto as **<u>Exhibit E</u>**, should be consulted for the precise terms of the Thunder Settlement; any further documentation of the Thunder Settlement will be attached to the Plan Supplement):

- The Base Rent payable to the City will be increased by $2,000 per regular season home game. Base Rent for pre-season and playoff games remains unchanged.
- Catering Services Adjusted Gross Revenue paid to the team will be reduced from 30% to 10%.
- The team will have the exclusive right to sell team merchandise, will retain 100% of revenues from the same and bear the expenses of the same.
- The team will purchase the use of five luxury suites from the City each year for a total cost of $150,000, adjusted annually for any increases in the costs of other luxury suites sold by the City. The team shall have the right to sublease the luxury suites (but not to current luxury suite lessees of the City or prospective lessees—as specified in the Thunder Settlement Term Sheet). Revenues received on account of such leases shall be subject to the existing sharing formula of 65% to the City and 35% to the team.
- Additional payments to the City shall be made once certain performance benchmarks of paid attendees and advertising are reached.

k. <u>Class 10 – Claims of Holders of Restricted Revenue Bond and Note Payable Obligations</u>.

The City's Restricted Revenue Bond and Notes Payable Obligations are secured by a pledge of and lien on revenues of various of the City's systems and enterprises, which are restricted revenues pursuant to the California Constitution, and are "special revenues" as defined in section 902(2). These revenues are not a part of or available to the General Fund, and the General Fund is not obligated to make any payment on the Restricted Revenue Bond and Notes Payable Obligations. The City may transfer amounts from the restricted revenues to the General Fund only to pay costs which are incurred by the General Fund to provide the facility or enterprise-related services and are allocated to the enterprises on a reasonable basis in accordance with the City's accounting and allocation policies and pursuant to the provisions of the relevant documents related to the Restricted Revenue Bonds and Notes Payable Obligations. Such transfers are treated by the facility or enterprise as operation and maintenance expenses. The City will continue to apply restricted revenues to pay the Restricted Revenue Bond and Notes Payable Obligations as required by the terms of such obligations.

l. Class 11 – Claims of Holders of Special Assessment and Special Tax Obligations.

Class 11 consists of Claims of the holders of Special Assessment and Special Tax Obligations, which are secured by special and restricted sources of revenues consisting of specific levies on real property within certain financing districts created by the City.

Special Assessment and Special Tax Obligations. The Special Assessment and Special Tax Obligations are secured by certain special assessments and special taxes levied on specific real property within the respective districts for which these obligations were issued. These special assessment and special tax revenues are legally restricted to the payment of debt service on the Special Assessment and Special Tax Obligations under California statutes and the California Constitution, are "special revenues" as defined in section 902(2), and cannot be used for any other purpose or be transferred to the General Fund. The General Fund is not obligated to pay debt service on the Special Assessment and Special Tax Obligations. The City will continue to apply revenues from the applicable special assessments and special taxes to pay the Special Assessment and Special Tax Obligations as required by the terms of such obligations.

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m. Class 12 – General Unsecured Claims.

The Claims in this Class include without limitation: (i) the Retiree Health Benefit Claims; (ii) the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (iii) the Leave Buyout Claims; and (iv) Other Postpetition Claims.

The Retiree Health Benefit Claims are held by approximately 1,100 of the City's former employees. The Retirees Committee maintains that the aggregate amount of the Retiree Health Benefit Claims is approximately $545,000,000.[14] Pursuant to the Retirees Settlement, on the Effective Date, the City will pay the Retirees an aggregate amount of $5,100,000 in full satisfaction of Allowed Retiree Health Benefit Claims, and no other retiree health benefits will be provided by the City. If required by state or federal law, the City will withhold from the aggregate $5,100,000 payment any taxes or other deductions to be withheld from the individual payment to each Retiree Health Benefit Claimant. The individual recipient is responsible for any tax liability for this payment, and the City will not provide any advice to any recipient as to the taxable impact of this payment.

All other General Unsecured Claims shall receive cash on the Effective Date in the amount equal to a percentage of the Allowed Amount of such Claims, which percentage equals the Unsecured Claim Payout Percentage, or such other amount as is determined by the Bankruptcy Court before confirmation of the Plan to constitute a pro-rata payment on such other General Unsecured Claims; *provided*, *however*, the dollar amount to be paid on account of General Unsecured Claims other than the Retiree Health Benefit Claims on the Effective Date shall not exceed $500,000. If the amounts to be paid exceed $500,000, then such excess amounts shall be made in two (2) equal annual installments on the first and second anniversary of the Effective Date, together with simple interest accruing from and after the Effective Date at five percent (5%) per annum. Such excess amounts may be prepaid at the option of the City.

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[14] This does not include the retiree health benefit claims of employees employed as of July 1, 2012, who waived their claims of approximately $1 billion of previously earned benefits for no additional compensation, as part of memoranda of understanding negotiated in 2012.

n. Class 13 – Convenience Class Claims.

Holders of Convenience Class Claims will receive cash on the Effective Date in the amount of their Allowed Convenience Class Claim, but not to exceed $100.

o. Class 14 – Claims of Certain Tort Claimants.

The SIR Claim Portion of each Allowed General Liability Claim will be paid on the Effective Date from the Risk Management Internal Service Fund, and will receive the same percentage payment on the dollar of Allowed Claim as will the holders of Allowed Class 12 Claims. The Insured Portion of each Allowed General Liability Claim is not Impaired, and shall be paid by the applicable excess risk-sharing pool.

p. Class 15 – Claims Regarding City's Obligations to Fund Employee Pension Plan Contributions to CalPERS, as Trustee under the CalPERS Pension Plan for the Benefit of CalPERS Pension Plan Participants.

In order to be both clear and transparent, the Plan designates the CalPERS contract in a separate Class. CalPERS will continue as the trustee for the City's pension plan for its employees, and the CalPERS Pension Plan will be assumed by the City.

The City will continue to honor its obligations to its employees and retirees to fund employee retirement benefits under the CalPERS Pension Plan, and CalPERS as trustee and the CalPERS Pension Plan Participants retain all of their rights and remedies under applicable nonbankruptcy law. Thus, CalPERS and the CalPERS Pension Plan Participants will be entitled to the same rights and benefits to which they are currently entitled under the CalPERS Pension Plan.[15] CalPERS, pursuant to the CalPERS Pension Plan, will continue to be made available to provide pension benefits for participants in the manner indicated under the provisions of the CalPERS Pension Plan and remedies under applicable nonbankruptcy law.

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[15] As a result of negotiated labor contracts that changed certain pension provisions, as well as changes in state law, pension benefits for new hires effective January 2013 have been reduced by 50-70% (including loss of retiree health benefits) and in some cases higher for some types of new hires; new hires are also required to pay a greater share of their future pensions; additionally, while the loss of retiree health benefits and the loss of "pension spiking" will reduce the postemployment retirement benefits of current employees 30-50%; and lastly, employee compensation reductions that occurred in 2011 and 2012, which ranged up to 30% in pensionable compensation in some cases, will further reduce their future pension benefit that they otherwise would have received; these concessions are unaffected by the Plan.

q. <u>Class 16 – Claims of Equipment Lessors</u>.

Any equipment leases not specifically rejected by the Rejection Motion will be assumed under the Plan. The City believes that it is current on all such equipment leases and no cure payments are therefore required.

r. <u>Class 17 – Workers Compensation Claims</u>.

The City must pay Allowed SIR Claim Portions related to Workers Compensation Claims in full. If not, the City will lose its State workers compensation insurance for those claims in excess of the SIR Claim Portions, exposing the City's current and former workers to grave risk. The City will pay the SIR Claim Portions related to Worker Compensation Claims from the Workers' Compensation Internal Service Fund.

s. <u>Class 18 – SPOA Claims</u>.

The City will honor the SPOA Claims held by SPOA members on the terms and conditions set forth in the SPOA MOU, which in general provides each SPOA member with 44 hours of additional paid leave time through fiscal year 2014-15.

Specifically, the SPOA MOU provides as follows:

> <u>2. SPOA's Claims</u>. SPOA alleges that its members have claims in the bankruptcy case against the City relating to the City's modification of its 2009 Memorandum of Understanding ("2009 MOU"), pursuant to Declarations of Fiscal Emergency beginning on or about May 26, 2010 and continuing in effect thereafter, and in connection with the treatment of the claims of SPOA and its members under the Pendency Plan (collectively, the "Claims"), and that, in the aggregate, the Claims exceed thirteen million dollars ($13,000,000). The City disputes the Claims and contends that the Claims would not be allowed in the chapter 9 case. It further asserts that, if the Claims were allowed, they would be allowed in an amount aggregating less than thirteen million dollars ($13,000,000).
>
> In consideration of resolving the above differences and agreement on the MOU, the City agrees that the Claims shall be provided for in the Plan as follows:
>
> (a) The Claims will be deemed allowed in the chapter 9 case in the aggregate amount of eight million, five hundred thousand dollars ($8,500,000) (the "Allowed Claims"). In consideration for the reduction in the amount of the Claims SPOA members employed during fiscal year 2010-2011 and/or 2011-2012 shall be credited, upon final approval of the MOU by the Parties and, if necessary, by the Bankruptcy Court, twenty-two (22) additional hours of paid leave in fiscal year 2012-2013. These additional hours of paid leave shall have no cash value

and shall be utilized any time prior to the date upon which the SPOA member leaves employment with the City. Only those employees who were employed during some portion of the period July 1, 2010 and July 1, 2012 and who were still current employees upon the effective date of this Agreement shall be entitled to this treatment.

(b) The Allowed Claims shall be satisfied under the Plan by the City by crediting SPOA members employed during fiscal year 2010-2011 and/or 2011-2012 eleven (11) additional paid leave hours in the fiscal year of approval of the Plan and eleven (11) additional paid leave hours in the fiscal year after approval of the Plan. This benefit shall only apply to those employees who were employed during some portion of the period July 1, 2010 and July 1, 2012 and who are current employees as of the date the Plan is approved by the Bankruptcy Court. The total additional paid leave per SPOA member under paragraphs 2(a) and 2(b) of this article shall equal forty-four (44) hours. These additional paid leave hours shall have no cash value, and shall be utilized any time prior to the date upon which the SPOA member leaves employment with the City. It is understood that the provision of these hours shall be the sole compensation for the Claims of SPOA and its members. The additional twenty-two (22) hours additional paid leave credit contained in this paragraph 2(b) shall be contingent upon confirmation of the Plan and on the Plan becoming effective.

(c) Notwithstanding the foregoing, in the event that the Plan is not confirmed and does not become effective, the Claims shall not be allowed as specified herein, and both SPOA and the City agree that the Claims will be considered unresolved, with each Party reserving the right to assert or contest the Claims; provided, however, that the monetary equivalent of any paid leave hours taken pursuant to this Article shall serve as a credit against the Claims.

SPOA MOU at 55-56.

t. <u>Class 19 – Price Claims</u>

On May 2, 2002, Richard Price, five other low-income individuals who were displaced from single-room-occupancy housing units in downtown Stockton in connection with the City's code-enforcement activities, and the Interfaith Council of San Joaquin (formerly Stockton Metro Ministry Inc.) (collectively, the "**<u>Price Judgment Creditors</u>**") filed an action against the City, the Successor Agency, and other parties, captioned as *Price, et al. v. City of Stockton, et al.*, United States District Court for the Eastern District of California, case no. 2:02-cv-00065-LKK-KJM. In their complaint, the Price Judgment Creditors alleged that the defendants had violated certain state and federal redevelopment, relocation assistance, and fair housing laws. The parties settled the action pursuant to a settlement agreement, dated as of

January 9, 2006. *See* Exhibit B to Declaration of Hilton S. Williams in Support of Motion for Relief from Stay, filed in the Chapter 9 Case on November 29, 2012 [Dkt. No. 628]. On January 12, 2006, the District Court entered judgment against the defendants pursuant to this settlement agreement. *See* Exhibit C to Declaration of Hilton S. Williams in Support of Motion for Relief from Stay, filed on November 29, 2012 in the Chapter 9 Case [Dkt. No. 628]. Among other things, the judgment obligated the City to construct low-income housing and to establish a restricted fund in the amount of approximately $1.45 million for distribution by a special master over a five-year period to persons displaced by the City's activities.

The City and the Price Judgment Creditors reached agreement (the "Price Settlement") as the result of the mediation conducted by Judge Perris. The Price Settlement is subject to City Council approval, which is expected in early December. The documents that will memorialize the Price Settlement will be included in the Plan Supplement. The Price Settlement includes the following component parts, none of which will have any material monetary impact on the City. The City and the Price Judgment Creditors have agreed on: (1) the manner of calculating the number of replacement units the City has produced to date; (2) a methodology for creating a list of persons entitled to preference for housing units, including the creation and monitoring of a list; (3) a means for reaching out to the community about the availability of replacement units, using community support agencies and through other vehicles, and a way to monitor the City's compliance with such obligation; (4) the extinguishing of the City's obligation to make relocation assistance payments; and (5) the recognition that any claim for attorney fees is treated as an unsecured claim in the Plan.

B. <u>Treatment of Executory Contracts and Unexpired Leases</u>.

1. <u>Generally</u>.

The Bankruptcy Code empowers debtors, subject to the approval of the Bankruptcy Court, to assume or reject their executory contracts and unexpired leases. An "executory contract" generally means a contract under which material performance other than the payment of money is due by the parties. An "unexpired lease" is a lease the term of which has not matured as of the date of the filing of the Chapter 9 Case.

A debtor's assumption of an executory contract or unexpired lease means that it will and must continue to honor its obligations under such agreement. In other words, as to such agreement, it is business as usual. **As described in the next section, the City will assume almost all of its executory contracts and unexpired leases except for a number of financing leases, which it will reject**. Rejection of an executory contract or unexpired lease constitutes a prepetition breach of such agreement, excusing the debtor's future performance but creating a claim for the breach.

2. Assumption.

The City is a party to hundreds of executory contracts and unexpired leases. Significant agreements include: (i) its collective bargaining agreements with its nine unions, most of which were reached before or not long after the Petition Date; (ii) numerous equipment and vehicle leases; (iii) agreements with contractors and other vendors to the City; (iv) the City's obligations to CalPERS in its capacity as trustee for the City's pension trust for the City's employees and retired workers and their dependents who are the beneficiaries of this trust (the City has one contract with CalPERS, but there are three contract groups: police, fire, and miscellaneous); and (v) the financing leases. Save for the financing leases, which are discussed separately below, the City has elected to assume virtually all of its executory contracts and unexpired leases, and will do so pursuant to the Assumption Motion. The City will not seek to assign any of the agreements that it assumes and has no current intention to assign such agreements in the future.

The City believes that it is current in its payments and other obligations under the executory contracts and unexpired leases that it will assume via the Assumption Motion. However, after the provision of notice and the opportunity for a hearing on the Assumption Motion, the Bankruptcy Court will resolve any disputes regarding whether the City is in default and, if so, both the amount of any cure payment to be made in connection with the assumption of any contract or lease, and any other matter pertaining to such assumption.

3. Rejection.

The City will file the Rejection Motion, pursuant to section 365(a), to seek approval and authorization for the rejection of those executory contracts and unexpired leases that it does not elect to assume. Such agreements are those that the City, in the exercise of its business judgment, deems burdensome. The City anticipates rejecting few executory contracts or unexpired leases. As described above, the City will reject all of its financing leases except for the (i) Fire/Police/Library Lease Out, the Fire/Police/Library Lease Back, and any other executory contracts related to the 2003A Fire/Police/Library Certificates, which shall be subject to the treatment as set forth in the Ambac Settlement Agreement, (ii) the Arena Lease Out, the Arena Lease Back, and any other executory contracts related to the 2004 Arena Bonds, which shall be subject to the treatment as set forth in the NPFG Settlement, (iii) the Parking Structure Lease Out, the Parking Structure Lease Back, and any other executory contracts related to the 2004 Parking Bonds, which shall be subject to the treatment as set forth in the NPFG Settlement, (iv) the SEB Lease Out, and the SEB Lease Back, and any other executory contracts related to the 2006 SEB Bonds, which shall be subject to the treatment as set forth in the NPFG Settlement, and (v) the Office Building Lease Out, the Office Building Lease Back, and any other executory contracts related to the 2007 Office Building Bonds, which shall be subject to the treatment as set forth in the Assured Guaranty Settlement. As to the Parking Structure Lease Back, as provided in the NPFG Settlement, upon the occurrence of certain circumstances, the City, at the request or direction of the 2004 Parking Bond Trustee or NPFG shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPFG to terminate the Parking Structure Lease Back as part of an alternative arrangement that is acceptable to the City and the 2004 Parking Bond Trustee.

4. <u>Deadline for the Assertion of Rejection Damage Claims; Treatment of Rejection Damage Claims</u>.

All proofs of claim on account of Claims arising from the rejection of executory contracts or unexpired leases must be filed with the Bankruptcy Court and served on the City no later than thirty (30) days after the date on which notice of entry of the order approving the Rejection Motion is served on the parties to the executory contracts and expired leases subject to the Rejection Motion. Any Claim for which a proof of claim is not filed and served within such time will be forever barred and shall not be enforceable against the City or its assets, properties, or interests in property. Unless otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed as provided herein shall be classified into Class 12 (General Unsecured Claims) and treated accordingly.

C. Means for Execution and Implementation of the Plan.

Following the Effective Date, the City will continue to operate under its Charter, the California Constitution, and other applicable laws. It will continue to collect real property tax revenues, sales tax revenues, the user utility tax, and other taxes, fees, and revenues following the Effective Date, spending such revenues on municipal services such as providing fire and police protection, paving roads, and facilitating the provision of general municipal services.

Except as otherwise set forth in the Plan, the Plan provides that the City retains all of its claims, causes of action, rights of recovery, rights of offset, recoupment rights to refunds, and similar rights after the Effective Date. The failure to list in this Disclosure Statement any potential or existing Right of Action retained by the City is not intended to and shall not limit the rights of the City to pursue any such action. Unless a Right of Action is expressly waived, relinquished, released, compromised, or settled in the Plan, the City expressly reserves all Rights of Action for later adjudication and, as a result, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Rights of Action upon or after the confirmation or consummation of the Plan or the Effective Date. In addition, the City expressly reserves the right to pursue or adopt against any other entity any claims alleged in any lawsuit in which the City is a defendant or an interested party.

D. Distributions.

The City may retain one or more agents (including Rust Consulting/Omni Bankruptcy) to perform or assist it in performing the distributions to be made pursuant to the Plan, which agents may serve without bond. The City may provide reasonable compensation to any such agent(s) without further notice or Bankruptcy Court approval.

1. Delivery of Distributions.

All distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth in the books and records of the City or its agents, unless the City has been notified by such holder in a writing that contains an address for such holder different from the address reflected in the City's books and records. All such notifications of address changes and all address confirmations should be mailed to: Rust Consulting/Omni Bankruptcy, 5955 DeSoto Avenue, Suite 100, Woodland Hills, CA 91367. All distributions made on account of the Pension Obligation Bonds Claims shall be made to Assured Guaranty or the Indenture Trustee, subject to and in accordance with the Assured Guaranty Settlement Documents. All distributions to the Indenture Trustee shall be made in accordance with the relevant indenture, as applicable.

2. Distributions of Unclaimed Property.

If any distribution to any holder of a Claim is returned to the City or its agent as undeliverable, no further distributions shall be made to such holder unless and until the City is notified in writing of such holder's then-current address. Any unclaimed distributions shall be set aside and held in a segregated account to be maintained by the City pursuant to the terms of the Plan. No later than sixty (60) days after the date of the first distributions under the Plan, the City shall file with the Bankruptcy Court a list of unclaimed distributions, together with a schedule that identifies the name and last-known addresses of the holders of any unclaimed distributions. The City shall not be required to make any further attempt to locate the holders of any unclaimed distributions. Any distribution under the Plan that remains unclaimed after ninety (90) days following the date of the first distributions under the Plan (including, without limitation, because the distribution made to the last known address is returned as undeliverable), shall be deemed not to have been made and, together with any accrued interest or dividends earned thereon, shall be transferred to and vest in the City for any use as the City sees fit. The City shall not be obligated to make any further distributions on account of the Claim with respect to which such distribution was made, and such Claim shall be treated as a Disallowed Claim. Nothing contained herein shall affect the discharge of the Claim with respect to which such distribution was made, and the holder of such Claim shall be forever barred from enforcing such Claim against the City or its assets, estate, properties, or interests in property.

3. <u>Distributions of Cash.</u>

Any payment of Cash to be made by the City or its agent pursuant to the Plan shall be made by check drawn on a domestic bank or by wire transfer, at the sole option of the City.

4. <u>Timeliness of Payments</u>.

Any payments or distributions to be made pursuant to the Plan shall be deemed to be timely made if made within fourteen (14) days after the dates specified in the Plan. Whenever any distribution to be made under the Plan shall be due on a day that is not a Business Day, such distribution instead shall be made, without interest on such distribution, on the immediately succeeding Business Day, but shall be deemed to have been timely made on the date due.

5. <u>Compliance with Tax, Withholding, and Reporting Requirements</u>.

The City shall comply with all tax, withholding, reporting, and like requirements imposed on it by any government unit, including without limitation, payments related to CalPERS's required pension obligations, and all distributions pursuant to the Plan shall be subject to such withholding and reporting requirements. In connection with each distribution with respect to which the filing of an information return (such as Internal Revenue Service Forms W-2, 1099, or 1042) or withholding is required, the City shall file such information return with the Internal Revenue Service and provide any required statements in connection therewith to the recipients of such distribution, or effect any such withholding and deposit all moneys so withheld to the extent required by law. With respect to any entity from whom a tax identification number, certified tax identification number, or other tax information which is required by law to avoid withholding has not been received by the City, the City at its sole option may withhold the amount required and distribute the balance to such entity or decline to make such distribution until the information is received.

6. <u>Time Bar to Cash Payments</u>.

Checks issued by the City on account of Allowed Claims will be null and void if not negotiated within ninety (90) days from and after the date of issuance thereof. Requests for reissuance of any check shall be made directly to the City by the holder of the Allowed Claim with respect to which such check originally was issued. Any claim in respect of such a voided check must be made on or before the second anniversary of the Effective Date. After such date, all Claims in respect of voided checks will be discharged and forever barred and the City will retain all moneys related thereto.

7. <u>No *De Minimis* Distributions</u>.

Notwithstanding any other provision of the Plan, no payment of less than $10 will be made by the City on account of any Allowed Claim.

8. <u>No Distributions on Account of Disputed Claims</u>.

Notwithstanding anything to the contrary in the Plan, no distributions shall be made on account of any part of any Disputed Claim until such Claim becomes Allowed (and then only to the extent so Allowed). Distributions made after the Effective Date in respect of Claims that were not Allowed as of the Effective Date (but which later became Allowed) shall be deemed to have been made as of the Effective Date.

9. <u>No Postpetition Accrual</u>.

Unless otherwise specifically provided in the Plan or Allowed by order of the Bankruptcy Court, the City will not be required to pay to any holder of a Claim any interest, penalty, or late charge accruing with respect to such claim on or after the Petition Date. This provision does not apply to holders of the 2003 Fire/Police/Library Certificates, the 2004 Arena Bonds, the 2004 Parking Bonds, the 2006 SEB Bonds, the 2007 Office Building Bonds, and the 2009 Golf Course/Park Bonds, which bonds are not themselves obligations of the City and therefore are not Claims. Therefore, the holders of such bonds and certificates will retain all of their rights to postpetition interest, penalties, and late charges. This provision also does not apply to Assured Guaranty, as the deemed holder of the Pension Obligation Bonds Claims, which shall receive interest on any payments required of the City by the Assured Guaranty Settlement Documents on account of such Pension Obligation Bonds Claims, which payments are delayed by a failure to

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satisfy or waive the conditions to the Effective Date. Any such delayed payments shall accrue interest at the rate specified in the Assured Guaranty Settlement Documents.

E. Disputed Claims.

1. Claims Objection Deadline; Prosecution of Objections.

The City will have the right to object to the allowance of Claims filed with the Bankruptcy Court with respect to which liability or allowance is disputed in whole or in part. Unless otherwise ordered by the Bankruptcy Court, the City must file and serve any such objections to Claims by not later than one hundred eighty (180) days after the Effective Date (or, in the case of Claims lawfully filed after the Effective Date, by not later than one hundred eighty (180) days after the date of filing of such Claims).

2. Payments and Distributions with Respect to Disputed Claims.

After the Effective Date has occurred, at such time as a Disputed Claim becomes an Allowed Claim, in whole or in part, the City or its agent will distribute to the holder thereof the distributions, if any, to which such holder is then entitled under the Plan. Such distributions, if any, will be made as soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Disputed Claim becomes a Final Order (or such other date as the Claim becomes an Allowed Claim), but in no event more than sixty (60) days thereafter. Unless otherwise specifically provided in the Plan or Allowed by order of the Bankruptcy Court, no interest will be paid on Disputed Claims that later become Allowed Claims.

F. Continuing Jurisdiction of the Bankruptcy Court.

The Plan provides for the Bankruptcy Court to retain jurisdiction over a broad range of matters relating to the Chapter 9 Case, the Plan, and other related items. Readers are encouraged to review the Plan carefully to ascertain the nature of the Bankruptcy Court's continuing post-Effective Date jurisdiction.

VI. CONFIRMATION AND EFFECTIVENESS OF THE PLAN

Because the law with respect to confirmation of a plan of adjustment is complex, creditors concerned with issues regarding confirmation of the Plan should consult with their own attorneys and financial advisors. The following discussion is intended solely for the purpose of providing basic information concerning certain confirmation issues. The City cannot and does not represent that the discussion contained below is a complete summary of the law on this topic.

Many requirements must be met before the Bankruptcy Court may confirm the Plan. Some of the requirements discussed in this Disclosure Statement include acceptance of the Plan by the requisite number of creditors, and the determination of whether the Plan is in the "best interests" of creditors. These requirements, however, are not the only requirements for confirmation, and the Bankruptcy Court will not confirm the Plan unless and until it determines that the Plan satisfies <u>all</u> applicable requirements, including requirements not referenced in this Disclosure Statement.

A. <u>Voting and Right to Be Heard at Confirmation</u>.

1. <u>Who May Support or Object to Confirmation of the Plan</u>?

Any party in interest may support or object to the confirmation of the Plan. Even entities who may not have a right to vote (e.g., entities whose claims are classified into an Unimpaired Class and/or beneficial holders of bonds and/or securities in Classes of claims where the applicable insurer is deemed the holder entitled to vote the Class) may still have a right to support or object to confirmation of the Plan. (*See* Section I(C)(2) for information regarding the applicable deadlines for objecting to confirmation of the Plan).

2. <u>Who May Vote to Accept or Reject the Plan</u>?

A creditor generally has a right to vote for or against the Plan if its Claim is both Allowed for purposes of voting and is classified in an Impaired Class. Generally, a Claim is deemed allowed if a proof of claim was timely filed; *provided, however*, that if an objection to a claim has been filed, the claimant cannot vote unless the Bankruptcy Court, after notice and hearing, either overrules the objection or allows the claim for voting purposes. Thus, **the definition of "Allowed Claim" used in the Plan for purpose of determining whether creditors are entitled to receive distributions is different from that used by the Bankruptcy Court to determine whether a particular claim is "allowed" for purposes of voting. Holders of claims are advised to review the definitions of "Allowed," "Claim," and "Disputed Claim" set forth in**

Section I(A) of the Plan to determine whether they may be entitled to vote on, and/or receive distributions under, the Plan.

3. <u>Who Is Not Entitled to Vote</u>?

The holders of the following types of claims are not entitled to vote on the Plan: (a) Claims that have been disallowed; (b) Claims that are subject to a pending objection and which have not been allowed for voting purposes; (c) Claims that are not Impaired; and (d) Administrative Expense Claims, since such Claims are not placed in Classes and are required to receive certain treatment specified by the Bankruptcy Code.

4. <u>Vote Necessary to Confirm the Plan</u>.

The Bankruptcy Court cannot confirm the Plan unless, among other things, (a) at least one Impaired Class has accepted the Plan without counting the votes of any insiders within that Class; and (b) either all Impaired Classes have voted to accept the Plan, or the Plan is eligible to be confirmed by "cramdown" with respect to any dissenting Impaired Class.

A Class of claims is considered to have accepted the Plan when more than one-half in number **<u>and</u>** at least two-thirds in dollar amount of the claims that actually voted in that Class have voted in favor of the Plan.

B. <u>The "Best Interests" Test</u>.

The Bankruptcy Court also must determine that the Plan is in the "best interests of creditors" pursuant to section 943(b)(7), which in the chapter 9 context means that treatment under the Plan must be better than the only alternative available, which is dismissal of the case. Dismissal permits every creditor to fend for itself in the race to the courthouse, since a municipality such as the City is not eligible under the Bankruptcy Code for a court-supervised liquidation under chapter 7.

The City submits that the Plan is in the best interests of all creditors because the payments that will be made to holders of Allowed Claims in all Impaired Classes will be greater than those the creditors would receive were the Chapter 9 Case dismissed.

In contrast, in the absence of the financial adjustments made in Plan, the City's creditors would be left to "fend for themselves." Individual creditor collection actions likely would aggregate, through lawsuits, attempts at attachments, and writs of mandate, to make continued operation of the City untenable. Massive litigation costs would burden the City, its creditors, and all parties in interest, although creditors financially equipped to pursue litigation most quickly (and thus win "the race to the courthouse") would benefit disproportionately. And even the swiftest of creditors would likely find its ability to collect on a judgment stymied by the inability of the City to pay without violating provisions of California law by raiding Restricted Funds. For example, were retirees to sue collectively for the $545 million of health benefits the City promised them for life, the result would be a judgment that could never be paid, even were the City to lock the doors of each City building, sell the building and any undeveloped real estate. If the City were to attempt to pay the proceeds to retirees, the City would still be unable to pay its CalPERS obligations, and the City's obligations to CalPERS in its capacity as trustee for the City's pension trust for the City's retired workers and their dependents who are the beneficiaries of such trust would be terminated—resulting in a claim of over $1 billion that CalPERS contends would be secured by a lien that primes existing liens pursuant to California Government Code section 20574. In short, the City cannot afford to pay its creditors absent the debt relief afforded by the Plan, and dismissal of the Chapter 9 Case likely would result in chaos, with few if any creditors emerging safely from the blizzard of inevitable litigation.

C. <u>Feasibility</u>.

To satisfy the requirement set forth in section 943(b)(7) that the Plan be feasible, the City must demonstrate the ability to make the payments required under the Plan and still maintain its operations at the level that it deems necessary to the continued viability of the City. The City submits that the Plan is feasible. The financial underpinning of the Plan, the City's General Fund Long-Range Financial Plan (the "**<u>Financial Plan</u>**"), attached hereto as **<u>Exhibit B</u>**, constitutes a sustainable matching of revenues and expenses, including the expenses created by or modified in the Plan. The Plan Financial Projections, make certain assumptions regarding the effect of the rejection by the City of the financing leases to be rejected as noted therein and also assume the approval of Measure A, which Stockton voters passed on November 5, 2013.

The Financial Plan projects revenues and expenditures over a 30-year period and analyzes, among other things, the resulting unrestricted General Fund balance at the end of each fiscal year covered by the Financial Plan. The Financial Plan shows that, assuming confirmation of the Plan and passage of Measure A, the City will be able to maintain reserves at an average of 6.7% of General Fund expenditures from fiscal year 2013-14 through 2030-31, with fund balance achieving 15% of General Fund expenditures starting in fiscal year 2031-32.[16] The Government Finance Officers Association recommends that cities maintain "an unrestricted fund balance in their general fund of no less than two (2) months of regular general fund operating revenues or regular general fund operating expenditures" (equivalent to 16.67% of total expenditures).[17]

D. <u>Cramdown</u>.

The Bankruptcy Code provides that the Bankruptcy Court may confirm a plan of adjustment that is not accepted by all Impaired classes if at least one Impaired Class of claims accepts the Plan and the so-called "cramdown" provisions set forth in sections 1129(b)(1), (b)(2)(A) and (b)(2)(B) are satisfied. The Plan may be confirmed under the cramdown provisions if, in addition to satisfying the other requirements of section 943(b), it (a) is "fair and equitable," and (b) does not discriminate unfairly with respect to each Class of claims that is Impaired under and has not accepted the Plan.

The "fair and equitable" standard, also known as the "absolute priority rule," requires, among other things, that unless a dissenting unsecured Class of claims receives payment in full for its allowed claims, no holder of allowed claims in any Class junior to that Class may receive or retain any property on account of such claims. The "fair and equitable" standard also has been interpreted to prohibit any class senior to a dissenting Class from receiving more than 100% of its allowed claims under a plan. The City believes that the Plan satisfies the "fair and equitable" standard because, among other things, no classes junior to the classes of unsecured claims are receiving or retaining any property under the Plan.

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[16] Of course, the further out the projections go, the less reliable they will be.

[17] See Government Finance Officers Association, "Best Practice: Appropriate Level of Unrestricted Fund Balance in General Fund (2002, 2009)," available at http://www.gfoa.org/index.php?option=com_content&task=view&id=1450.

The requirement that the plan not "discriminate unfairly" means, among other things, that a dissenting Class must be treated substantially equally with respect to other Classes of equal rank. The City does not believe that the Plan unfairly discriminates against any Class that may not accept or otherwise consent to the Plan.

As noted above, the City has reserved the right to request the Bankruptcy Court to confirm the Plan by "cramdown" in accordance with sections 1129(b)(1), (b)(2)(a) and (b)(2)(b). The City also has reserved the right to modify the Plan to the extent, if any, that confirmation of the Plan under sections 943 and 1129(b) requires such modifications.

E. <u>Effective Date</u>.

1. <u>Conditions to the Occurrence of the Effective Date</u>.

The Plan will not become effective and operative unless and until the Effective Date occurs. Section XIII of the Plan sets forth certain conditions to the occurrence of the Effective Date. The City may waive in whole or in part the condition regarding agreements and instruments contemplated by, or to be entered into pursuant to, the Plan. Any such waiver of a condition may be effected at any time, without notice or leave or order of the Bankruptcy Court and without any formal action, other than the filing of a notice of such waiver with the Bankruptcy Court.

The Effective Date will occur on the first Business Day after which the conditions set forth in Section XIII of the Plan are satisfied or waived; *provided* that the Effective Date must occur by no later than six months after the Confirmation Date. Because the Confirmation Hearing will not commence until March 5, 2014, the City estimates that the Effective Date will occur in April or May of 2014.

2. <u>Non-Occurrence of Effective Date</u>.

The Plan provides that, if confirmation occurs but the Effective Date does not occur within six (6) months after the Confirmation Date, upon notification submitted by the City to the Bankruptcy Court: (i) the Confirmation Order shall be vacated; (ii) no distributions under the Plan shall be made; (iii) the City and all holders of Claims shall be restored to the *status quo* as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred; and (iv) all of the City's obligations with respect to the Claims shall remain unchanged, and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against the City or any other entity or to prejudice in any manner the rights of the City or any entity in any further proceedings involving the City. The failure of the Effective Date to occur, however, will not affect the validity of any order entered in the Chapter 9 Case other than the Confirmation Order.

F. Effect of Confirmation.

Section XI of the Plan provides that confirmation of the Plan and the occurrence of the Effective Date will have a number of important and binding effects, some of which are summarized below. Readers are encouraged to review Section XI of the Plan carefully and in its entirety to assess the various consequences of confirmation of the Plan.

1. Discharge of the City.

Pursuant to section 944, upon the Effective Date, the City will be discharged from all debts (as defined in the Bankruptcy Code) of the City and Claims against the City other than (a) any debt specifically and expressly excepted from discharge by the Plan or the Confirmation Order, or (b) any debt owed to an entity that, before the Confirmation Date, had neither notice nor actual knowledge of the Chapter 9 Case.

The rights afforded in the Plan and the treatment of holders of Claims, be they Claims Impaired or Unimpaired under the Plan, will be in exchange for and in complete satisfaction, discharge, and release of all Claims of any nature whatsoever arising on or before the Effective Date, known or unknown, including any interest accrued or expenses incurred thereon from and after the Petition Date, whether against the City or any of its properties, assets, or interests in property. Except as otherwise provided in the Plan, upon the Effective Date all Pre-Confirmation Date Claims will be and will be deemed to be satisfied, discharged, and released in full, be they Impaired or Unimpaired under the Plan.

2. Injunction.

The Plan provides that all entities who have held, hold, or may hold Pre-Confirmation Date Claims will be permanently enjoined, from and after the Confirmation Date from

(i) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Pre-Confirmation Date Claim against the City; (ii) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order against the City with respect to such Pre-Confirmation Date Claims; (iii) creating, perfecting, or enforcing any lien or encumbrance of any kind against the City or its property or interests in property; and (iv) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due to the City with respect to any such Pre-Confirmation Date Claim, except as otherwise permitted by section 553.

3. <u>Term of Existing Injunctions and Stays</u>.

Unless otherwise provided, all injunctions or stays provided for in the Chapter 9 Case pursuant to sections 105, 362, or 922, or otherwise, and in existence on the Confirmation Date, will remain in full force and effect until the Effective Date.

4. <u>Exculpation</u>.

Except with respect to obligations specifically arising pursuant to or preserved in the Plan including but not limited to the Insurance Policies, no Exculpated Party[18] shall have or incur, and each Exculpated Party is hereby released and exculpated from, any claim, obligation, cause of action or liability for any claim in connection with or arising prior to or on the Effective Date for any act taken or omitted to be taken in connection with, or related to, (i) the administration of the Chapter 9 Case, (ii) the negotiation, pursuit, confirmation, solicitation of votes for, consummation or implementation of the Plan, (iii) the administration of the Plan or property to be distributed under the Plan, (iv) the AB 506 process, (v) any document, release, contract, or other instrument entered into in connection with, or relating to, the Plan or the settlements referenced within the Plan or (vi) any other transaction contemplated by, or entered into, in connection with the Plan; provided that nothing in this Section VI.F.4 shall be deemed to release or exculpate any Exculpated Party for its willful misconduct or gross negligence. In all respects, each Exculpated

[18] As defined in the Plan, the term "Exculpated Party" means each or any of the City, NPFG, Assured Guaranty, Ambac, the Indenture Trustee, and the respective Related Persons of each of the foregoing.

Party shall be entitled to reasonably rely upon the advice of counsel with respect to its duties and responsibilities pursuant to the Plan.

5. <u>Releases Among Releasing Parties and Released Parties</u>.

EFFECTIVE AS OF THE EFFECTIVE DATE, FOR GOOD AND VALUABLE CONSIDERATION PROVIDED BY EACH OF THE RELEASED PARTIES, THE ADEQUACY OF WHICH IS HEREBY CONFIRMED, TO THE FULLEST EXTENT PERMISSIBLE UNDER APPLICABLE LAW, (i) THE CITY AND EACH OF ITS RELATED PERSONS (COLLECTIVELY, THE "**<u>CITY RELEASING PARTIES</u>**") SHALL, AND SHALL BE DEEMED TO, COMPLETELY, CONCLUSIVELY, ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY, AND FOREVER RELEASE, WAIVE, VOID, EXTINGUISH, AND DISCHARGE EACH AND ALL OF THE RELEASED PARTIES (AND EACH SUCH RELEASED PARTY SO RELEASED SHALL BE DEEMED FOREVER RELEASED, WAIVED AND DISCHARGED BY THE CITY RELEASING PARTIES) AND THEIR RESPECTIVE PROPERTIES AND RELATED PERSONS AND (ii) EACH OF NPFG, ASSURED GUARANTY, AMBAC, THE INDENTURE TRUSTEE IN ALL CAPACITIES EXCEPT AS THE 2009 GOLF/COURSE PARK BOND TRUSTEE (COLLECTIVELY WITH THE CITY RELEASING PARTIES, THE "**<u>RELEASING PARTIES</u>**") SHALL, AND SHALL BE DEEMED TO, COMPLETELY, CONCLUSIVELY, ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY, AND FOREVER RELEASE, WAIVE, VOID, EXTINGUISH, AND DISCHARGE THE CITY (AND THE CITY SHALL BE DEEMED FOREVER RELEASED, WAIVED AND DISCHARGED BY SUCH RELEASING PARTIES), OF AND FROM ANY AND ALL OF THE FOLLOWING: CLAIMS, CAUSES OF ACTION, LITIGATION CLAIMS, AVOIDANCE ACTIONS AND ANY OTHER DEBTS, OBLIGATIONS, RIGHTS, SUITS, DAMAGES, ACTIONS, REMEDIES, JUDGMENTS, AND LIABILITIES WHATSOEVER (INCLUDING, WITHOUT LIMITATION, THE AB 506 PROCESS AND THE ELIGIBILITY CONTEST), WHETHER KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, LIQUIDATED OR UNLIQUIDATED, FIXED OR CONTINGENT, MATURED OR UNMATURED, EXISTING AS OF THE EFFECTIVE DATE

OR THEREAFTER ARISING, IN LAW, AT EQUITY, WHETHER FOR TORT, CONTRACT, OR OTHERWISE, BASED IN WHOLE OR IN PART UPON ANY ACT OR OMISSION, TRANSACTION, EVENT OR OTHER OCCURRENCE OR CIRCUMSTANCES EXISTING OR TAKING PLACE PRIOR TO OR ON THE EFFECTIVE DATE ARISING FROM OR RELATED IN ANY WAY IN WHOLE OR IN PART TO THE CITY OR ITS ASSETS AND PROPERTY, THE CHAPTER 9 CASE, THE DISCLOSURE STATEMENT, THE PLAN OR THE SOLICITATION OF VOTES ON THE PLAN THAT SUCH RELEASING PARTY WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT (WHETHER INDIVIDUALLY OR COLLECTIVELY) OR THAT ANY HOLDER OF A CLAIM OR EQUITY INTEREST OR OTHER ENTITY WOULD HAVE BEEN LEGALLY ENTITLED TO ASSERT FOR OR ON BEHALF OF SUCH RELEASING PARTY (WHETHER DIRECTLY OR DERIVATIVELY) AGAINST ANY OF THE RELEASED PARTIES OR THE CITY, AS APPLICABLE; *PROVIDED, HOWEVER*, THAT THE FOREGOING PROVISIONS OF THIS RELEASE SHALL NOT OPERATE TO WAIVE OR RELEASE (i) ANY CAUSES OF ACTION, CLAIMS OR AGREEMENTS EXPRESSLY SET FORTH IN AND/OR PRESERVED BY THE PLAN OR ANY PLAN SUPPLEMENT, INCLUDING BUT NOT LIMITED TO THE INSURANCE POLICIES; AND/OR (ii) THE RIGHTS OF SUCH RELEASING PARTY TO ENFORCE THE PLAN AND THE CONTRACTS, INSTRUMENTS, RELEASES, AND OTHER AGREEMENTS OR DOCUMENTS DELIVERED UNDER OR IN CONNECTION WITH THE PLAN OR ASSUMED PURSUANT TO THE PLAN OR ASSUMED PURSUANT TO FINAL ORDER OF THE BANKRUPTCY COURT. THE FOREGOING RELEASE SHALL BE EFFECTIVE AS OF THE EFFECTIVE DATE WITHOUT FURTHER NOTICE TO OR ORDER OF THE BANKRUPTCY COURT, ACT OR ACTION UNDER APPLICABLE LAW, REGULATION, ORDER, OR RULE OR THE VOTE, CONSENT, AUTHORIZATION OR APPROVAL OF ANY PERSON.

6. Good Faith Compromise

Pursuant to Bankruptcy Rule 9019 and in consideration for the distributions and other benefits provided under the Plan, the provisions of the Plan, including the exculpation and release provisions contained in this Article VI, constitute a good faith compromise and settlement of all Claims, causes of action or controversies relating to the rights that a holder of a Claim may have with respect to any Claim against the City, any distribution to be made pursuant to the Plan on account of any such Claim and any and all Claims or causes of action of any party arising out of or relating to the AB 506 Process or the Eligibility Contest. The entry of the Confirmation Order constitutes the Bankruptcy Court's approval, as of the Effective Date, of the compromise or settlement of all such Claims or controversies and the Bankruptcy Court's finding that all such compromises or settlements are in the best interests of the City and the holders of Claims, and are fair, equitable, and reasonable.

VII. CERTAIN RISK FACTORS TO BE CONSIDERED

Confirmation of the Plan and the occurrence of the Effective Date are not without risk to the City and its creditors in that the sources of revenue projected over the next 30 years in the General Fund's Long-Range Financial Plan could contract. The reality is that there are economic cycles over time that can negatively affect revenue growth, but the timing of these cycles is very difficult to predict. Thus, while the City devoted considerable time and effort in formulating the Plan Financial Projections, attached hereto as **Exhibit B**, there can be no guaranty that the predicted results will be achieved. For example, few California cities, if any, predicted the length and depth of the economic downturn that saw real property values (and thus real property tax revenues) plummet. Nor did city financial planners predict the high unemployment and underemployment that accompanied the burst of the housing bubble and reduced the amount of sales tax revenues to state and local governments. Conversely, while the General Fund expenditures projected in the Plan Financial Projections are the City's best and most reasoned estimate of costs, the occurrence of higher inflation, state or federal law changes that increase of shift costs to local government, or a natural or human-caused disaster—all of these could and likely would cause costs to rise, if not to spike. These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

Moreover, the Plan Financial Projections and the City's plans for ongoing operational and financial stability after confirmation of the Plan rely on the approval and continued effect of Measure A, which Stockton voters passed on November 5, 2013 and which is estimated to produce approximately $28 million per year in new revenue. Measure A will expire after 10 years—or sooner, if General Fund revenues reach 2009 levels adjusted for inflation—unless the City Council takes action to renew it. For Measure A to continue in effect, the City Council must take specific, public actions, which include: hearing recommendations made by the Citizens' Oversight Committee; adopting findings, with appropriate evidence, that Measure A is necessary; proving to the public that employee total compensation is not excessive; and holding two public hearings at least 14 days apart.

The City submits, though, that the risk to creditors and parties in interest is greater if the Plan is not confirmed and consummated than if it is.

VIII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The implementation of the Plan may have federal, state, local and foreign tax consequences to the City and its creditors. No tax opinion has been sought or will be obtained with respect to any tax consequences of the Plan. However, because the City is a municipal corporation duly organized and existing under its Charter and the California Constitution, and is treated as a political subdivision of the State of California for federal income tax purposes, the City believes that it will not be subject to any federal income tax liability from implementation of the Plan. The City anticipates that, in conformity with past practice, it will not file any federal corporate income tax returns with respect to the periods in which the Plan is implemented nor report any income for federal income tax purposes as a result of implementing the Plan. The City may file certain tax returns associated with the restructuring of some of its tax-exempt bonds affected by the Plan, which returns may be required in order to maintain the exclusion from gross income of interest on the bonds for purposes of federal income taxes applicable to the holders thereof.

Because individual circumstances may differ, and the income tax consequence of a chapter 9 case are complex and uncertain, this summary does not address the federal income tax consequences that may be relevant to the creditors of the City as a result of the Plan. Accordingly, the creditors should consult with their own tax advisors regarding the income tax consequences of the Plan to them, including the effect, if any, the Plan may have on prior outstanding obligations the interest components of which the creditors were treating as excludable from gross income for federal income tax purposes.

To ensure compliance with requirements imposed by the Internal Revenue Service, you are hereby notified that any discussion of tax matters contained herein (including any attachments) contained in this summary is not intended or written to be used by any taxpayer, and cannot be used by any taxpayer, for the purpose of avoiding tax-related penalties that otherwise may be imposed under the Internal Revenue Code on the taxpayer. Such discussion of tax matters was written in connection with the solicitation of votes in favor of the Plan. The City and its creditors should seek tax advice regarding the tax consequences to them of the Plan based on their particular circumstances from an independent tax advisor.

IX. RECOMMENDATION AND CONCLUSION

The City believes that confirmation and implementation of the Plan is preferable to all other available and feasible alternatives. Accordingly, **the City urges holders of Impaired claims to vote to accept the Plan by so indicating on their ballots and returning them as specified in this Disclosure Statement and on their ballots.**

DATED: November 21, 2013

CITY OF STOCKTON, CALIFORNIA

By: [signature]
Kurt O. Wilson
Interim City Manager

Submitted By:

ORRICK, HERRINGTON & SUTCLIFFE LLP

By: */s/ Marc A. Levinson*
Marc A. Levinson
Norman C. Hile
Jeffery D. Hermann
Patrick B. Bocash
John A. Farmer

Attorneys for the City of Stockton, California

EXHIBITS TO MODIFIED DISCLOSURE STATEMENT WITH RESPECT TO FIRST AMENDED PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA (NOVEMBER 15, 2013)

EXHIBIT A

FIRST AMENDED PLAN FOR THE ADJUSTMENT OF DEBTS
OF CITY OF STOCKTON, CALIFORNIA
(NOVEMBER 15, 2013)

(Filed separately with the Bankruptcy Court on November 15, 2013)

EXHIBIT B

LONG-RANGE FINANCIAL PLAN OF CITY OF STOCKTON

EXHIBIT B

LONG-RANGE FINANCIAL PLAN OF CITY OF STOCKTON

Forecast Basics

The General Fund budget forecast includes the following sections:

- Baseline Budget – Revenue projections are based on current revenue sources (before the Measure A sales tax on the November 2013 ballot). Expenditure projections are based on the current FY13-14 budget level of staffing, including future cost-of-living increases (COLAs) to remain competitive, and projected pension rate changes. These costs are inclusive of the labor agreements negotiated under the AB 506 mediation process which have since been approved and implemented. Services, supplies and program support assume inflationary growth. Debt service is based on original amortization schedules and projected contributions from other funds. The baseline budget is the status quo, but it is neither sustainable (it is service insolvent) nor viable (it is budgetary and cash insolvent).
- Fiscal Stabilization – This section contains expenditure increases to the status quo baseline budget, including modest increased contributions to deferred maintenance and internal service funds (worker's compensation and liability insurance reserves, etc.), and funding of the Marshall Plan for improved public safety services. It is important to note that reinvestment in public safety as mapped out in the Marshall Plan is absolutely essential to Stockton's ultimate success, because we must combat crime and violence in order to build an economically healthy City. The fiscal stabilization budget is sustainable (while it does not meet *all* of the City's needs, it is arguably no longer service insolvent) but it remains unviable (because it is even more budgetary and cash insolvent due to the higher level of spending).
- Restructuring Savings – This section includes proposed savings which require chapter 9 protection in order to be implemented for retiree medical benefits, debt obligations, lawsuit claimants and sports teams. (Again, the labor savings portion of restructuring savings has already been implemented.) For purposes of this presentation we have incorporated what we believe will be a negotiated settlement with the large creditor mentioned earlier. This is the most conservative approach for the City to take, given the uncertainty, and thus prudent. This section also includes the proposed revenue from Measure A, along with additional efficiencies, cost recovery and income from land sales. With all of these savings and new revenues, the City realizes a balanced budget that is not service insolvent.

Tables 1A, 1B and 1C summarize these three elements of the General Fund budget and show the resulting net surplus or shortfall projected to remain after each element over the next 30 years. The entire forecast is shown in Attachments A and A1. It is important to note that a forecast of this range is inherently subject to significant variability. Even a one percent change in assumptions can have a major impact over time. However given the long-term nature of City obligations we need to have a plan and have attempted to model likely fiscal performance in a conservative manner. These conservative modeling assumptions, which are detailed in our discussion of revenues and variable expenditures later in this report, mean that on balance we can expect that variances are somewhat more likely to be “good news” than “bad news”, but we have also striven to develop realistic projections given the pressure to restore City services and pay creditors. The point is that the forecast is prudently conservative but still subject to risks based on assumptions made.

Table 1A. Long-Range Financial Plan With Restructuring Savings (FY11-12 to FY 20-21)

($ in 000)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Total Baseline Revenues	160,268	160,655	159,519	161,354	165,590	170,453	175,456	180,591	185,922	191,109
Total Baseline Expenditures	159,254	173,819	184,702	190,450	202,611	210,492	214,599	220,371	226,519	231,835
Net Annual After Baseline	1,013	(13,163)	(25,184)	(29,097)	(37,021)	(40,038)	(39,142)	(39,780)	(40,597)	(40,725)
Fiscal Stabilization Expenditures	-	-	-	18,995	24,526	22,691	23,032	24,215	25,409	26,719
Net Annual After Stabilization	1,013	(13,163)	(25,184)	(48,092)	(61,547)	(62,729)	(62,175)	(63,995)	(66,006)	(67,444)
Total Restructuring	653	20,362	31,987	57,120	58,823	61,535	61,843	62,936	65,251	65,713
Net Annual After Restructuring	1,666	7,199	6,804	9,028	(2,724)	(1,194)	(331)	(1,059)	(755)	(1,731)
Beginning Available Balance	6,639	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769
Transfer to Bankruptcy Fund	(5,592)	(6,913)	-	-	-	-	-	-	-	-
AB 506 Carryover	(2,713)	2,713	-	-	-	-	-	-	-	-
Ending General Fund Balance	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769	11,038
Balance as % of Total Exp	0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%

Table 1B. Long-Range Financial Plan With Restructuring Savings (FY21-22 to FY 30-31)

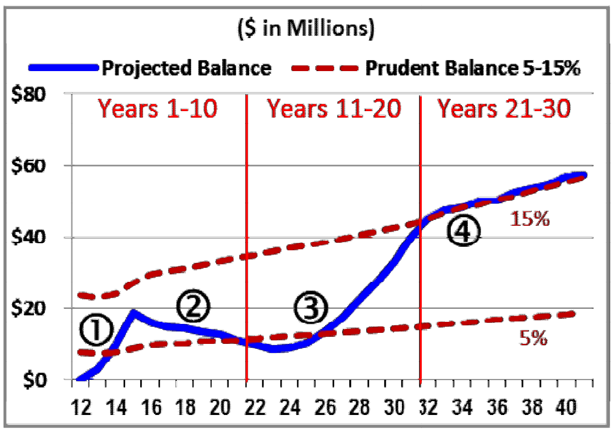
($ in 000)	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
Total Baseline Revenues	196,439	201,955	207,664	213,586	219,635	225,756	232,002	238,339	244,759	251,271
Total Baseline Expenditures	238,112	244,445	250,931	257,906	263,001	269,997	277,460	284,400	291,443	298,628
Net Annual After Baseline	(41,672)	(42,490)	(43,267)	(44,320)	(43,367)	(44,241)	(45,458)	(46,060)	(46,684)	(47,357)
Fiscal Stabilization Expenditures	27,220	27,732	28,249	28,775	29,303	29,838	30,387	30,940	31,502	32,076
Net Annual After Stabilization	(68,892)	(70,222)	(71,516)	(73,095)	(72,670)	(74,079)	(75,845)	(77,000)	(78,186)	(79,433)
Total Restructuring	67,871	69,028	71,689	74,470	75,894	77,964	80,760	81,813	84,081	86,380
Net Annual After Restructuring	(1,021)	(1,194)	173	1,375	3,224	3,885	4,915	4,812	5,894	6,947
Beginning Available Balance	11,038	10,017	8,823	8,996	10,371	13,595	17,480	22,395	27,207	33,101
Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
Ending General Fund Balance	10,017	8,823	8,996	10,371	13,595	17,480	22,395	27,207	33,101	40,048
Balance as % of Total Exp	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%

Table 1C. Long-Range Financial Plan With Restructuring Savings (FY31-32 to FY 40-41)

($ in 000)	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
Total Baseline Revenues	257,847	263,430	270,046	276,595	283,323	289,681	296,520	303,403	310,213	317,206
Total Baseline Expenditures	302,987	309,314	313,691	321,179	317,755	325,171	333,834	328,571	333,615	340,102
Net Annual After Baseline	(45,140)	(45,885)	(43,645)	(44,584)	(34,432)	(35,490)	(37,314)	(25,168)	(23,402)	(22,896)
Fiscal Stabilization Expenditures	38,304	42,894	49,047	48,649	63,033	61,630	64,242	68,403	69,047	69,717
Net Annual After Stabilization	(83,445)	(88,779)	(92,692)	(93,233)	(97,465)	(97,120)	(101,556)	(93,571)	(92,449)	(92,613)
Total Restructuring	88,682	91,003	93,269	95,447	97,323	99,472	102,546	94,895	94,100	94,474
Net Annual After Restructuring	5,237	2,224	577	2,214	(142)	2,352	990	1,324	1,651	1,861
Beginning Available Balance	40,048	45,285	47,509	48,086	50,300	50,158	52,510	53,500	54,824	56,475
Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
Ending General Fund Balance	45,285	47,509	48,086	50,300	50,158	52,510	53,500	54,824	56,475	58,336
Balance as % of Total Exp	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%

Due to the timing of new tax revenues, implementing the Marshall Plan, and changing levels of PERS rates, the General Fund balance will vary as shown in Figure 1.

Figure 1. General Fund Balance with Revenue Growth as Forecasted

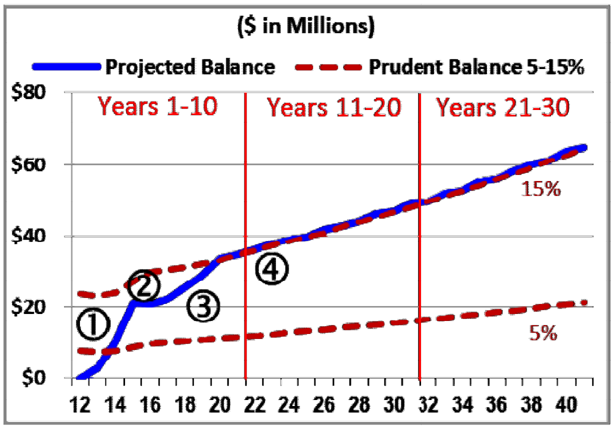


1. Balance rises with new tax revenue before Marshall Plan is fully implemented.
2. Balance declines with higher PERS rates and new Marshall Plan spending .
3. Balance stabilizes and then increases as (a) PERS rates level off and then decline due to impact of reforms and (b) with cumulative impact of lower debt expenditures.
4. When balance reaches 15% of expenditures, the resources in excess of that level can be used to restore services and fund unmet needs (projected at $253 million through FY40-41), while maintaining a stable reserve.

As is apparent from these graphics, the City will need to be carefully managed for some time to make sure that the General Fund balance maintains a prudent level of reserves. To weather the impacts created by near-term increases in PERS rates and implementation of the Marshall Plan, the City will have to exercise disciplined expenditure control. With the longer run stabilization and eventually reduction in PERS costs, the City's fiscal position will improve.

It should also be noted that we have been conservative in developing model assumptions, so it is possible that actual performance will be somewhat better than projected. Small ongoing improvements to base revenues, compounded over time, can significantly improve the fund balance outlook and capacity to address unmet needs. For example, Figure 1A below compares what fund balance would look like if our annual growth in core revenues (all taxes, including Measure A) is just 0.5% better than projected. Under this scenario fund balance hits the 15% reserve target in 2020 (despite higher near-term retirement costs), and mission critical spending capacity over the entire 30-year period increases from $253 million under the forecasted revenue level to $735 million under a "forecast+0.5%" growth in core revenues.

Figure 1A. General Fund Balance with Annual Ongoing Core Revenue Growth 0.5% Higher Than Forecasted (Compounded Basis)



1. Balance rises with new tax revenue before Marshall Plan is fully implemented.
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4. When balance reaches 15% of expenditures, the resources in excess of that level can be used to restore services and fund unmet needs(projected at $735 million through FY40-41), while maintaining a stable reserve.

The following is a summary of the key revenue and expenditure assumptions on which this forecast is based.

Major Revenue Trends

<u>Property Tax</u> – This tax comprises 27.1% of total FY13-14 General Fund revenue, and includes property tax in lieu of vehicle license fees. At $43.9 million, property tax revenue remains 28.2% below its peak of $61.1 million in FY07-08. Stockton property values declined precipitously during the Great Recession: during 2009-2012 Stockton ranked from 2nd to 4th in the nation in magnitude of home price reduction. Median home prices fell from a peak of $400,000 in December 2005 to $118,500 in February 2012, a decline of 70%. Home sale prices have begun to recover over the past year, but given the time lag in property tax administration this will not be immediately realized in terms of higher tax revenues. There is also a lag in addressing assessment appeals, which means some value declines, especially for commercial properties, have not yet been implemented.

The FY13-14 adopted budget assumes a 0.72% overall increase in property tax revenue, but this will not be confirmed until mid-December 2013 when the first tax payment is received. The forecast assumes property tax growth of 2.5% in FY14-15, rising to 4.0% in FY15-16, and 4.5% from FY16-17 through FY19-20, with slower growth rates thereafter. This is a mid-range estimate, given that there will be higher and lower growth years, and as the early 1980s, mid-1990s, and last several years attest, there will be negative growth years as well. This is a revenue source strongly linked to the real estate market and general economy, as evidenced by the revenue levels shown in Figure 2 and the percentage change in revenue in Figure 3. The linear trend from actual revenues received during FY96-97 through FY12-13 remains higher than the forecasted revenues for two reasons: (1) the dramatic growth rates in property values fueled by easy credit during the late 1990s and early 2000s is not expected to be repeated in the post-Great Recession banking environment, and (2) the historical revenue included an average of 2,064 new housing units each year, whereas a market absorption study prepared for the City projects an average of 700 units annually going forward.

Figure 2. Property Tax Revenue Forecast

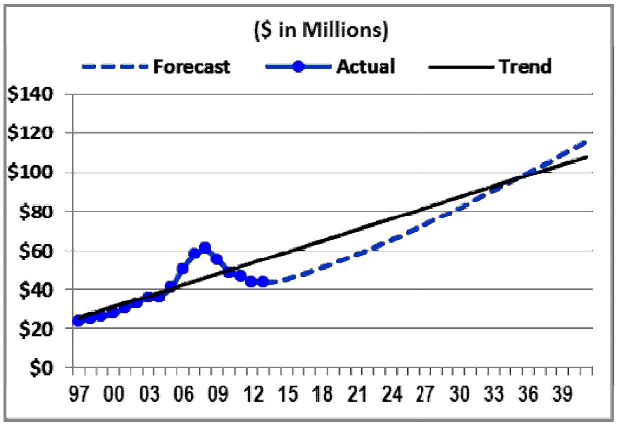
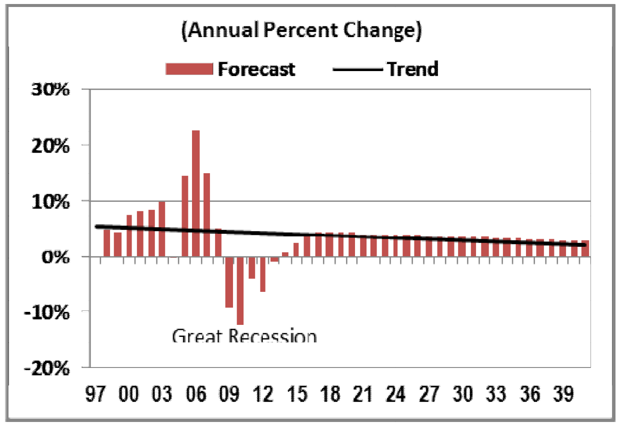


Figure 3. Property Tax Growth Rate



Sales Tax – This tax comprises 24.6% of total FY13-14 General Fund revenue, and includes the 0.75% local tax rate, the 0.25% "triple flip" tax rate paid by the state through the annual property tax remittance from the county, and the Prop 172 public safety sales tax. (Not included here are the current 0.25% Measure W public safety sales tax, which is a special tax accounted for in a separate fund, and the proposed 0.75% Measure A general sales tax.) At $40.2 million, sales tax revenue remains 14.5% below its peak of $47.0 million in FY05-06. Figures 4 and 5 show the historical and forecasted sales tax revenues, which have registered positive growth the last four years, following four years of decline.

The estimates for FY12-13 through FY14-15 were supplied by HdL Companies, the city's sales tax consultant. Future years reflect a mid-range growth estimate (which is higher than the 20-year average Consumer Price Index growth of 2.5%). Again, this is a mid-range estimate, taking into account that some years will be higher, and others lower (or negative). In addition to the effects of general economic conditions, there is continued downward pressure on sale tax levels from an ongoing shift to untaxed services, and increasing on-line purchases that avoid or divert sales tax payment to other jurisdictions. Long-term revenue growth is projected at 3.5%, which is consistent with the revenue growth trend line.

Figure 4. Sales Tax Revenue Forecast

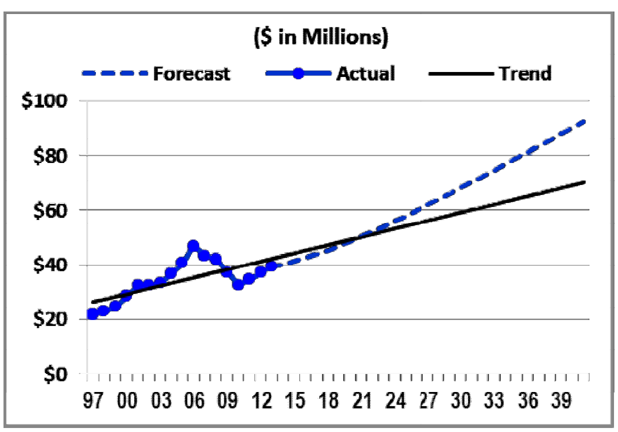
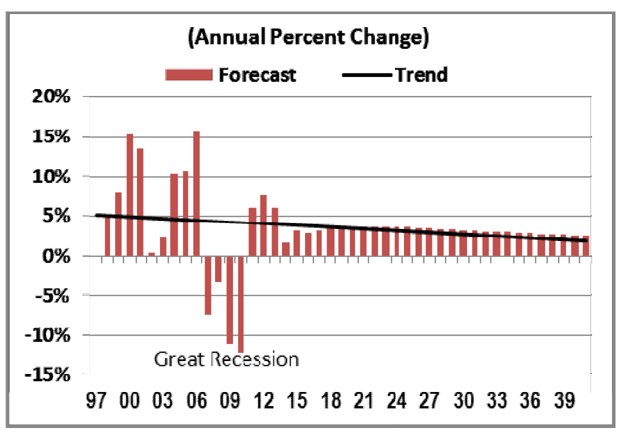


Figure 5. Sales Tax Growth Rate



Utility Users Tax – The General Fund's third largest revenue source is the 6% utility users tax on gas, electric, telecommunications, cable TV and water. This tax raises $32.2 million in FY13-14 (19.8% of General Fund revenue), and remains 7.8% below its peak year of $34.9 million in FY04-05. Estimates from FY12-13 through FY14-15 for the non-water sectors were supplied by MuniServices, the city's utility users tax consultant.

Figures 6 and 7 show the two major impacts on the tax: (1) the California "energy crisis" of 2001 that for a time dramatically increased the energy costs on which the tax was applied, and the subsequent reduction in tax rate from 8% to 6% over 2005-2007. Since then the tax has barely averaged a 1.0% growth rate, in part because of a reduced growth rate in new households, price competition and changing trends in telecommunications (reduced use of cable and landline phones), and customer conservation efforts. The City is discussing a Climate Action Plan that will be encouraging conservation, and water conservation efforts mandated by state law are having and will continue to have a similar effect. For these reasons the forecasted revenues runs just below the linear trend of utility user tax revenues based on past actual revenues. Long-term revenue growth is projected at 1.5%.

Figure 6. Utility Users Tax Revenue Forecast

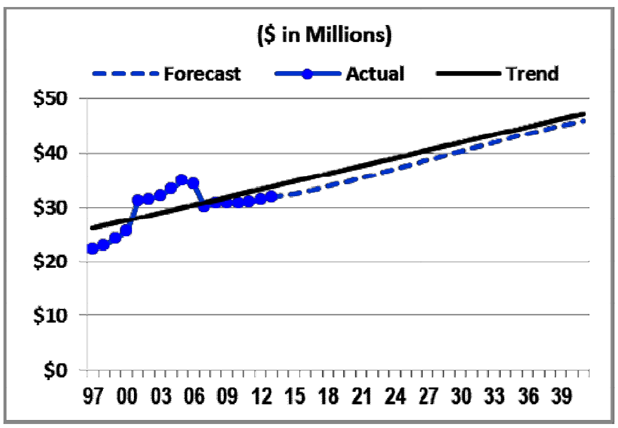
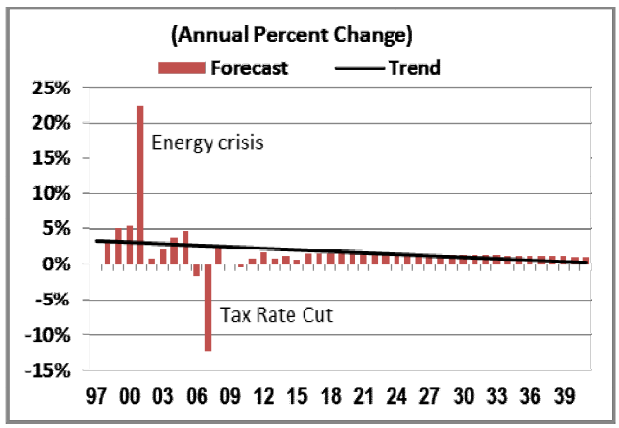


Figure 7. Utility Users Tax Growth Rate



Other Revenues – The remaining 28.5% of General Fund revenue is comprised of the following sources:

- Franchise taxes on PG&E, cable TV/video and waste haulers (7.3% of General Fund revenue). Similar to the UUT, this $11.7 million tax is somewhat volatile, being based on franchisee gross receipts. Slower population growth, conservation and telecommunication industry trends are projected to limit future revenue growth to 2.0%.
- Business License Tax ($9.0 million or 5.6% of General Fund revenue). This tax on business gross receipts reflects changes in the overall economy, and is expected to grow slowly in coming years, given local economic conditions. Long-term revenue growth is projected at 1.5%.
- Program Revenues ($10.3 million or 6.5% of General Fund revenue) include charges for services, fines and forfeitures, fire contract, revenue from other agencies, licenses and

permits, code enforcement and miscellaneous revenue. Composite long-term growth is projected at 1.1%.

- Interfund Reimbursements and Transfers ($9.7 million or 6.1% of General Fund revenue) include indirect cost allocation, refunds and reimbursements, rents, leases, concessions, and Parking Fund reimbursement of debt service. Composite long-term revenue growth declines from 2.0% to 0.5% over time.
- Other Taxes ($2.6 million or 1.6% of General Fund revenue) include the hotel tax (1.0% annual growth), documentary transfer tax (1.5% annual growth) and vehicle license fees (no growth).
- Interest Income is a negligible amount in FY13-14, but it will grow at varying rates in future years based on fund balance levels.

Figures 8 and 9 show the volatility of these "Other Revenue" sources over time. The linear trend based on past year collections is much higher than the forecasted revenues, because in past years this category included funds that are no longer received by the General Fund, such as water payments in lieu of taxes (ruled illegal by court), construction permits (switched to Development Services Fund), or past one-time budget fixes (such as workers compensation reimbursements).

Figure 8. Other Revenue Forecast

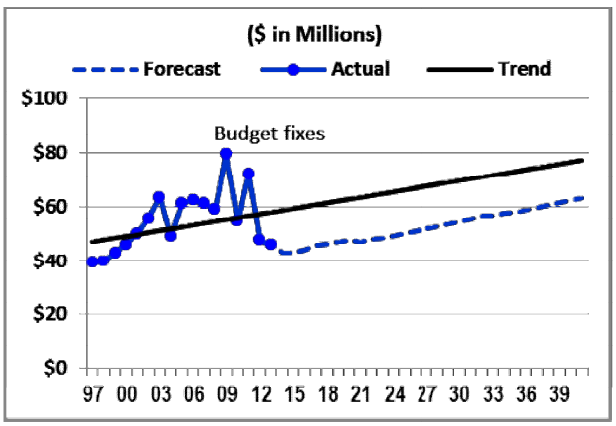
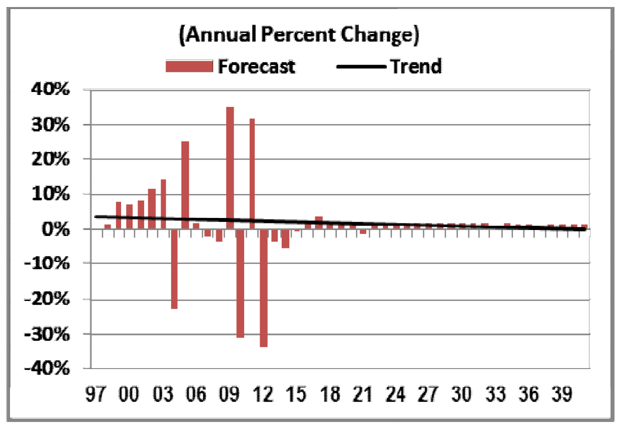


Figure 9. Other Revenue Growth Rate

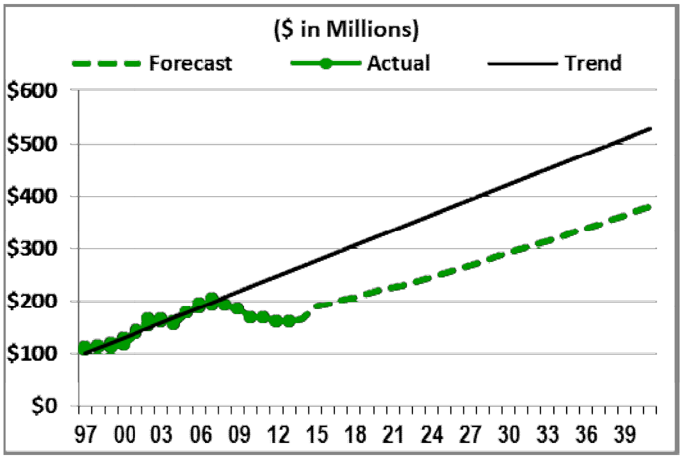


Revenue Gap

Since FY07-08, the City has suffered significant revenue losses due to the deteriorated local economy. Total ongoing General Fund revenues have dropped from approximately $192.9 million in FY07-08 to $157.7 million in FY12-13. Even with enactment of the proposed 0.75% sales tax, FY14-15 revenues would total $189.9 million, which is still below the FY07-08 level.

Figure 10 compares the linear trend based on actual revenues from FY96-97 through FY06-07 (less one-time budget fixes in FY08-09 and FY10-11) to the forecasted revenues (including the proposed sales tax) and indicates there is approximately a $90 million "revenue gap" between forecasted revenues and the expectation of what revenues would have been based on that historical revenue growth. Program and compensation level decisions in the late 1990s to the mid-2000s were based on those earlier revenue expectations. The magnitude of this gap, and that fact that it continues to grow, has created havoc with the General Fund budget.

Figure 10. General Fund Revenue Gap between Reality and Pre-Recession Expectations



It is important to note that actual revenues have yet to rebound to pre-recession levels, and based on projected trends will not reach such levels until approximately 2020. It is unlikely that the City will ever achieve the trend level of growth assumed in the pre-recession period. Many of the expenditures, such as all the debt obligations taken on during this period, assumed that this aggressive trend line of growth would be achieved, and this failure is at the heart of the bankruptcy.

<u>Baseline and Fiscal Stabilization Expenditures</u>

This widening gap in ongoing revenues took place against a background of multi-year labor agreements which included significant cost escalators. Initially, the City used reserves and other sources of one-time funding to maintain solvency. However, such alternatives were exhausted over FY09-10 and FY10-11. Consequently the City was forced to make severe reductions in compensation, staffing and services. Projected salary and benefit costs have fallen from over $147.1 million in FY07-08 to $107.2 million in FY12-13. This reduction has been accomplished by a combination of negotiated compensation reductions, service and staffing reductions and imposed reductions via a finding of fiscal emergency, resulting in budget reductions totaling $90 million enacted over the three-year period of FY09-10 through FY11-12.

<u>Staffing Levels</u> – Table 2 shows the major declines in City staffing levels since FY08-09. Highlights are as follows:

- General Fund sworn police officers were reduced by 98 positions or 25% (another 22 officers are paid by grants which expire at the end of FY11-12; the City must retain these positions for three years and the resulting funding gap is part of the General Fund shortfall).
- General Fund fire department staffing was reduced by 30%.
- General Fund non-safety department staffing was reduced by 43%.

Table 2. General Fund Staffing Change between FY08-09 and FY11-12

(Full Time Equivalents)	08-09	09-10	10-11	11-12	Chng from 08-09	Percent Change
Police-sworn	398	312	292	300	(98)	-25%
Police-other	232	207	199	185	(47)	-20%
Fire	253	265	226	177	(76)	-30%
Other Departments	471	302	268	269	(202)	-43%
Total Before Grants	1,354	1,086	985	931	(423)	-31%
Police Grants	6	17	31	25	19	317%
Total After Grants	1,360	1,103	1,016	956	(404)	-30%

The *baseline* section of the budget forecast is based on a continuation of FY13-14 staffing levels with no position changes to any departments thereafter. The forecast assumes that upon expiration of current police grant funding that the General Fund assumes the cost of the affected positions, to avoid a reduction in safety staffing.

The *fiscal stabilization* section of the forecast includes implementation of the Marshall Plan for augmented public safety services, which adds 120 sworn officers over three years starting in FY14-15, and associated non-sworn positions. Table 3 shows the change in staffing including the adopted budgets for FY12-13 and FY13-14 through the implementation of the Marshall Plan.

Table 3. General Fund Staffing Levels between FY12-13 and FY17-18 including Marshall Plan

(Full Time Equivalents)	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Police-sworn	319	321	361	401	441	441	441	441	441
Police-other	183	184	198	199	201	201	201	201	201
Fire	175	177	177	177	177	177	177	177	177
Other Departments	268	271	271	271	271	271	271	271	271
Total Before Grants	945	953	1,007	1,048	1,090	1,090	1,090	1,090	1,090
Police Grants	26	26	26	26	26	26	26	26	26
Total After Grants	971	979	1,033	1,074	1,116	1,116	1,116	1,116	1,116

Marshall Plan costs are shown in Table 4, and include (1) all labor costs net of vacancy savings, including pension, benefits, overtime and compensated absences, (2) higher costs of supervisory positions needed for such an increase in workforce, (3) support positions required for records management and crime analysis, (4) support of the Ceasefire program upon expiration of current grant, (5) expansion of the Peacekeeper program, (6) expansion of code enforcement and neighborhood "blitz teams", and (7) creation of an Office of Violence Reduction to monitor overall Marshall Plan implementation.

Table 4. Projected Costs of Marshall Plan (FY14-15 through FY 23-24)

($ in 000)	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24
Sworn Officers	6,252	12,284	18,477	18,776	19,914	21,063	22,327	22,781	23,246	23,714
Violence Reduction Off.	250	255	260	265	271	276	282	287	293	299
Records Assistants	129	197	334	341	348	355	362	369	377	384
Crime Analysts	395	403	411	419	428	436	445	454	463	472
Ceasefire Program	113	115	118	120	122	125	127	130	132	135
Peacekeeper Program	500	510	520	531	541	552	563	574	586	598
Code Enforcement	807	202	-	-	-	-	-	-	-	-
Neighborhood Team	500	510	520	531	541	552	563	574	586	598
Totals	8,945	14,476	20,641	20,982	22,165	23,359	24,669	25,170	25,682	26,199

Compensation and Benefits – The forecast assumes that employees continue to receive merit increases where applicable (i.e., employees not already at top step) which results in an aggregate increase of approximately 1.2% in compensation annually. In an effort to remain at least marginally competitive with the City's labor market, the forecast assumes salary cost-of-living increases (COLAs) at 2% annually starting in FY15-16, and the costs of pension and other benefits reflect this increase. Overtime costs and workers comp contributions (a much smaller aggregate cost than compensation and benefits) also increase by 1.2% annually, because they are a direct function of overall compensation. Health contributions are also projected to increase by 2% annually, starting in FY14-15.

Retirement Costs – Stockton's retirement costs include two components, the pension program and the separate medical insurance program for retirees. By far, the biggest unfunded liability was found in the retiree medical program. When I arrived in July, 2010, the unfunded actuarial accrued liability was $544 million. By comparison, the actuarial value of unfunded liability for the California Public Employees Retirement System (CalPERS) for June 30, 2011 was $172 million. Our strategy for restructuring revolved around the dual goals of achieving radical cost reductions while maintaining a viable workforce. Many pundits have not appreciated the key difference between chapter 9 and other chapters of the bankruptcy code. Private sector corporations can be dissolved under bankruptcy, while cities must continue providing essential health and safety services.

Virtually all public sector jobs include a defined benefit retirement plan. Among California cities almost all (97%) contract with CalPERS, as does Stockton, and over 99% of city employees are enrolled in CalPERS or an equivalent program. Only a few of the very largest cities operate their own pension systems, which tend to mirror CalPERS or the very similar county defined benefit pension programs (1937 Act counties). In any event, at this time a CalPERS pension is virtually a given in California public agency employment. For this reason Stockton has taken the position that it will reform and reduce the costs of its pension program along with other post-employment benefits, but retain the basic CalPERS pension which is crucial to the City's ability to recruit and retain a quality workforce. These costs are projected on the basis of a forecast of future PERS rates prepared by the Segal Company (retirement actuaries) which incorporate the following assumptions and reform actions already taken by the City:

- Recently-implemented rate smoothing and amortization changes will increase rates in the near-term but lower them in the long-run, as unfunded liability costs will be paid off under a fixed schedule instead of being continually rolled over on a 30-year basis (a more conservative approach by CalPERS).
- A reduction of 0.25% in the PERS discount rate for interest earnings which increases rates (this has not yet been enacted, but a 0.5% reduction was proposed in 2012 by CalPERS staff and the board only implemented half of it at that time). (This is a good example of the conservative approach we have taken in developing the fiscal model.)
- Lower City payroll in recent years than CalPERS has projected, which increases the unfunded liability portion of the employer rate. (This impact will be mitigated after the Marshall Plan is implemented, as it will increase the payroll base on which the unfunded rate is computed, thus reducing the unfunded rate from what it would otherwise have been.)
- Higher costs from improved mortality and other demographic changes.
- The anticipated savings from Public Employee Pension Reform Act (PEPRA) changes, as well as the two-tier benefit plans implemented by the City.

Stockton's retirement reforms, achieved as a result of difficult labor negotiations and pre- and post-bankruptcy mediation, has produced a number of cost reductions with retirees and employees. To understand the complete retirement cost picture in Stockton one needs to understand first the population of existing retirees. These can be categorized into roughly two groups:

- The first and more senior retiree group consists of those that retired under benefit packages prior to enhancement in the early 2000's. This category receives on average $24,000 per year in benefits and did not receive a retiree medical benefit. We do not propose a change in overall benefits to this group.
- The second retiree group consists of those that retired under the more enhanced programs provided in the early 2000's. They are younger in age and receive an average PERS benefit of $51,000 per year and a medical benefit worth $26,000 per year. Most of this group does not receive Social Security from their Stockton employment. The City reduced and ultimately stopped paying medical premiums while in bankruptcy and we propose eliminating the retiree medical benefit, for an approximately 30% reduction in this group's overall benefits.

For current employees the medical post retirement package has also been eliminated and the following pension reforms have also been instituted. Their total loss in retirement benefits ranges from 30-50% or more when you add the future value of the loss of retiree medical benefits.

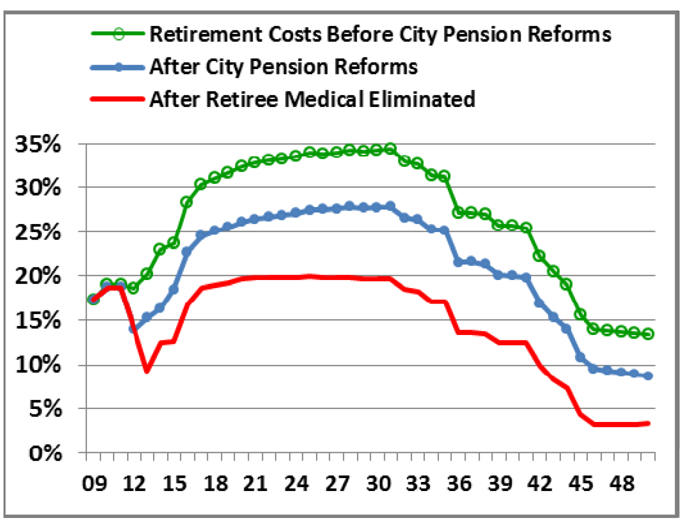
- Employees agreed to pay 100% of the employee's share of PERS (7% of salary for miscellaneous employees and 9% for safety employees) which results in immediate savings. This also had the impact that the legal "spiking" of pension benefits through the Employer-Paid Member Contribution (EPMC) benefit of 7-9% higher retirement pay was eliminated for most employees, which will reduce pension costs over time.

- Employees agreed to a new retirement tier that had lower formula, eliminated retirement credit for sick leave, and eliminated all optional benefits, which will reduce pension costs over time.
- Reductions in compensation were enacted that ranged up to 23%, with the higher range affecting police officers through the elimination of certain “add-pays.” Since the CalPERS benefit formula relies on final compensation, this reduces their future pension benefit. This also reduces PERS contributions due to lower payroll, for immediate savings, and in the long-run will reduce pension costs due to lower retirement income.

Future employees (after January 1, 2013) lost all the above and are subject to the new retirement reforms instituted on January 1. Their total reduction in benefit is arguably up 50-70% for most new hires and higher for some types of new hires when you combine the CalPERS reductions and the loss of future retiree medical benefits. Again, these employees will not be eligible for Social Security benefits from their Stockton employment.

To put all this in perspective, Figure 11 compares what General Fund total retirement costs[1] would have been as a percentage of total General Fund expenditures, before the pension cost reductions from the City reforms cited above, and with and without the restructuring savings from elimination of retiree medical benefits. The total General Fund dollar savings from FY12-13 through FY49-50 from the City pension reforms is projected to be $659 million, and the General Fund portion of savings from the elimination of retiree medical benefits for both retirees and employees not yet retired is projected to be $812 million over the same period, for a total retirement-related savings to the General Fund over this period of $1.47 billion.[2]

Figure 11. Total General Fund Retirement Costs as a Percent of Total Expenditures



[1] The pension portion of total retirement costs includes baseline PERS costs (before salary COLAs), the impact of the 2% salary COLAs under fiscal stabilization, and pension costs attributable to the higher Police staffing under the Marshall Plan.

[2] The $812 million portion of this total retirement-related savings is the General Fund’s 55% share of the $1.538 billion total retiree medical savings from retirees and employees, described further on page 16.

The net result of these changes is that the General Fund is *not* going to be overwhelmed by retirement costs. From FY08-09 through FY11-12, before restructuring, total retirement costs averaged 17% of total General Fund expenditures. For FY12-13 through FY30-31, after restructuring and pension reforms and CalPERS rate adjustments, that average is projected to be 18%. And for FY31-32 through FY49-50 the projected decline in PERS rates will reduce total retirement costs to an average of 10% of total General Fund expenditures, falling to below 5% by FY44-45.

Other Pay and Benefits – Incorporates phase-out of certain benefits and increases other costs in accordance with salary growth.

Compensated Absences – The baseline forecast includes payment of compensated absences in accordance with current labor agreements, including vacation leave at termination (required by state law), holiday leave, and a short-term provision for payment of specified amounts of sick leave at termination for prior retirees. The City used to cash out a portion of unused sick leave upon leaving employment but this was ceased as part of new labor agreements. This was the reason for large cash outs in the past.

Vacancy Savings – The baseline budget assumes a 1% vacancy rate in FY13-14, increasing to 2% in FY14-15, and 3% for FY15-16 and thereafter. The fiscal stabilization section costs for the Marshall Plan are net of vacancy rate savings at the same rates.

Services and Supplies – The baseline forecast assumes 1.5% annual increases in the costs for internal services-equipment, general liability insurance, utilities, maintenance/repair services, labor/legal services, tax collection, election and general expenses.

The fiscal stabilization section includes $1 million in additional annual contributions to internal services funds to gradually reduce the large negative internal service fund balances, e.g., Workers Compensation, and to replace old information technology systems.

Program Support – The baseline forecast assumes continuation of General Fund support for Library, Recreation, Golf and Entertainment Venues with growth in accordance with the overall rate of increase in baseline personnel expense. The costs for RDA Successor Agency support, marina support, capital outlay and grant match are held constant over time. Supplemental administrative building rental costs are budgeted with 8% escalators every four years. A five-year program of support for the Development Services Fund ends in FY17-18.

Debt Service – The baseline forecast assumes the original amortization over time of existing bonds and settlement payments, offset by projected available contributions from other eligible funds. (Reductions in debt service are reflected under restructuring savings.)

Mission Critical Spending Needs – The fiscal stabilization section contains a line for "mission critical" spending, i.e., an allowance to fund unmet needs, such as replacing the 22-year old financial systems, making needed administrative building improvements, providing a local match for Measure K street maintenance costs, increasing deferred maintenance contributions, restoring a greater portion of the current $40 million deficit in the Workers Comp Fund, and making creditor payments under the plan of adjustment. To partially address these needs, the forecast builds in $16 million over the two-year period of FY14-15 and FY15-16, until the balance exceeds the dollar amount equal to 15% of total expenditures[3], when the amount over 15% is contributed to mission critical spending needs. Until the fund balance exceeds this threshold, such unmet needs will remain significant.

Contingency – The baseline forecast budgets $2 million for contingencies annually.

Treatment of Creditors in the Plan of Adjustment

In Stockton, bankruptcy was triggered by a combination of the substantial reductions in revenues caused by the great recession, and a variety of long term obligations for debt, retiree medical and labor compensation, which in many cases was structured to increase over time. The expenditure load for these obligations was just too much for the City to handle, while still maintaining minimal service levels. During AB 506 and bankruptcy mediation the City has made good progress in restructuring a number of these obligations. We were able to reach agreements with all the organized labor groups, with retirees concerning medical insurance and with a number of other creditors including some involving debt obligations.

The remaining creditors largely center on obligations for debt service on long-term bonds. Negotiations continue as of this writing, but it is important to note that through difficult and painful negotiations, we have collectively eliminated much more that what is waiting to be resolved in this case. As just one example, the retiree medical obligation was estimated to have a total cost in future dollars of $1.538 billion for all funds. This has been totally eliminated with this plan. When you add other compensation reductions agreed to in the new MOU's, the total savings approach $2 billion through 2050.

Most of the City's General Fund debt is structured as lease/leaseback obligations. Absent voluntary agreements on restructuring, bankruptcy forces the City to choose between accepting each of its lease obligations in total or rejecting such leases. For the pension obligation bonds, there is no lease and the obligation is unsecured.

In cases where the City has been able to secure voluntary agreements with creditors, the plan of adjustment hews to that agreement. Examples of this are the Ambac obligation and the treatment of retiree health insurance claims outlined in the unsecured creditors section of the plan of adjustment.

In cases where the City has been unable to secure an agreement, the plan of adjustment provides for rejection of the leases, UNLESS, the obligation concerns an essential facility of the City. In such cases, the City has no choice but to assume the lease or other obligation and pay the entire obligation in full, unless an agreement can be reached. The best example of the former treatment would be the Stewart/Eberhardt Building (SEB) debt. Because this debt obligation is secured by the SEB building and because this building is essential to City operations and probably has a value at least as high as the amount of the bonds, we have always assumed that in a non-consensual plan of adjustment the obligation would be paid in

[3] The Government Finance Officers Association recommends a General Fund reserve level equal to two months of average operating expenditures, which would be 16.67%.

full. This is a crucial difference between the plan of adjustment and the AB 506 Ask of over a year ago. In the Ask we did request restructuring of this debt (and all other debt) but that was in the context of voluntary negotiations. Our internal budget calculations have always included the assumption that this obligation would be paid as a worst case estimate.

An example of the latter treatment, which is applicable in cases where there is no security or the security does not relate to public safety or core City operations, would be the 2009 Capital Improvement Bonds. This is a secured obligation (Oak Park and two golf courses), but it could be argued that the golf courses are neither very valuable from a market value point of view nor essential to the operations of the City. The property cannot be sold by the creditor, and while the creditor could chose to operate the facilities, zoning does not allow alternative uses for the facilities. Since our attempts at a negotiated settlement with respect to this obligation have thus far not been successful, the plan of adjustment provides that the applicable leases must be rejected. As a result, if it chooses to do so, the creditor could take over possession and operation of the facilities. However, the creditor cannot sell the properties because it will not own them. Neither can the creditor use them for other purposes, due to zoning and use restrictions. The City's only other alternative would have been to pay most of the debt service out of the General Fund, causing additional service reductions or reducing our commitment to the Marshall Plan on Crime. This lease is proposed to be rejected because thus far the City has been unable to reach a negotiated settlement that does not unravel the City's General Fund services or commitment to the Marshall Plan, and that is acceptable to the impacted creditors. Assuming these leases and paying full debt service is not a viable option within the City's budget constraints.

The City does not view these results as desirable or optimal. Rather they are reflective of the binary choices we face in developing the plan of adjustment. We do not believe the creditors will find such treatment appropriate either, and both sides should continue to negotiate a better solution. However, since the City is determined to exit chapter 9, which is expensive and distracting, we had to develop a plan of adjustment which was both legally sound and financially prudent even without voluntary restructuring.

Therefore the plan of adjustment is in many cases a worst case, but financially prudent approach. Details on the plan of adjustment treatment on various obligations are reviewed below.

<u>Restructuring Treatment and Savings</u>

The restructuring section of the forecast includes reductions in expenditures not yet defined as permanent that require the chapter 9 process to play out: retiree medical benefits, debt obligations, legal settlement payments, and sports team agreements. Approximately $39.6 million of the $46.4 million in potential labor savings identified in the AB 506 process for FY12-13 through FY20-21 (85% of the total) already have been implemented through meet and confer negotiations facilitated by the AB 506 and bankruptcy mediators, and these savings are incorporated into the baseline personnel costs. In addition, the $90 million in past compensation and service cuts that were enacted by the City are assumed to stay in effect and to gain in value of avoided costs over time. The following are the remaining areas of anticipated restructuring savings:

- Retiree Medical Reductions – After settlement payments in FY13-14, 100% of retiree medical expenses are eliminated. The loss of this medical benefit is worth approximately $26,000 per retiree per year, or $600,000 over a lifetime (not adjusted for inflation). In aggregate, the City estimates the total liability for all funds of these former benefits to be $538 million; this will be eliminated through chapter 9. The value of retiree medical obligations for employees yet to retire is approximately $1 billion for all funds; this was eliminated through new labor agreements last year. The total savings for employees and retirees through the life of the program is $1.538 billion. Table 5 reflects the annual total of retiree medical savings (including program administration and other non-benefit costs) for the General Fund only.
- Debt Reductions – These are based on the following actions relative to each debt amount:
    - 2003 Certificates of Participation – The agreement previously reached with Ambac restructures the amounts that would have otherwise been absorbed by the General Fund, and provides a mechanism for subsequent General Fund reimbursement. The lease payments on these bonds ($12.6 million outstanding), were restructured because (a) the collateral for these bonds consisted of Maya Angelou Library, the Main Police Facility and three fire stations, which are essential facilities and therefore had to be retained by the City, and (b) our estimation is that the value of the collateral was at least equal to the amount of the debt. Ambac is at risk for a potential haircut of up to 19.5% if tax increment levels prove insufficient to pay debt service. However, since tax increments are pledged to debt service, if assessed values grow as projected, Ambac would not suffer a haircut (and would not even in a cram down).
    - 2004 Arena Lease Revenue Bonds (LRBs) – The City accepts lease payments on these bonds ($45.1 million outstanding), which helped pay the costs of constructing the arena. A preliminary term sheet agreement has been reached with NPFG, the bond insurer for this issuance, along with agreements on the other bonds insured by NPFG relating to the parking garages and the SEB facility. Based on our preliminary agreement with NPFG the restructured debt should be fully serviced by tax increment revenues, except in the eventuality that our relatively conservative assumptions concerning assessed valuation growth are not achieved. In this unlikely eventuality some General Fund liability would be possible, but it would be much reduced from the current situation. While we fully expect to consummate the agreement, the alternative would have been to reject the lease. NPFG would then have the right, but not the obligation, to take control of the Arena for the remaining lease term as the pledged collateral for these bonds. Since the City would no longer have been able to perform pursuant to the license agreements, the subsidy for arena operations and the Thunder sports team would end. NPFG could choose whether or not to continue to operate the facility and in order to remain in the facility, the Thunder would

have to negotiate a new agreement with NPFG. However, since the debt payments were already covered by a dedicated revenue stream outside the General Fund, we decided to reach agreement to keep control of the Arena.

- 2004 Parking LRBs – Under the preliminary agreement with NPFG the City basically accepts the leases relating to these bonds ($31.6 million outstanding) which paid for the Coy, Market and Arena garages. Under this agreement control of the garages, which NPFG had previously took possession of, would revert to the City. Payments to satisfy most of this debt obligation would be provided to NPFG from the net revenues of a new parking enterprise the City will create to take over operation of all parking assets in the central area of the City. Via a combination of contracting for operation of parking facilities and implementation of capital improvements, net revenues from parking will increase above their current levels, allowing for payment of the bulk of the obligation over an extended time period. Using parking revenues to pay this obligation will shield the General Fund from exposure. Obtaining control of the three garages, combined with a contract operations approach, will allow the City to achieve economies of scale in operations, reducing ongoing expenditures, and maximizing overall revenues. Should the agreement with NPFG not be finalized the City would have to revert to rejection of these leases. With regard to the parking garages this result would not be too much of a problem, because the garages would continue to be open to the public as they have been since NPFG took control. However, this result would have threatened the Arena agreement, which requires NPFG's cooperation.
- 2006 LRBs – The City will assume the lease relating to these bonds ($12.1 million outstanding), which built the SEB parking garage. The SEB houses essential City services, so these bonds will not be impaired and the General Fund will continue to make $900,000 annual payments on these bonds, which are reimbursed by the Parking Fund and Police Public Facilities Fee (PFF) Fund, so there is no net impact on the General Fund.
- 2006 Dept of Boating and Waterways (DBW) Loan – There is no enforceable General Fund obligation to pay this state loan ($10.8 million outstanding), which funded marina improvements. This loan was never enforceable against the General Fund given its structure as a debt obligation, due to the constitutional debt limit and the lack of voter approval. The state does have a lien on revenues from the Marina, which requires a subsidy of approximately $160,000 per year from the City. Since the City cannot repay this loan from Marina revenues or the General Fund the State could take over operation of the facility. Indeed the State does operate numerous marina facilities through its Parks Department into which the Department of Boating and Waterways was recently merged. Very recently the State has indicated this may be a preferred option. The General Fund saves $685,000 annually from elimination of this debt service payment. If the state elects to take over operations of the facility it would eliminate the need for a City operational subsidy and this would increase the annual savings to the General

Fund by $160,000. Negotiations with the state concerning this obligation continue.

- 2007 Pension Obligation Bonds (POBs) – These bonds ($124.3 million outstanding) refinanced unfunded liability due to CalPERS. These bonds are insured by Assured Guaranty. They are an unsecured creditor, in that there is no collateral pledged to the debt. The City has reached a preliminary agreement with the creditor to restructure this debt obligation. Under the proposed agreement the creditor would be entitled to both contingent and non-contingent payments. The non-contingent annual payments would be limited to monies that were programmed under the Ask for a restructured payment on the 2007 Variable Rate Demand Bonds, payments legally allocable to solvent special funds (those not supported by the General Fund) and an annual payment of $250,000 from the General Fund from FY22-23 through FY41-42, increasing to $350,000 from FY42-43 through FY51-52. This would constitute only partial payment of the debt obligation. Any contingent payments would be made only after the City's fiscal performance exceeds that expected in our financial model. In such circumstances the creditor would be able to share in some limited amount of the "upside" revenue growth. We can recommend such a sharing only because essential core services and the Marshall Plan come first and are protected under the baseline budget model assumptions. Any contingent payments will depend on revenue growth, but would come from revenue not currently counted upon. A negotiated solution would spare the City the expense, time and uncertainty associated with continued litigation. More details are included in the discussion below concerning 400 E. Main debt obligations because the negotiations essentially considered these two bond debts as a package.
- 2007 Variable Rate Demand Bonds (VRDOs) – Under the umbrella of the negotiated settlement discussed above the City essentially pays the obligation by allowing the creditor to sell the building. It is worth less than the outstanding bonds, but is still a very attractive Class A office building. In addition, the City would agree to lease 65,000 square feet in the building for a period of 8 to 12 years at a discounted rate. Further, the City would pay what was proposed in the Ask for restructuring this debt towards the pension obligation bond debt. In the Ask the City proposed a restructuring of debt with five years' grace period, followed by interest-only payments of $1.3 million for five years, followed by restructured payments of $2.5 million annually for 30 years. This was included in our budget model and in this agreement the payment would simply be reprogrammed from paying this debt to paying the pension debt. This would be the vast majority of non-contingent payments made to Assured from the General Fund and is therefore affordable to the City because it was included in the Ask, and funded in the budget model. By agreeing to lease space in the building the City helps make the building marketable and by allowing Assured to sell the building they are able to get paid some portion of the outstanding obligation. Since the City needs temporary office space anyway (so it can renovate City

Hall) the discounted lease has value to the community. It also allows the City to avoid the costs of relocating the IT Department function from 400 E. Main, to the SEB, and frees that space for an alternative use. Because provision was made in our budget model for both this move and for rental payments the cost is within our budget model. Overall we believe the tentative agreement with Assured will be workable for the City because it essentially restructures payment on the pair of obligations to an amount which is approximately equivalent to what we had proposed to pay under our original Ask. In addition, Assured benefits from the ability to sell the office building (putting in back on the tax roll) and from the City agreeing to lease space at a discounted rate.

- <u>2009 LRBs for Capital Improvement Projects</u> – The City rejects the lease relating to these bonds ($35.1 million outstanding), which repaid prior City interfund loans used to construct the Police Communications Center, a fire station, parks, and street improvements. The leased property consists of Oak Park, and the Swenson and Van Buskirk golf courses. The General Fund is legally obligated to make the lease payments, but PFFs from the streets, police, fire, and parklands funds were expected to be used as an internal source of funds as available. Annual debt service is approximately $2.9 million. The baseline budget assumes a conservative $500,000 in available PFF revenues (the remainder being required for project funding and payment of reimbursable agreements and fee credits), so under a rejection of leases the General Fund would save $2.4 million annually. If no agreement is reached, Franklin, which owns all of the bonds, could elect to take possession of the leased properties pledged as collateral for the bonds and could choose whether or not to operate those facilities itself. Zoning does not allow alternative uses for the facilities (and for Van Buskirk, the deed granting the property to the City also does not allow for anything except public recreation uses, and contains a reversionary interest). Franklin might elect not to take possession of facilities that operate at a loss. Furthermore they cannot take title of these lands, so they cannot sell them, and sale is prohibited under the obligation provisions. If Franklin elects to take possession of the facilities, the General Fund would no longer incur a subsidy for golf and ice rink operations, resulting in approximately $700,000 in annual savings. Again, paying this debt service would have caused more service reductions or a reduced commitment to the Marshall Plan on Crime. If Franklin does not elect to take possession of the facilities, then the City would be permitted, but not required, to continue to operate them. We will continue and try to reach a negotiated settlement with Franklin, but <u>not</u> at the expense of further service reduction or backtracking on commitments to the Marshall Plan on Crime.

- <u>Other Reductions</u> – These savings are from seven sources, and some reflect negotiated agreements, notably with the Marina Towers plaintiffs, Thunder hockey team and police association:

- Settlement with Police Officer's Association - The Stockton Police Officers Association and the City agreed that their claims were valued at approximately $8.5 million for compensation reductions imposed by the City in 2010 and 2011 as part of the City fiscal emergencies. The parties have agreed to a settlement of 44 hours of paid time off for each SPOA employee who was employed by the city as of June 30, 2012.
- Sick Leave Buyout - Employees who left city employment between February 17, 2012 and June 30, 2012, may have claims for payment of unused sick leave hours that were not made at that time. Former employees with these claims will be treated in the same manner as other claims in their class.
- Jarvis Settlement - These annual payments are due from the General Fund to the Water and Wastewater funds as the result of a settlement regarding the City's long-standing former practice of charging utility funds payments in lieu of taxes. The General Fund saves $1.1 million annually through 2040, for a total of $31.6 million. Jarvis has not participated in negotiations, or complained about this treatment, which is strictly internal to the City, but important to the General Fund.
- Marina Towers Settlement – The City has negotiated an agreement with the Marina Towers plaintiffs to substitute excess land (worth $973,500) for the $1,875,000 in remaining payments ($312,500 annually through FY17-18). This eminent domain lawsuit involved a portion of the ballpark that could have reverted to the plaintiffs in the absence of a settlement.
- Price Settlement – The City will make no further payments under this settlement of an inverse condemnation case involving downtown area single-room occupancy hotels, relating to payment of relocation costs and production of low income housing units. Obligations due have been in dispute and no General Fund costs had been budgeted.
- Main Hotel – The City will not pay the remaining $500,000 payment due related to a redevelopment restoration project, which reduces the level of redevelopment subsidy required of the General Fund.
- Sports Teams – Restructuring savings from the AB 506 Ask assumes a reduction of approximately $500,000 annually in license agreement costs for the Ports baseball team and Thunder hockey team through the end of the current agreements in 2026. The City has been able to reach a tentative agreement with the Thunder, which will decrease City costs and increase City revenues associated with Thunder operations. Negotiations with the Ports have not been successful to date and the City will be seeking to reject the agreement and impose new terms to reduce the level of subsidy absorbed by the City.

- In addition to actions implemented through the chapter 9 process, the City would undertake the following actions:
  - Property Sales – The City has identified parcels estimated at $6 million in value that are projected to be sold over the next six years.

- o Efficiencies – The City has initiated a series of studies designed to reduce costs through efficiencies, alternative service delivery or increased cost recovery. The projected annual savings start at $2.5 million in FY 14-15 and increase to $3 million by FY16-17.
- o Measure A – This proposed 0.75% transactions and use tax requires majority voter approval on the November 5, 2013 ballot. It is projected to raise approximately $28 million annually, starting with a quarter of that amount received at the close of FY13-14.
- o Staffing and Service Cuts – While the $90 million in cuts previously enacted would remain in effect, there are no further budget cuts incorporated into the plan of adjustment due to the City's current level of service insolvency. However, failure of the tax to pass would force an additional $11 million in ongoing budget cuts to make up for the loss of new revenue, even if the Marshall Plan is not implemented.

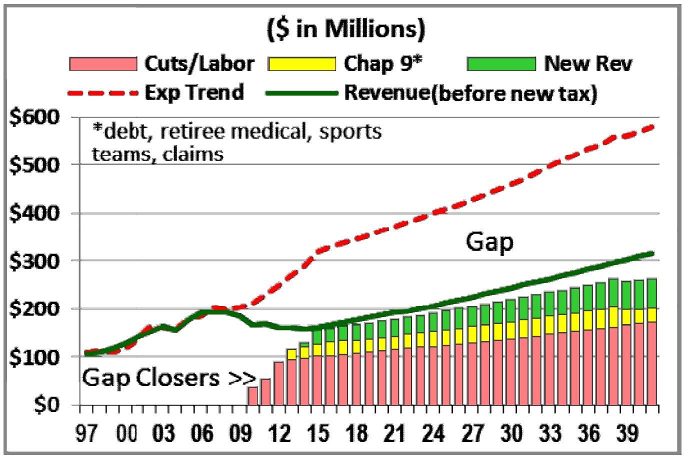
Table 5 shows the total restructuring savings assumed by the City from the above sources:

Table 5. Projected Restructuring Savings (FY13-14 through FY20-21)

($ in 000)	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Retiree Medical Reductions	9,903	10,751	11,653	11,887	12,674	13,360	14,195	15,029
Debt Reductions	13,841	13,451	13,454	13,646	12,094	11,701	12,029	11,747
Other Reductions	1,440	1,940	1,940	1,940	1,940	1,627	1,627	1,627
Subtotal Chap 9 Restructuring	25,184	26,141	27,046	27,472	26,707	26,688	27,851	28,403
Sale of Surplus Property	-	500	500	1,250	1,250	1,250	1,250	-
Efficiency Savings	-	2,500	2,500	3,000	3,000	3,000	3,000	3,000
New Revenue-Sales Tax	6,804	27,979	28,777	29,813	30,886	31,998	33,150	34,310
Service & Staffing Reductions	-	-	-	-	-	-	-	-
Total Restructuring	31,987	57,120	58,823	61,535	61,843	62,936	65,251	65,713

Figure 12 shows the projected gap between projected revenues without Measure A and the pre-budget cut level of expenditures including the Marshall Plan, and how this gap is filled through the combination of prior budget cuts and future efficiencies, chapter 9 restructuring and increased revenue.

Figure 12. Closing the Gap between General Fund Expenditure Trend and Available Resources



Conclusion

The General Fund's Long-Range Financial Plan meets the three tests of solvency:

- It is cash solvent. Balances will be adequate to pay bills when they come due.
- It is budget solvent. The budgets are balanced with all spending categories accounted for, including compensated absences and internal service contributions. It will require continued fiscal discipline to prevent excess spending growth between now and when the fund balance reaches its minimal level in the mid-2020s, to avoid reducing fund balance at a faster pace. Fund balance shows excellent growth after this period, but these far out-year projections are subject to the most uncertainty in the model, simply because of the nature of such a long range projection, so the projection should be viewed with caution.
- It provides minimal service solvency. The Marshall Plan restores a significant amount of police services to the community, and raises the sworn officer staffing level from 1.16 per 1000 residents to 1.6 per 1000. In the near-term, no additional service level improvements can be funded and maintenance and technology investments remain low. However, by the late 2020s, improving reserve levels will allow for additional commitments to service levels, including a second phase of police staffing increases, and higher maintenance levels.

ATTACHMENT A

CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN

BASELINE FORMAT
HIGHLIGHTING DECISIONS ON
FISCAL STABILIZATION AND RESTRUCTURING

Attachment A displays the Long-Range Financial Plan, starting with a Baseline revenues and expenditures section (the status quo), followed by a Fiscal Stabilization section (changes to the status quo needed to make the budget sustainable over time), followed by a "Restructuring" section (expenditure reductions realized through changes enacted pursuant to chapter 9 and from new revenue sources).

The following Attachment A1 provides an alternate format for displaying the Long-Range Financial Plan, by integrating all revenue items under one section, and all expenditures under another section. For example, the costs of the new Marshall Plan on Crime are allocated among various expenditure line items rather than being highlighted using a single line under Fiscal Stabilization.

ATTACHMENT A - CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN (FY11-12 to FY20-21, Dollars in Millions)

	GENERAL FUND	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
1	**General Revenues**										
2	Property Taxes										
3	Property Taxes	26.38	26.28	26.39	27.04	28.13	29.39	30.71	32.10	33.54	34.88
4	In-Lieu of Motor Vehicle Fees	17.58	17.31	17.52	17.95	18.67	19.51	20.39	21.31	22.27	23.16
5	Subtotal Property Taxes	43.96	43.59	43.90	45.00	46.80	48.90	51.10	53.40	55.81	58.04
6	Sales Taxes										
7	75% Point of Sale	27.73	28.33	29.08	29.90	30.75	31.86	33.00	34.19	35.42	36.66
8	25% County ERAF Backfill	8.39	9.94	9.78	10.18	10.46	10.62	11.00	11.40	11.81	12.22
9	Proposition 172	1.18	1.27	1.31	1.34	1.38	1.43	1.48	1.53	1.59	1.65
10	Subtotal Sales Taxes	37.30	39.54	40.17	41.41	42.59	43.91	45.49	47.12	48.82	50.53
11	Utility Users Tax										
12	Water	3.16	3.25	3.26	3.29	3.34	3.39	3.44	3.49	3.54	3.59
13	Electric & Gas	17.11	17.06	17.60	17.99	18.26	18.53	18.81	19.09	19.38	19.67
14	Cable	1.95	2.33	2.36	2.36	2.39	2.43	2.47	2.50	2.54	2.58
15	Telecommunications	9.29	9.15	8.98	8.80	8.93	9.06	9.20	9.34	9.48	9.62
16	Subtotal Utility Users Tax	31.50	31.79	32.19	32.43	32.92	33.41	33.91	34.42	34.94	35.46
17	Franchise Tax										
18	PG&E	1.86	1.84	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.19
19	Cable/Video	3.11	2.20	2.24	2.22	2.26	2.31	2.36	2.40	2.45	2.50
20	Waste Haulers	7.50	7.55	7.52	7.63	7.79	7.94	8.10	8.26	8.43	8.60
21	Subtotal Franchise Tax	12.46	11.60	11.67	11.80	12.04	12.28	12.52	12.77	13.03	13.29
22	Other General Revenues										
23	Business License Tax	8.92	9.13	8.99	9.08	9.22	9.35	9.49	9.64	9.78	9.93
24	Hotel/Motel Tax	1.93	1.98	1.95	1.97	1.99	2.01	2.03	2.05	2.07	2.09
25	Document Transfer Tax	0.60	0.46	0.50	0.51	0.51	0.52	0.53	0.54	0.54	0.55
26	Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27	Interest Income	0.05	0.02	0.02	0.28	0.35	0.31	0.30	0.28	0.26	0.24
28	Subtotal Other General Revenues	11.65	11.73	11.61	11.99	12.21	12.34	12.49	12.65	12.81	12.96
29	**Program Revenues**										
30	Fire Contracts	4.79	3.34	3.33	3.26	3.29	3.32	3.36	3.39	3.43	3.46
31	Code Enforcement	4.04	2.82	2.95	3.01	3.04	3.07	3.10	3.13	3.16	3.19
32	Charges for Services	1.91	1.87	1.83	1.84	1.86	1.88	1.90	1.92	1.94	1.96
33	Fines & Forfeitures	1.73	1.27	1.30	1.31	1.34	1.37	1.39	1.42	1.45	1.48
34	Revenues from Other Agencies	0.78	0.85	0.68	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35	Licenses & Permits	0.40	0.38	0.37	0.37	0.38	0.39	0.40	0.40	0.41	0.42
36	Misc Other Revenues	(0.38)	3.03	(0.14)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37	Subtotal Program Revenues	13.27	13.56	10.31	10.40	10.51	10.63	10.75	10.86	10.99	11.11
38	**Interfund Reimbursements**										
39	Indirect Cost Allocation	5.11	4.85	4.72	4.49	4.68	5.14	5.34	5.49	5.67	5.86
40	Refunds & Reimbursements	0.87	0.45	1.33	0.25	0.26	0.26	0.27	0.27	0.28	0.28
41	Rents/Leases/Concessions	2.56	2.72	2.71	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42	Parking Fund - Debt Service	1.58	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
43	Subtotal Reimbursements	10.12	8.86	9.68	8.33	8.52	8.99	9.19	9.36	9.54	9.73
44	**Total General Fund Revenues**	160.27	160.66	159.52	161.35	165.59	170.45	175.46	180.59	185.92	191.11
45											
46	**Salaries & Benefits**										
47	Salaries - Safety (w/ COLA)	34.00	34.23	38.91	39.38	40.64	41.94	43.28	44.66	46.09	47.57
48	Salaries - Non-Safety (w/ COLA)	15.48	15.59	17.72	17.93	18.50	19.10	19.71	20.34	20.99	21.66
49	Salaries - Part time, Temporary	1.05	1.06	1.48	1.50	1.54	1.59	1.65	1.70	1.75	1.81
50	Pension - CalPERS	14.14	14.24	17.75	20.88	28.75	30.82	31.91	33.41	34.95	35.99
51	Health/Dental/Vision-Employee (w/COLA)	8.79	8.85	9.37	9.55	9.75	9.94	10.14	10.34	10.55	10.76
52	Health - Retirees	7.96	9.18	9.90	10.75	11.65	11.89	12.67	13.36	14.20	15.03
53	Workers Compensation	7.16	7.21	7.19	7.27	7.36	7.45	7.54	7.63	7.72	7.81
54	Other Pay & Benefits	6.39	6.44	5.52	5.53	5.57	5.61	5.66	5.71	5.75	5.80
55	Overtime & Standby/Callback	7.61	7.66	7.23	7.31	7.55	7.79	8.04	8.30	8.56	8.83
56	Compensated Absences	3.46	2.74	2.01	2.91	3.06	2.96	3.13	3.31	3.50	3.69
57	Salaries - Safety-Expiring Grants	-	-	-	-	-	2.32	2.39	2.47	2.55	2.63
58	Net Labor Adjust/Reimbursements	-	-	0.94	1.01	1.15	1.20	1.23	1.27	1.32	1.35
59	Budgeted Vacancy Savings	-	-	(1.05)	(2.24)	(3.69)	(3.92)	(4.04)	(4.17)	(4.31)	(4.44)
60	Subtotal Salaries & Benefits	106.05	107.20	116.96	121.79	131.84	138.68	143.30	148.31	153.61	158.51

	GENERAL FUND (cont.)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
61	**Services & Supplies**										
62	Internal Services-Equipment	12.18	13.44	13.51	13.41	13.61	13.81	14.02	14.23	14.45	14.66
63	General Liability Insurance	2.24	3.01	3.37	3.44	3.49	3.54	3.60	3.65	3.71	3.76
64	Utilities	2.49	2.49	2.65	2.69	2.73	2.77	2.82	2.86	2.90	2.95
65	Maintenance & Repair Services	2.14	2.61	2.60	2.63	2.67	2.71	2.76	2.80	2.84	2.88
66	Labor/Legal Services	3.76	6.33	2.20	2.23	2.26	2.30	2.33	2.37	2.40	2.44
67	General Expenses	6.70	8.43	8.90	8.63	8.71	8.79	8.87	8.96	9.09	9.23
68	Tax Collection & Election	2.09	2.34	2.28	2.57	2.61	2.65	2.70	2.75	2.79	2.83
69	Subtotal Services & Supplies	31.61	38.66	35.51	35.61	36.09	36.59	37.10	37.61	38.17	38.74
70	**Program Support for Other Funds**										
71	Library	3.98	3.91	4.00	4.30	4.88	5.08	5.22	5.40	5.58	5.73
72	Recreation	2.76	2.34	2.85	3.06	3.47	3.61	3.72	3.84	3.97	4.08
73	Golf Courses	-	0.50	0.45	0.48	0.55	0.57	0.59	0.61	0.63	0.65
74	Entertainment Venues	2.44	2.64	2.65	2.85	3.24	3.37	3.47	3.58	3.70	3.80
75	RDA Successor Agency	1.81	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76	Downtown Marina	0.05	0.05	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77	Capital Improvements	0.62	0.58	1.29	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78	Administration Building	-	0.16	-	0.84	0.84	0.84	0.91	0.91	0.91	0.91
79	Grant Match	0.04	0.16	0.40	0.40	0.40	0.30	0.30	0.30	0.30	0.30
80	Development Services	0.15	1.00	1.00	1.00	1.00	1.00	-	-	-	-
81	Other	0.25	0.03	-	-	-	-	-	-	-	-
82	Subtotal Program Support	12.09	12.11	13.55	14.41	15.87	16.25	15.69	16.13	16.58	16.96
83	**Debt - Bonds/Other**										
84	Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
85	Marina Settlement	-	0.31	0.31	0.31	0.31	0.31	0.31	-	-	-
86	2003 COPs	-	0.13	0.60	0.52	0.51	0.49	0.24	0.20	0.09	-
87	2004 Arena Bonds	-	0.29	0.74	0.66	0.73	0.82	0.49	0.54	0.33	-
88	2006 LRBs-Parking (SEB)	0.77	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
89	2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90	2007 POBs	5.62	6.25	6.73	6.84	6.95	7.06	7.17	7.29	7.40	7.52
91	2007 VRDLRB - 400 E.Main	0.24	2.59	2.67	2.67	2.67	2.67	2.67	2.67	2.70	2.72
92	2009 LRBs-Pub Facil Bonds/CIP	0.65	1.92	2.42	2.43	2.42	2.42	2.42	2.42	2.42	2.42
93	Debt - Other/Admin	0.42	0.21	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.24
94	Subtotal Debt	9.51	14.36	16.68	16.64	16.81	16.97	16.51	16.32	16.15	15.62
95	**Contingency**	-	1.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96	**Total General Fund Baseline Expenditures**	159.25	173.82	184.70	190.45	202.61	210.49	214.60	220.37	226.52	231.83
97	**Surplus(Shortfall) After Baseline**	1.01	(13.16)	(25.18)	(29.10)	(37.02)	(40.04)	(39.14)	(39.78)	(40.60)	(40.73)
98											
99	**Fiscal Stabilization**										
100	Increased Deferred Maintenance	-	-	-	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101	Contributions to Workers Comp ISF	-	-	-	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102	Contributions to Technology/Other ISF	-	-	-	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103	Marshall Plan/Police Services	-	-	-	8.95	14.48	20.64	20.98	22.16	23.36	24.67
104	Mission Critical Spending Needs	-	-	-	8.00	8.00	-	-	-	-	-
105	Repay 2/28/12 Transfers	-	-	-	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106	Total Fiscal Stabilization	-	-	-	19.00	24.53	22.69	23.03	24.21	25.41	26.72
107	**Surplus(Shortfall) After Fiscal Stabilization**	1.01	(13.16)	(25.18)	(48.09)	(61.55)	(62.73)	(62.17)	(63.99)	(66.01)	(67.44)
108											
109	**Restructuring** (Labor included in Baseline)										
110	Retiree Medical Reductions	-	7.05	9.90	10.75	11.65	11.89	12.67	13.36	14.20	15.03
111	Debt Reductions	0.65	11.87	13.84	13.45	13.45	13.65	12.09	11.70	12.03	11.75
112	Other Reductions	-	1.44	1.44	1.94	1.94	1.94	1.94	1.63	1.63	1.63
113	Subtotal Restructuring	0.65	20.36	25.18	26.14	27.05	27.47	26.71	26.69	27.85	28.40
114	Sale of Surplus Property	-	-	-	0.50	0.50	1.25	1.25	1.25	1.25	-
115	Efficiencies/Alt Srvc Delivery/Fees/Other	-	-	-	2.50	2.50	3.00	3.00	3.00	3.00	3.00
116	New Revenue-Sales Tax (Nov-13 ballot)	-	-	6.80	27.98	28.78	29.81	30.89	32.00	33.15	34.31
117	Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118	Total Restructuring	0.65	20.36	31.99	57.12	58.82	61.53	61.84	62.94	65.25	65.71
119	**Surplus(Shortfall) After Restructuring**	1.67	7.20	6.80	9.03	(2.72)	(1.19)	(0.33)	(1.06)	(0.75)	(1.73)
120	Transfer to Bankruptcy Fund	(5.59)	(6.91)	-	-	-	-	-	-	-	-
121	Encumbrance+AB 506 Carryover	(2.71)	2.71	-	-	-	-	-	-	-	-
122	Beginning Available Balance	6.64	-	3.00	9.80	18.83	16.11	14.91	14.58	13.52	12.77
123	**Ending Available Balance**	-	3.00	9.80	18.83	16.11	14.91	14.58	13.52	12.77	11.04

ATTACHMENT A - STOCKTON LONG-RANGE FINANCIAL PLAN (FY21-22 to FY30-31, Dollars in Millions)

	GENERAL FUND	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
1	**General Revenues**										
2	Property Taxes										
3	Property Taxes	36.28	37.73	39.24	40.81	42.41	44.04	45.69	47.38	49.09	50.83
4	In-Lieu of Motor Vehicle Fees	24.08	25.05	26.05	27.09	28.15	29.23	30.33	31.45	32.59	33.74
5	Subtotal Property Taxes	60.36	62.78	65.29	67.90	70.56	73.27	76.03	78.83	81.68	84.58
6	Sales Taxes										
7	75% Point of Sale	37.94	39.27	40.65	42.07	43.51	44.98	46.46	47.96	49.47	51.01
8	25% County ERAF Backfill	12.65	13.09	13.55	14.02	14.50	14.99	15.49	15.99	16.49	17.00
9	Proposition 172	1.70	1.76	1.82	1.89	1.95	2.02	2.09	2.15	2.22	2.29
10	Subtotal Sales Taxes	52.30	54.13	56.02	57.98	59.97	61.99	64.03	66.10	68.19	70.30
11	Utility Users Tax										
12	Water	3.65	3.70	3.76	3.82	3.87	3.93	3.98	4.04	4.09	4.15
13	Electric & Gas	19.96	20.26	20.57	20.87	21.18	21.49	21.79	22.09	22.39	22.69
14	Cable	2.62	2.66	2.70	2.74	2.78	2.82	2.86	2.90	2.94	2.97
15	Telecommunications	9.76	9.91	10.06	10.21	10.36	10.51	10.66	10.80	10.95	11.10
16	Subtotal Utility Users Tax	35.99	36.53	37.08	37.64	38.19	38.74	39.29	39.83	40.37	40.91
17	Franchise Tax										
18	PG&E	2.24	2.28	2.33	2.37	2.42	2.47	2.51	2.56	2.61	2.65
19	Cable/Video	2.55	2.60	2.65	2.71	2.76	2.81	2.86	2.92	2.97	3.02
20	Waste Haulers	8.77	8.94	9.12	9.30	9.49	9.67	9.85	10.03	10.21	10.39
21	Subtotal Franchise Tax	13.55	13.83	14.10	14.38	14.67	14.95	15.23	15.51	15.79	16.07
22	Other General Revenues										
23	Business License Tax	10.08	10.23	10.38	10.54	10.69	10.85	11.02	11.18	11.35	11.52
24	Hotel/Motel Tax	2.11	2.13	2.15	2.17	2.20	2.22	2.24	2.26	2.28	2.31
25	Document Transfer Tax	0.56	0.57	0.58	0.59	0.59	0.60	0.61	0.62	0.63	0.64
26	Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27	Interest Income	0.21	0.19	0.18	0.19	0.24	0.31	0.40	0.50	0.60	0.73
28	Subtotal Other General Revenues	13.11	13.27	13.44	13.64	13.87	14.14	14.42	14.71	15.02	15.35
29	**Program Revenues**										
30	Fire Contracts	3.49	3.53	3.56	3.60	3.64	3.67	3.71	3.75	3.78	3.82
31	Code Enforcement	3.22	3.26	3.29	3.32	3.35	3.39	3.42	3.46	3.49	3.53
32	Charges for Services	1.98	2.00	2.02	2.04	2.06	2.08	2.10	2.12	2.14	2.16
33	Fines & Forfeitures	1.51	1.54	1.57	1.60	1.63	1.67	1.70	1.73	1.77	1.80
34	Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35	Licenses & Permits	0.43	0.44	0.45	0.46	0.46	0.47	0.48	0.49	0.50	0.51
36	Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37	Subtotal Program Revenues	11.23	11.36	11.49	11.61	11.74	11.88	12.01	12.15	12.29	12.42
38	**Interfund Reimbursements**										
39	Indirect Cost Allocation	6.02	6.19	6.37	6.54	6.73	6.90	7.09	7.30	7.50	7.72
40	Refunds & Reimbursements	0.29	0.29	0.30	0.30	0.31	0.32	0.32	0.33	0.34	0.34
41	Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42	Parking Fund - Debt Service	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
43	Subtotal Reimbursements	9.90	10.07	10.25	10.43	10.63	10.80	11.00	11.21	11.42	11.64
44	**Total General Fund Revenues**	196.44	201.95	207.66	213.59	219.63	225.76	232.00	238.34	244.76	251.27
45											
46	**Salaries & Benefits**										
47	Salaries - Safety (w/ COLA)	49.09	50.66	52.28	53.95	55.68	57.46	59.30	61.20	63.16	65.18
48	Salaries - Non-Safety (w/ COLA)	22.35	23.07	23.81	24.57	25.36	26.17	27.00	27.87	28.76	29.68
49	Salaries - Part time, Temporary	1.87	1.93	1.99	2.05	2.12	2.18	2.25	2.33	2.40	2.48
50	Pension - CalPERS	37.05	38.13	39.21	40.36	40.84	41.95	43.10	44.24	45.40	46.58
51	Health/Dental/Vision-Employee (w/COLA)	10.98	11.19	11.42	11.65	11.88	12.12	12.36	12.61	12.86	13.12
52	Health - Retirees	15.93	16.83	17.76	18.84	19.85	20.62	21.80	22.31	23.05	23.82
53	Workers Compensation	7.91	8.00	8.10	8.19	8.29	8.39	8.49	8.59	8.70	8.80
54	Other Pay & Benefits	5.85	5.91	5.96	6.13	6.31	6.50	6.69	6.88	7.09	7.30
55	Overtime & Standby/Callback	9.12	9.41	9.71	10.02	10.34	10.67	11.01	11.37	11.73	12.11
56	Compensated Absences	3.91	4.13	4.37	4.62	4.89	5.17	5.48	5.80	5.80	5.86
57	Salaries - Safety-Expiring Grants	2.71	2.80	2.89	2.98	3.08	3.18	3.28	3.38	3.49	3.60
58	Net Labor Adjust/Reimbursements	1.39	1.43	1.47	1.51	1.54	1.58	1.63	1.67	1.71	1.76
59	Budgeted Vacancy Savings	(4.57)	(4.70)	(4.84)	(4.98)	(5.11)	(5.26)	(5.42)	(5.58)	(5.73)	(5.89)
60	Subtotal Salaries & Benefits	163.58	168.78	174.12	179.91	185.06	190.73	196.98	202.68	208.42	214.38

	GENERAL FUND (cont.)	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
61	**Services & Supplies**										
62	Internal Services-Equipment	14.88	15.11	15.33	15.56	15.80	16.03	16.27	16.52	16.76	17.02
63	General Liability Insurance	3.82	3.88	3.93	3.99	4.05	4.11	4.18	4.24	4.30	4.37
64	Utilities	2.99	3.03	3.08	3.13	3.17	3.22	3.27	3.32	3.37	3.42
65	Maintenance & Repair Services	2.92	2.97	3.01	3.06	3.10	3.15	3.20	3.25	3.29	3.34
66	Labor/Legal Services	2.47	2.51	2.55	2.59	2.63	2.67	2.71	2.75	2.79	2.83
67	General Expenses	9.37	9.51	9.65	9.79	9.94	10.09	10.24	10.39	10.55	10.71
68	Tax Collection & Election	2.89	2.93	2.97	3.02	3.08	3.13	3.18	3.22	3.29	3.34
69	Subtotal Services & Supplies	39.34	39.93	40.53	41.14	41.77	42.40	43.04	43.68	44.36	45.02
70	**Program Support for Other Funds**										
71	Library	5.89	6.05	6.21	6.39	6.53	6.71	6.90	7.10	7.27	7.46
72	Recreation	4.19	4.30	4.42	4.55	4.65	4.78	4.91	5.05	5.17	5.30
73	Golf Courses	0.66	0.68	0.70	0.72	0.73	0.76	0.78	0.80	0.82	0.84
74	Entertainment Venues	3.91	4.01	4.12	4.24	4.33	4.45	4.58	4.71	4.82	4.95
75	RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76	Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77	Capital Improvements	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78	Administration Building	0.98	0.98	0.98	0.98	1.06	1.06	1.06	1.06	1.15	1.15
79	Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
80	Development Services	-	-	-	-	-	-	-	-	-	-
81	Other	-	-	-	-	-	-	-	-	-	-
82	Subtotal Program Support	17.42	17.82	18.22	18.67	19.09	19.55	20.02	20.50	21.02	21.48
83	**Debt - Bonds/Other**										
84	Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
85	Marina Settlement	-	-	-	-	-	-	-	-	-	-
86	2003 COPs	-	-	-	-	-	-	-	-	-	-
87	2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
88	2006 LRBs-Parking (SEB)	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
89	2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90	2007 POBs	7.64	7.76	7.88	8.01	6.86	7.08	7.17	7.27	7.37	7.46
91	2007 VRDLRB - 400 E.Main	2.76	2.78	2.81	2.83	2.86	2.87	2.90	2.92	2.94	2.95
92	2009 LRBs-Pub Facil Bonds/CIP	2.41	2.41	2.41	2.40	2.40	2.40	2.40	2.40	2.39	2.39
93	Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
94	Subtotal Debt	15.77	15.91	16.06	16.19	15.08	15.32	15.42	15.54	15.65	15.75
95	**Contingency**	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96	**Total General Fund Baseline Expenditures**	238.11	244.44	250.93	257.91	263.00	270.00	277.46	284.40	291.44	298.63
97	**Surplus(Shortfall) After Baseline**	(41.67)	(42.49)	(43.27)	(44.32)	(43.37)	(44.24)	(45.46)	(46.06)	(46.68)	(47.36)
98											
99	**Fiscal Stabilization**										
100	Increased Deferred Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101	Contributions to Workers Comp ISF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102	Contributions to Technology/Other ISF	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103	Marshall Plan/Police Services	25.17	25.68	26.20	26.72	27.25	27.79	28.34	28.89	29.45	30.03
104	Mission Critical Spending Needs	-	-	-	-	-	-	-	-	-	-
105	Repay 2/28/12 Transfers	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106	Total Fiscal Stabilization	27.22	27.73	28.25	28.77	29.30	29.84	30.39	30.94	31.50	32.08
107	**Surplus(Shortfall) After Fiscal Stabilization**	(68.89)	(70.22)	(71.52)	(73.10)	(72.67)	(74.08)	(75.84)	(77.00)	(78.19)	(79.43)
108											
109	**Restructuring** (Labor included in Baseline)										
110	Retiree Medical Reductions	15.93	16.83	17.76	18.84	19.85	20.62	21.80	22.31	23.05	23.82
111	Debt Reductions	11.80	10.82	11.26	11.63	10.70	11.13	11.35	10.49	10.60	10.70
112	Other Reductions	1.63	1.63	1.63	1.63	1.63	1.13	1.13	1.13	1.13	1.13
113	Subtotal Restructuring	29.36	29.27	30.65	32.10	32.17	32.87	34.28	33.93	34.78	35.64
114	Sale of Surplus Property	-	-	-	-	-	-	-	-	-	-
115	Efficiencies/Alt Srvc Delivery/Fees/Other	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
116	New Revenue-Sales Tax (Nov-13 ballot)	35.51	36.75	38.04	39.37	40.72	42.09	43.48	44.88	46.30	47.74
117	Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118	Total Restructuring	67.87	69.03	71.69	74.47	75.89	77.96	80.76	81.81	84.08	86.38
119	**Surplus(Shortfall) After Restructuring**	(1.02)	(1.19)	0.17	1.38	3.22	3.88	4.92	4.81	5.89	6.95
120	Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
121	Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
122	Beginning Available Balance	11.04	10.02	8.82	9.00	10.37	13.60	17.48	22.40	27.21	33.10
123	**Ending Available Balance**	10.02	8.82	9.00	10.37	13.60	17.48	22.40	27.21	33.10	40.05
124	**Balance as % of Total Expenditures**	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%
125	Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

ATTACHMENT A - STOCKTON LONG-RANGE FINANCIAL PLAN (FY31-32 to FY40-41, Dollars in Millions)

	GENERAL FUND	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
1	**General Revenues**										
2	Property Taxes										
3	Property Taxes	52.60	54.39	56.20	58.04	59.90	61.78	63.68	65.60	67.54	69.49
4	In-Lieu of Motor Vehicle Fees	34.92	36.10	37.31	38.53	39.76	41.01	42.27	43.55	44.83	46.13
5	Subtotal Property Taxes	87.52	90.49	93.51	96.57	99.66	102.79	105.95	109.14	112.37	115.62
6	Sales Taxes										
7	75% Point of Sale	52.56	54.12	55.70	57.30	58.90	60.52	62.15	63.79	65.44	67.09
8	25% County ERAF Backfill	17.52	18.04	18.57	19.10	19.63	20.17	20.72	21.26	21.81	22.36
9	Proposition 172	2.36	2.43	2.50	2.57	2.64	2.72	2.79	2.86	2.94	3.01
10	Subtotal Sales Taxes	72.44	74.59	76.77	78.97	81.18	83.41	85.65	87.91	90.19	92.47
11	Utility Users Tax										
12	Water	4.20	4.25	4.31	4.36	4.41	4.46	4.52	4.57	4.62	4.67
13	Electric & Gas	22.98	23.28	23.57	23.86	24.14	24.43	24.71	24.99	25.27	25.54
14	Cable	3.01	3.05	3.09	3.13	3.17	3.20	3.24	3.28	3.31	3.35
15	Telecommunications	11.24	11.38	11.53	11.67	11.81	11.95	12.09	12.22	12.36	12.49
16	Subtotal Utility Users Tax	41.44	41.97	42.49	43.01	43.53	44.04	44.55	45.05	45.55	46.05
17	Franchise Tax										
18	PG&E	2.70	2.74	2.79	2.84	2.88	2.93	2.97	3.02	3.06	3.10
19	Cable/Video	3.08	3.13	3.18	3.23	3.28	3.34	3.39	3.44	3.49	3.54
20	Waste Haulers	10.58	10.76	10.93	11.11	11.29	11.47	11.65	11.82	12.00	12.17
21	Subtotal Franchise Tax	16.35	16.63	16.90	17.18	17.46	17.73	18.00	18.27	18.54	18.81
22	Other General Revenues										
23	Business License Tax	11.69	11.87	12.05	12.23	12.41	12.60	12.79	12.98	13.17	13.37
24	Hotel/Motel Tax	2.33	2.35	2.38	2.40	2.43	2.45	2.47	2.50	2.52	2.55
25	Document Transfer Tax	0.65	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.73	0.74
26	Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27	Interest Income	0.85	0.93	0.96	0.98	1.00	1.03	1.06	1.08	1.11	1.15
28	Subtotal Other General Revenues	15.68	15.96	16.20	16.44	16.68	16.92	17.18	17.43	17.69	17.96
29	**Program Revenues**										
30	Fire Contracts	3.86	3.90	3.94	3.98	4.02	4.06	4.10	4.14	4.18	4.22
31	Code Enforcement	3.56	3.60	3.63	3.67	3.71	3.74	3.78	3.82	3.86	3.89
32	Charges for Services	2.18	2.21	2.23	2.25	2.27	2.30	2.32	2.34	2.37	2.39
33	Fines & Forfeitures	1.84	1.88	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.20
34	Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35	Licenses & Permits	0.52	0.53	0.54	0.55	0.57	0.58	0.59	0.60	0.61	0.62
36	Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37	Subtotal Program Revenues	12.57	12.71	12.85	13.00	13.15	13.30	13.45	13.61	13.77	13.93
38	**Interfund Reimbursements**										
39	Indirect Cost Allocation	7.93	8.04	8.27	8.37	8.61	8.42	8.65	8.89	9.01	9.27
40	Refunds & Reimbursements	0.35	0.36	0.36	0.37	0.38	0.39	0.39	0.40	0.41	0.42
41	Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42	Parking Fund - Debt Service	0.90	-	-	-	-	-	-	-	-	-
43	Subtotal Reimbursements	11.86	11.08	11.31	11.42	11.67	11.48	11.73	11.98	12.10	12.37
44	**Total General Fund Revenues**	257.85	263.43	270.05	276.60	283.32	289.68	296.52	303.40	310.21	317.21
45											
46	**Salaries & Benefits**										
47	Salaries - Safety (w/ COLA)	67.26	69.42	71.64	73.93	76.30	78.74	81.26	83.86	86.54	89.31
48	Salaries - Non-Safety (w/ COLA)	30.63	31.61	32.62	33.67	34.74	35.86	37.00	38.19	39.41	40.67
49	Salaries - Part time, Temporary	2.56	2.64	2.72	2.81	2.90	2.99	3.09	3.19	3.29	3.40
50	Pension - CalPERS	45.20	46.34	44.67	45.76	37.49	38.28	39.12	37.12	37.99	38.94
51	Health/Dental/Vision-Employee (w/COLA)	13.38	13.65	13.92	14.20	14.48	14.77	15.07	15.37	15.68	15.99
52	Health - Retirees	24.55	25.31	25.99	26.57	26.85	27.38	27.65	27.81	27.81	27.77
53	Workers Compensation	8.91	9.01	9.12	9.23	9.34	9.45	9.57	9.68	9.80	9.92
54	Other Pay & Benefits	7.51	7.73	7.96	8.20	8.45	8.70	8.96	9.23	9.51	9.79
55	Overtime & Standby/Callback	12.49	12.89	13.31	13.73	14.17	14.62	15.09	15.57	16.07	16.59
56	Compensated Absences	5.91	5.80	5.86	5.92	5.98	6.04	6.10	6.16	6.22	6.28
57	Salaries - Safety-Expiring Grants	3.72	3.84	3.96	4.09	4.22	4.35	4.49	4.63	4.78	4.94
58	Net Labor Adjust/Reimbursements	1.76	1.80	1.81	1.85	1.75	1.79	1.84	1.84	1.88	1.93
59	Budgeted Vacancy Savings	(5.98)	(6.14)	(6.23)	(6.40)	(6.29)	(6.47)	(6.65)	(6.75)	(6.94)	(7.13)
60	Subtotal Salaries & Benefits	217.91	223.90	227.36	233.56	230.36	236.51	242.58	245.90	252.05	258.39

	GENERAL FUND (cont.)	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
61	**Services & Supplies**										
62	Internal Services-Equipment	17.27	17.53	17.79	18.06	18.33	18.61	18.89	19.17	19.46	19.75
63	General Liability Insurance	4.43	4.50	4.57	4.63	4.70	4.77	4.85	4.92	4.99	5.07
64	Utilities	3.47	3.52	3.57	3.63	3.68	3.74	3.79	3.85	3.91	3.97
65	Maintenance & Repair Services	3.39	3.44	3.50	3.55	3.60	3.66	3.71	3.77	3.82	3.88
66	Labor/Legal Services	2.87	2.92	2.96	3.00	3.05	3.09	3.14	3.19	3.24	3.28
67	General Expenses	10.87	11.03	11.20	11.37	11.54	11.71	11.88	12.06	12.24	12.43
68	Tax Collection & Election	3.39	3.44	3.51	3.56	3.62	3.67	3.75	3.80	3.86	3.92
69	Subtotal Services & Supplies	45.70	46.38	47.10	47.80	48.52	49.25	50.01	50.76	51.52	52.29
70	**Program Support for Other Funds**										
71	Library	7.48	7.65	7.66	7.85	7.43	7.61	7.79	7.79	7.99	8.19
72	Recreation	5.32	5.44	5.45	5.58	5.28	5.41	5.54	5.54	5.68	5.83
73	Golf Courses	0.84	0.86	0.86	0.88	0.84	0.86	0.88	0.88	0.90	0.92
74	Entertainment Venues	4.96	5.08	5.08	5.21	4.93	5.05	5.17	5.17	5.30	5.43
75	RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76	Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77	Capital Improvements	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78	Administration Building	1.15	1.15	1.24	1.24	1.24	1.24	1.34	1.34	1.34	1.34
79	Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
80	Development Services	-	-	-	-	-	-	-	-	-	-
81	Other	-	-	-	-	-	-	-	-	-	-
82	Subtotal Program Support	21.52	21.96	22.07	22.54	21.50	21.94	22.50	22.50	22.99	23.49
83	**Debt - Bonds/Other**										
84	Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	-
85	Marina Settlement	-	-	-	-	-	-	-	-	-	-
86	2003 COPs	-	-	-	-	-	-	-	-	-	-
87	2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
88	2006 LRBs-Parking (SEB)	0.90	-	-	-	-	-	-	-	-	-
89	2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90	2007 POBs	7.56	7.66	7.76	7.86	7.96	8.06	9.33	-	-	-
91	2007 VRDLRB - 400 E.Main	2.96	2.98	2.99	2.99	3.00	3.01	3.01	3.01	3.02	3.01
92	2009 LRBs-Pub Facil Bonds/CIP	2.39	2.38	2.37	2.37	2.36	2.36	2.35	2.35	-	-
93	Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
94	Subtotal Debt	15.86	15.06	15.17	15.27	15.37	15.47	16.75	7.41	5.07	3.94
95	**Contingency**	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96	**Total General Fund Baseline Expenditures**	302.99	309.31	313.69	321.18	317.76	325.17	333.83	328.57	333.62	340.10
97	**Surplus(Shortfall) After Baseline**	(45.14)	(45.88)	(43.65)	(44.58)	(34.43)	(35.49)	(37.31)	(25.17)	(23.40)	(22.90)
98											
99	**Fiscal Stabilization**										
100	Increased Deferred Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101	Contributions to Workers Comp ISF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102	Contributions to Technology/Other ISF	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103	Marshall Plan/Police Services	30.25	30.84	31.00	31.60	30.98	31.58	32.19	32.35	33.00	33.67
104	Mission Critical Spending Needs	6.00	10.00	16.00	15.00	30.00	28.00	30.00	34.00	34.00	34.00
105	Repay 2/28/12 Transfers	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106	Total Fiscal Stabilization	38.30	42.89	49.05	48.65	63.03	61.63	64.24	68.40	69.05	69.72
107	**Surplus(Shortfall) After Fiscal Stabilization**	(83.44)	(88.78)	(92.69)	(93.23)	(97.47)	(97.12)	(101.56)	(93.57)	(92.45)	(92.61)
108											
109	**Restructuring** (Labor included in Baseline)										
110	Retiree Medical Reductions	24.55	25.31	25.99	26.57	26.85	27.38	27.65	27.81	27.81	27.77
111	Debt Reductions	10.81	10.92	11.02	11.13	11.23	11.33	12.60	3.26	0.92	0.91
112	Other Reductions	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	-
113	Subtotal Restructuring	36.50	37.35	38.14	38.83	39.20	39.84	41.38	32.20	29.86	28.68
114	Sale of Surplus Property	-	-	-	-	-	-	-	-	-	-
115	Efficiencies/Alt Srvc Delivery/Fees/Other	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
116	New Revenue-Sales Tax (Nov-13 ballot)	49.19	50.65	52.13	53.62	55.12	56.64	58.16	59.70	61.24	62.79
117	Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118	Total Restructuring	88.68	91.00	93.27	95.45	97.32	99.47	102.55	94.89	94.10	94.47
119	**Surplus(Shortfall) After Restructuring**	5.24	2.22	0.58	2.21	(0.14)	2.35	0.99	1.32	1.65	1.86
120	Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
121	Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
122	Beginning Available Balance	40.05	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.48
123	**Ending Available Balance**	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.47	58.34
124	**Balance as % of Total Expenditures**	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%
125	Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

ATTACHMENT A1
CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN

ALTERNATE FORMAT
NET BUDGET AFTER RESTRUCTURING

Attachment A1 provides an alternate format for displaying the Long-Range Financial Plan, by integrating all revenue items under one section, and all expenditures under another section. For example, the costs of the new Marshall Plan on Crime are allocated among various expenditure line items rather than being highlighted using a single line under Fiscal Stabilization.

This differs from Attachment A, which starts with Baseline revenues and expenditures section (the status quo), followed by a Fiscal Stabilization section (changes to the status quo needed to make the budget sustainable over time), followed by a "Restructuring" section (expenditure reductions realized through changes enacted pursuant to chapter 9 and from new revenue sources).

The bottom line balance is the same under both formats.

ATTACHMENT A1 - CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN (FY11-12 to FY20-21, Dollars in Millions)

	GENERAL FUND	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
1	**General Revenues**										
2	Property Taxes										
3	Property Taxes	26.38	26.28	26.39	27.04	28.13	29.39	30.71	32.10	33.54	34.88
4	In-Lieu of Motor Vehicle Fees	17.58	17.31	17.52	17.95	18.67	19.51	20.39	21.31	22.27	23.16
5	Subtotal Property Taxes	43.96	43.59	43.90	45.00	46.80	48.90	51.10	53.40	55.81	58.04
6	Sales Taxes										
7	75% Point of Sale	27.73	28.33	29.08	29.90	30.75	31.86	33.00	34.19	35.42	36.66
8	25% County ERAF Backfill	8.39	9.94	9.78	10.18	10.46	10.62	11.00	11.40	11.81	12.22
9	Proposition 172	1.18	1.27	1.31	1.34	1.38	1.43	1.48	1.53	1.59	1.65
10	Measure A	-	-	6.80	27.98	28.78	29.81	30.89	32.00	33.15	34.31
11	Subtotal Sales Taxes	37.30	39.54	46.97	69.39	71.37	73.72	76.37	79.12	81.97	84.84
12	Utility Users Tax										
13	Water	3.16	3.25	3.26	3.29	3.34	3.39	3.44	3.49	3.54	3.59
14	Electric & Gas	17.11	17.06	17.60	17.99	18.26	18.53	18.81	19.09	19.38	19.67
15	Cable	1.95	2.33	2.36	2.36	2.39	2.43	2.47	2.50	2.54	2.58
16	Telecommunications	9.29	9.15	8.98	8.80	8.93	9.06	9.20	9.34	9.48	9.62
17	Subtotal Utility Users Tax	31.50	31.79	32.19	32.43	32.92	33.41	33.91	34.42	34.94	35.46
18	Franchise Tax										
19	PG&E	1.86	1.84	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.19
20	Cable/Video	3.11	2.20	2.24	2.22	2.26	2.31	2.36	2.40	2.45	2.50
21	Waste Haulers	7.50	7.55	7.52	7.63	7.79	7.94	8.10	8.26	8.43	8.60
22	Subtotal Franchise Tax	12.46	11.60	11.67	11.80	12.04	12.28	12.52	12.77	13.03	13.29
23	Other General Revenues										
24	Business License Tax	8.92	9.13	8.99	9.08	9.22	9.35	9.49	9.64	9.78	9.93
25	Hotel/Motel Tax	1.93	1.98	1.95	1.97	1.99	2.01	2.03	2.05	2.07	2.09
26	Document Transfer Tax	0.60	0.46	0.50	0.51	0.51	0.52	0.53	0.54	0.54	0.55
27	Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
28	Interest Income	0.05	0.02	0.02	0.28	0.35	0.31	0.30	0.28	0.26	0.24
29	Subtotal Other General Revenues	11.65	11.73	11.61	11.99	12.21	12.34	12.49	12.65	12.81	12.96
30	**Program Revenues**										
31	Fire Contracts	4.79	3.34	3.33	3.26	3.29	3.32	3.36	3.39	3.43	3.46
32	Code Enforcement	4.04	2.82	2.95	3.01	3.04	3.07	3.10	3.13	3.16	3.19
33	Charges for Services	1.91	1.87	1.83	1.84	1.86	1.88	1.90	1.92	1.94	1.96
34	Fines & Forfeitures	1.73	1.27	1.30	1.31	1.34	1.37	1.39	1.42	1.45	1.48
35	Revenues from Other Agencies	0.78	0.85	0.68	0.66	0.66	0.66	0.66	0.66	0.66	0.66
36	Licenses & Permits	0.40	0.38	0.37	0.37	0.38	0.39	0.40	0.40	0.41	0.42
37	Misc Other Revenues	(0.38)	3.03	(0.14)	0.44	0.44	1.19	1.19	1.19	1.19	(0.06)
38	Subtotal Program Revenues	13.27	13.56	10.31	10.90	11.01	11.88	12.00	12.11	12.24	11.11
39	**Interfund Reimbursements**										
40	Indirect Cost Allocation	5.11	4.85	4.72	4.49	4.68	5.14	5.34	5.49	5.67	5.86
41	Refunds & Reimbursements	0.87	0.45	1.33	0.25	0.26	0.26	0.27	0.27	0.28	0.28
42	Rents/Leases/Concessions	2.56	2.72	2.71	2.68	2.68	2.68	2.68	2.68	2.68	2.68
43	Parking Fund - Debt Service	1.58	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
44	Subtotal Reimbursements	10.12	8.86	9.68	8.33	8.52	8.99	9.19	9.36	9.54	9.73
45	**Total General Fund Revenues**	160.27	160.66	166.32	189.83	194.87	201.52	207.59	213.84	220.32	225.42
46											
47	**Salaries & Benefits**										
48	Salaries - Safety (w/ COLA)	34.00	34.23	38.91	41.76	45.22	49.11	51.12	52.98	54.91	56.93
49	Salaries - Non-Safety (w/ COLA)	15.48	15.59	17.72	18.71	20.00	21.44	22.27	23.06	23.87	24.72
50	Salaries - Part time, Temporary	1.05	1.06	1.48	1.50	1.54	1.59	1.65	1.70	1.75	1.81
51	Pension - CalPERS	14.14	14.24	17.75	21.96	31.61	35.41	37.17	39.05	40.99	42.43
52	Health/Dental/Vision-Employee (w/COLA)	8.79	8.85	9.37	10.04	10.68	11.34	11.68	11.95	12.24	12.53
53	Health - Retirees	7.96	2.13	-	-	-	-	-	-	-	-
54	Workers Compensation	7.16	7.21	7.19	8.42	8.87	9.27	9.46	9.60	9.74	9.88
55	Other Pay & Benefits	6.39	6.44	5.52	5.88	6.25	6.44	6.55	6.63	6.71	6.79
56	Overtime & Standby/Callback	7.61	7.66	7.23	7.65	8.23	8.81	9.06	9.32	9.58	9.85
57	Compensated Absences	3.46	2.74	2.01	3.10	3.35	3.26	3.60	3.81	4.00	4.24
58	Salaries - Safety-Expiring Grants	-	-	-	-	-	2.32	2.39	2.47	2.55	2.63
59	Net Labor Adjust/Reimbursements	-	-	0.94	1.01	1.15	1.20	1.23	1.27	1.32	1.35
60	Budgeted Vacancy Savings	-	-	(1.05)	(2.42)	(4.13)	(4.56)	(4.69)	(4.86)	(5.03)	(5.20)
61	Subtotal Salaries & Benefits	106.05	100.14	107.06	117.62	132.78	145.63	151.48	156.98	162.62	167.97

	GENERAL FUND (cont.)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
62	**Services & Supplies**										
63	Internal Services-Equipment	12.18	13.44	13.51	13.66	13.93	14.21	14.50	14.71	14.93	15.15
64	General Liability Insurance	2.24	3.01	3.37	3.44	3.49	3.54	3.60	3.65	3.71	3.76
65	Utilities	2.49	2.49	2.65	2.69	2.73	2.77	2.82	2.86	2.90	2.95
66	Maintenance & Repair Services	2.14	2.61	2.60	2.63	2.67	2.71	2.76	2.80	2.84	2.88
67	Labor/Legal Services	3.76	6.33	2.20	2.23	2.26	2.30	2.33	2.37	2.40	2.44
68	General Expenses	6.70	8.43	8.90	11.75	11.27	11.19	9.52	9.62	9.77	9.92
69	Tax Collection & Election	2.09	2.34	2.28	2.57	2.61	2.65	2.70	2.75	2.79	2.83
70	Subtotal Services & Supplies	31.61	38.66	35.51	38.98	38.98	39.39	38.23	38.75	39.33	39.92
71											
72	**Program Support for Other Funds**										
73	Library	3.98	3.91	4.00	4.30	4.88	5.08	5.22	5.40	5.58	5.73
74	Recreation	2.76	2.34	2.85	3.06	3.47	3.61	3.72	3.84	3.97	4.08
75	Golf Courses	-	0.50	0.45	0.48	0.55	0.57	0.59	0.61	0.63	0.65
76	Entertainment Venues	2.44	2.64	2.65	2.35	2.74	2.87	2.97	3.08	3.20	3.30
77	RDA Successor Agency	1.81	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
78	Downtown Marina	0.05	0.05	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
79	Capital Improvements	0.62	0.58	1.29	1.58	1.58	1.58	1.58	1.58	1.58	1.58
80	Administration Building	-	0.16	-	0.84	0.84	0.84	0.91	0.91	0.91	0.91
81	Grant Match	0.04	0.16	0.40	0.40	0.40	0.30	0.30	0.30	0.30	0.30
82	Development Services	0.15	1.00	1.00	1.00	1.00	1.00	-	-	-	-
83	Other	0.25	0.03	-	0.05	0.05	0.05	0.05	0.05	0.05	0.05
84	Subtotal Program Support	12.09	12.11	13.55	14.96	16.42	16.80	16.24	16.68	17.13	17.51
85											
86	**Debt - Bonds/Other**										
87	Jarvis Utilities Settlement	0.47	-	-	-	-	-	-	-	-	-
88	Marina Settlement	-	-	-	-	-	-	-	-	-	-
89	2003 COPs	-	-	-	0.35	0.51	0.49	0.24	0.76	0.26	0.26
90	2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
91	2006 LRBs-Parking (SEB)	0.77	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
92	2006 DBW-Debt - Marina	0.68	-	-	-	-	-	-	-	-	-
93	2007 POBs	5.62	-	-	-	-	-	1.33	1.33	1.33	1.33
94	2007 VRDLRB - 400 E.Main	0.24	-	-	-	-	-	-	-	-	-
95	2009 LRBs-Pub Facil Bonds/CIP	0.65	-	-	-	-	-	-	-	-	-
96	Debt - Other/Admin	0.42	0.21	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.24
97	Subtotal Debt	8.85	1.05	1.40	1.75	1.91	1.89	2.97	3.49	3.00	2.75
98											
99	**Mission Critical Expenditures**	-	-	-	8.00	8.00	-	-	-	-	-
100	**Efficiencies/Improved Cost Recovery**	-	-	-	(2.50)	(2.50)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
101	**Contingency**	-	1.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
102	**Total General Fund Expenditures**	158.60	153.46	159.52	180.80	197.59	202.71	207.92	214.90	221.08	227.15
103											
104	**Surplus(Shortfall)**	1.67	7.20	6.80	9.03	(2.72)	(1.19)	(0.33)	(1.06)	(0.75)	(1.73)
105	Transfer to Bankruptcy Fund	(5.59)	(6.91)	-	-	-	-	-	-	-	-
106	Encumbrance+AB 506 Carryover	(2.71)	2.71	-	-	-	-	-	-	-	-
107	Beginning Available Balance	6.64	-	3.00	9.80	18.83	16.11	14.91	14.58	13.52	12.77
108	**Ending Available Balance**	-	3.00	9.80	18.83	16.11	14.91	14.58	13.52	12.77	11.04
109	**Balance as % of Total Expenditures**	0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%
110	Vacancy Rate (% of Baseline+COLAs)	4.2%	5.9%	1.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

ATTACHMENT A1 - STOCKTON LONG-RANGE FINANCIAL PLAN (FY21-22 to FY30-31, Dollars in Millions)

	GENERAL FUND	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
1	**General Revenues**										
2	Property Taxes										
3	Property Taxes	36.28	37.73	39.24	40.81	42.41	44.04	45.69	47.38	49.09	50.83
4	In-Lieu of Motor Vehicle Fees	24.08	25.05	26.05	27.09	28.15	29.23	30.33	31.45	32.59	33.74
5	Subtotal Property Taxes	60.36	62.78	65.29	67.90	70.56	73.27	76.03	78.83	81.68	84.58
6	Sales Taxes										
7	75% Point of Sale	37.94	39.27	40.65	42.07	43.51	44.98	46.46	47.96	49.47	51.01
8	25% County ERAF Backfill	12.65	13.09	13.55	14.02	14.50	14.99	15.49	15.99	16.49	17.00
9	Proposition 172	1.70	1.76	1.82	1.89	1.95	2.02	2.09	2.15	2.22	2.29
10	Measure A	35.51	36.75	38.04	39.37	40.72	42.09	43.48	44.88	46.30	47.74
11	Subtotal Sales Taxes	87.81	90.88	94.06	97.35	100.69	104.08	107.51	110.98	114.49	118.04
12	Utility Users Tax										
13	Water	3.65	3.70	3.76	3.82	3.87	3.93	3.98	4.04	4.09	4.15
14	Electric & Gas	19.96	20.26	20.57	20.87	21.18	21.49	21.79	22.09	22.39	22.69
15	Cable	2.62	2.66	2.70	2.74	2.78	2.82	2.86	2.90	2.94	2.97
16	Telecommunications	9.76	9.91	10.06	10.21	10.36	10.51	10.66	10.80	10.95	11.10
17	Subtotal Utility Users Tax	35.99	36.53	37.08	37.64	38.19	38.74	39.29	39.83	40.37	40.91
18	Franchise Tax										
19	PG&E	2.24	2.28	2.33	2.37	2.42	2.47	2.51	2.56	2.61	2.65
20	Cable/Video	2.55	2.60	2.65	2.71	2.76	2.81	2.86	2.92	2.97	3.02
21	Waste Haulers	8.77	8.94	9.12	9.30	9.49	9.67	9.85	10.03	10.21	10.39
22	Subtotal Franchise Tax	13.55	13.83	14.10	14.38	14.67	14.95	15.23	15.51	15.79	16.07
23	Other General Revenues										
24	Business License Tax	10.08	10.23	10.38	10.54	10.69	10.85	11.02	11.18	11.35	11.52
25	Hotel/Motel Tax	2.11	2.13	2.15	2.17	2.20	2.22	2.24	2.26	2.28	2.31
26	Document Transfer Tax	0.56	0.57	0.58	0.59	0.59	0.60	0.61	0.62	0.63	0.64
27	Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
28	Interest Income	0.21	0.19	0.18	0.19	0.24	0.31	0.40	0.50	0.60	0.73
29	Subtotal Other General Revenues	13.11	13.27	13.44	13.64	13.87	14.14	14.42	14.71	15.02	15.35
30	**Program Revenues**										
31	Fire Contracts	3.49	3.53	3.56	3.60	3.64	3.67	3.71	3.75	3.78	3.82
32	Code Enforcement	3.22	3.26	3.29	3.32	3.35	3.39	3.42	3.46	3.49	3.53
33	Charges for Services	1.98	2.00	2.02	2.04	2.06	2.08	2.10	2.12	2.14	2.16
34	Fines & Forfeitures	1.51	1.54	1.57	1.60	1.63	1.67	1.70	1.73	1.77	1.80
35	Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
36	Licenses & Permits	0.43	0.44	0.45	0.46	0.46	0.47	0.48	0.49	0.50	0.51
37	Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
38	Subtotal Program Revenues	11.23	11.36	11.49	11.61	11.74	11.88	12.01	12.15	12.29	12.42
39	**Interfund Reimbursements**										
40	Indirect Cost Allocation	6.02	6.19	6.37	6.54	6.73	6.90	7.09	7.30	7.50	7.72
41	Refunds & Reimbursements	0.29	0.29	0.30	0.30	0.31	0.32	0.32	0.33	0.34	0.34
42	Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
43	Parking Fund - Debt Service	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
44	Subtotal Reimbursements	9.90	10.07	10.25	10.43	10.63	10.80	11.00	11.21	11.42	11.64
45	**Total General Fund Revenues**	231.95	238.71	245.70	252.96	260.36	267.85	275.48	283.22	291.06	299.01
46											
47	**Salaries & Benefits**										
48	Salaries - Safety (w/ COLA)	58.68	60.50	62.37	64.30	66.29	68.34	70.45	72.62	74.85	77.15
49	Salaries - Non-Safety (w/ COLA)	25.49	26.29	27.11	27.95	28.83	29.72	30.65	31.60	32.59	33.60
50	Salaries - Part time, Temporary	1.87	1.93	1.99	2.05	2.12	2.18	2.25	2.33	2.40	2.48
51	Pension - CalPERS	43.62	44.83	46.02	47.30	47.88	49.11	50.34	51.59	52.85	54.13
52	Health/Dental/Vision-Employee (w/COLA)	12.77	13.02	13.26	13.52	13.77	14.04	14.31	14.58	14.85	15.13
53	Health - Retirees	-	-	-	-	-	-	-	-	-	-
54	Workers Compensation	9.98	10.08	10.19	10.29	10.40	10.50	10.61	10.72	10.83	10.94
55	Other Pay & Benefits	6.85	6.90	6.96	7.13	7.31	7.50	7.71	7.93	8.16	8.39
56	Overtime & Standby/Callback	10.14	10.43	10.73	11.04	11.36	11.69	12.03	12.39	12.75	13.13
57	Compensated Absences	4.48	4.73	5.00	5.28	5.59	5.91	6.25	6.61	6.65	6.75
58	Salaries - Safety-Expiring Grants	2.71	2.80	2.89	2.98	3.08	3.18	3.28	3.38	3.49	3.60
59	Net Labor Adjust/Reimbursements	1.39	1.43	1.47	1.51	1.54	1.58	1.63	1.67	1.71	1.76
60	Budgeted Vacancy Savings	(5.35)	(5.49)	(5.65)	(5.81)	(5.95)	(6.12)	(6.29)	(6.47)	(6.64)	(6.82)
61	Subtotal Salaries & Benefits	172.63	177.43	182.33	187.55	192.21	197.63	203.22	208.94	214.49	220.24

GENERAL FUND (cont.)	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
62 **Services & Supplies**										
63 Internal Services-Equipment	15.37	15.59	15.82	16.05	16.29	16.53	16.77	17.02	17.27	17.52
64 General Liability Insurance	3.82	3.88	3.93	3.99	4.05	4.11	4.18	4.24	4.30	4.37
65 Utilities	2.99	3.03	3.08	3.13	3.17	3.22	3.27	3.32	3.37	3.42
66 Maintenance & Repair Services	2.92	2.97	3.01	3.06	3.10	3.15	3.20	3.25	3.29	3.34
67 Labor/Legal Services	2.47	2.51	2.55	2.59	2.63	2.67	2.71	2.75	2.79	2.83
68 General Expenses	10.07	10.22	10.38	10.54	10.70	10.87	11.03	11.20	11.37	11.55
69 Tax Collection & Election	2.89	2.93	2.97	3.02	3.08	3.13	3.18	3.22	3.29	3.34
70 Subtotal Services & Supplies	40.53	41.14	41.75	42.38	43.03	43.68	44.33	44.99	45.69	46.37
71										
72 **Program Support for Other Funds**										
73 Library	5.89	6.05	6.21	6.39	6.53	6.71	6.90	7.10	7.27	7.46
74 Recreation	4.19	4.30	4.42	4.55	4.65	4.78	4.91	5.05	5.17	5.30
75 Golf Courses	0.66	0.68	0.70	0.72	0.73	0.76	0.78	0.80	0.82	0.84
76 Entertainment Venues	3.41	3.51	3.62	3.74	3.83	4.45	4.58	4.71	4.82	4.95
77 RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
78 Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
79 Capital Improvements	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58
80 Administration Building	0.98	0.98	0.98	0.98	1.06	1.06	1.06	1.06	1.15	1.15
81 Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
82 Development Services	-	-	-	-	-	-	-	-	-	-
83 Other	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
84 Subtotal Program Support	17.97	18.37	18.77	19.22	19.64	20.60	21.07	21.55	22.07	22.53
85										
86 **Debt - Bonds/Other**										
87 Jarvis Utilities Settlement	-	-	-	-	-	-	-	-	-	-
88 Marina Settlement	-	-	-	-	-	-	-	-	-	-
89 2003 COPs	0.35	0.04	(0.26)	(0.48)	(0.67)	(0.87)	(0.98)	-	-	-
90 2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
91 2006 LRBs-Parking (SEB)	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
92 2006 DBW-Debt - Marina	-	-	-	-	-	-	-	-	-	-
93 2007 POBs	1.33	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78
94 2007 VRDLRB - 400 E.Main	-	-	-	-	-	-	-	-	-	-
95 2009 LRBs-Pub Facil Bonds/CIP	-	-	-	-	-	-	-	-	-	-
96 Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
97 Subtotal Debt	2.84	3.97	3.67	3.44	3.25	3.06	2.94	3.92	3.92	3.92
98										
99 **Mission Critical Expenditures**	-	-	-	-	-	-	-	-	-	-
100 **Efficiencies/Improved Cost Recovery**	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
101 **Contingency**	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
102 **Total General Fund Expenditures**	232.97	239.90	245.53	251.58	257.13	263.96	270.56	278.41	285.17	292.06
103										
104 **Surplus(Shortfall)**	(1.02)	(1.19)	0.17	1.38	3.22	3.88	4.92	4.81	5.89	6.95
105 Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
106 Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
107 Beginning Available Balance	11.04	10.02	8.82	9.00	10.37	13.60	17.48	22.40	27.21	33.10
108 **Ending Available Balance**	10.02	8.82	9.00	10.37	13.60	17.48	22.40	27.21	33.10	40.05
109 **Balance as % of Total Expenditures**	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%
110 Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

ATTACHMENT A1 - STOCKTON LONG-RANGE FINANCIAL PLAN (FY31-32 to FY40-41, Dollars in Millions)

	GENERAL FUND	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
1	**General Revenues**										
2	Property Taxes										
3	Property Taxes	52.60	54.39	56.20	58.04	59.90	61.78	63.68	65.60	67.54	69.49
4	In-Lieu of Motor Vehicle Fees	34.92	36.10	37.31	38.53	39.76	41.01	42.27	43.55	44.83	46.13
5	Subtotal Property Taxes	87.52	90.49	93.51	96.57	99.66	102.79	105.95	109.14	112.37	115.62
6	Sales Taxes										
7	75% Point of Sale	52.56	54.12	55.70	57.30	58.90	60.52	62.15	63.79	65.44	67.09
8	25% County ERAF Backfill	17.52	18.04	18.57	19.10	19.63	20.17	20.72	21.26	21.81	22.36
9	Proposition 172	2.36	2.43	2.50	2.57	2.64	2.72	2.79	2.86	2.94	3.01
10	Measure A	49.19	50.65	52.13	53.62	55.12	56.64	58.16	59.70	61.24	62.79
11	Subtotal Sales Taxes	121.62	125.25	128.90	132.59	136.30	140.05	143.82	147.61	151.42	155.26
12	Utility Users Tax										
13	Water	4.20	4.25	4.31	4.36	4.41	4.46	4.52	4.57	4.62	4.67
14	Electric & Gas	22.98	23.28	23.57	23.86	24.14	24.43	24.71	24.99	25.27	25.54
15	Cable	3.01	3.05	3.09	3.13	3.17	3.20	3.24	3.28	3.31	3.35
16	Telecommunications	11.24	11.38	11.53	11.67	11.81	11.95	12.09	12.22	12.36	12.49
17	Subtotal Utility Users Tax	41.44	41.97	42.49	43.01	43.53	44.04	44.55	45.05	45.55	46.05
18	Franchise Tax										
19	PG&E	2.70	2.74	2.79	2.84	2.88	2.93	2.97	3.02	3.06	3.10
20	Cable/Video	3.08	3.13	3.18	3.23	3.28	3.34	3.39	3.44	3.49	3.54
21	Waste Haulers	10.58	10.76	10.93	11.11	11.29	11.47	11.65	11.82	12.00	12.17
22	Subtotal Franchise Tax	16.35	16.63	16.90	17.18	17.46	17.73	18.00	18.27	18.54	18.81
23	Other General Revenues										
24	Business License Tax	11.69	11.87	12.05	12.23	12.41	12.60	12.79	12.98	13.17	13.37
25	Hotel/Motel Tax	2.33	2.35	2.38	2.40	2.43	2.45	2.47	2.50	2.52	2.55
26	Document Transfer Tax	0.65	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.73	0.74
27	Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
28	Interest Income	0.85	0.93	0.96	0.98	1.00	1.03	1.06	1.08	1.11	1.15
29	Subtotal Other General Revenues	15.68	15.96	16.20	16.44	16.68	16.92	17.18	17.43	17.69	17.96
30	**Program Revenues**										
31	Fire Contracts	3.86	3.90	3.94	3.98	4.02	4.06	4.10	4.14	4.18	4.22
32	Code Enforcement	3.56	3.60	3.63	3.67	3.71	3.74	3.78	3.82	3.86	3.89
33	Charges for Services	2.18	2.21	2.23	2.25	2.27	2.30	2.32	2.34	2.37	2.39
34	Fines & Forfeitures	1.84	1.88	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.20
35	Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
36	Licenses & Permits	0.52	0.53	0.54	0.55	0.57	0.58	0.59	0.60	0.61	0.62
37	Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
38	Subtotal Program Revenues	12.57	12.71	12.85	13.00	13.15	13.30	13.45	13.61	13.77	13.93
39	**Interfund Reimbursements**										
40	Indirect Cost Allocation	7.93	8.04	8.27	8.37	8.61	8.42	8.65	8.89	9.01	9.27
41	Refunds & Reimbursements	0.35	0.36	0.36	0.37	0.38	0.39	0.39	0.40	0.41	0.42
42	Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
43	Parking Fund - Debt Service	0.90	-	-	-	-	-	-	-	-	-
44	Subtotal Reimbursements	11.86	11.08	11.31	11.42	11.67	11.48	11.73	11.98	12.10	12.37
45	**Total General Fund Revenues**	307.03	314.08	322.18	330.22	338.45	346.32	354.68	363.10	371.45	380.00
46											
47	**Salaries & Benefits**										
48	Salaries - Safety (w/ COLA)	79.53	82.01	84.57	87.20	89.95	92.75	95.67	98.66	101.72	104.89
49	Salaries - Non-Safety (w/ COLA)	34.64	35.73	36.85	38.01	39.21	40.44	41.72	43.03	44.38	45.77
50	Salaries - Part time, Temporary	2.56	2.64	2.72	2.81	2.90	2.99	3.09	3.19	3.29	3.40
51	Pension - CalPERS	52.48	53.72	51.66	52.83	43.33	44.18	44.99	42.56	43.48	44.49
52	Health/Dental/Vision-Employee (w/COLA)	15.42	15.72	16.02	16.33	16.65	16.97	17.31	17.64	17.98	18.32
53	Health - Retirees	-	-	-	-	-	-	-	-	-	-
54	Workers Compensation	11.05	11.17	11.28	11.40	11.53	11.65	11.77	11.90	12.02	12.15
55	Other Pay & Benefits	8.63	8.88	9.13	9.40	9.68	9.96	10.25	10.55	10.86	11.18
56	Overtime & Standby/Callback	13.51	13.91	14.33	14.75	15.19	15.64	16.11	16.59	17.09	17.61
57	Compensated Absences	6.85	6.73	6.80	6.86	6.90	6.96	7.03	7.09	7.16	7.23
58	Salaries - Safety-Expiring Grants	3.72	3.84	3.96	4.09	4.22	4.35	4.49	4.63	4.78	4.94
59	Net Labor Adjust/Reimbursements	1.76	1.80	1.81	1.85	1.75	1.79	1.84	1.84	1.88	1.93
60	Budgeted Vacancy Savings	(6.92)	(7.10)	(7.19)	(7.38)	(7.25)	(7.44)	(7.64)	(7.75)	(7.96)	(8.17)
61	Subtotal Salaries & Benefits	223.24	229.05	231.95	238.15	234.05	240.24	246.63	249.93	256.69	263.72

	GENERAL FUND (cont.)	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
62	**Services & Supplies**										
63	Internal Services-Equipment	17.78	18.04	18.31	18.58	18.85	19.13	19.41	19.70	19.99	20.28
64	General Liability Insurance	4.43	4.50	4.57	4.63	4.70	4.77	4.85	4.92	4.99	5.07
65	Utilities	3.47	3.52	3.57	3.63	3.68	3.74	3.79	3.85	3.91	3.97
66	Maintenance & Repair Services	3.39	3.44	3.50	3.55	3.60	3.66	3.71	3.77	3.82	3.88
67	Labor/Legal Services	2.87	2.92	2.96	3.00	3.05	3.09	3.14	3.19	3.24	3.28
68	General Expenses	11.73	11.91	12.09	12.28	12.46	12.66	12.85	13.05	13.25	13.45
69	Tax Collection & Election	3.39	3.44	3.51	3.56	3.62	3.67	3.75	3.80	3.86	3.92
70	Subtotal Services & Supplies	47.06	47.77	48.50	49.23	49.97	50.72	51.50	52.27	53.06	53.85
71											
72	**Program Support for Other Funds**										
73	Library	7.48	7.65	7.66	7.85	7.43	7.61	7.79	7.79	7.99	8.19
74	Recreation	5.32	5.44	5.45	5.58	5.28	5.41	5.54	5.54	5.68	5.83
75	Golf Courses	0.84	0.86	0.86	0.88	0.84	0.86	0.88	0.88	0.90	0.92
76	Entertainment Venues	4.96	5.08	5.08	5.21	4.93	5.05	5.17	5.17	5.30	5.43
77	RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
78	Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
79	Capital Improvements	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58	1.58
80	Administration Building	1.15	1.15	1.24	1.24	1.24	1.24	1.34	1.34	1.34	1.34
81	Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
82	Development Services	-	-	-	-	-	-	-	-	-	-
83	Other	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
84	Subtotal Program Support	22.57	23.01	23.12	23.59	22.55	22.99	23.55	23.55	24.04	24.54
85											
86	**Debt - Bonds/Other**										
87	Jarvis Utilities Settlement	-	-	-	-	-	-	-	-	-	-
88	Marina Settlement	-	-	-	-	-	-	-	-	-	-
89	2003 COPs	-	-	-	-	-	-	-	-	-	-
90	2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
91	2006 LRBs-Parking (SEB)	0.90	-	-	-	-	-	-	-	-	-
92	2006 DBW-Debt - Marina	-	-	-	-	-	-	-	-	-	-
93	2007 POBs	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78	2.78
94	2007 VRDLRB - 400 E.Main	-	-	-	-	-	-	-	-	-	-
95	2009 LRBs-Pub Facil Bonds/CIP	-	-	-	-	-	-	-	-	-	-
96	Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
97	Subtotal Debt	3.92	3.02	3.02	3.02	3.02	3.02	3.02	3.02	3.02	3.02
98											
99	**Mission Critical Expenditures**	6.00	10.00	16.00	15.00	30.00	28.00	30.00	34.00	34.00	34.00
100	**Efficiencies/Improved Cost Recovery**	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)	(3.00)
101	**Contingency**	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
102	**Total General Fund Expenditures**	301.80	311.86	321.60	328.00	338.59	343.97	353.69	361.78	369.80	378.13
103											
104	**Surplus(Shortfall)**	5.24	2.22	0.58	2.21	(0.14)	2.35	0.99	1.32	1.65	1.86
105	Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
106	Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
107	Beginning Available Balance	40.05	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.48
108	**Ending Available Balance**	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.47	58.34
109	**Balance as % of Total Expenditures**	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%
110	Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

EXHIBIT C

SETTLEMENT TERM SHEET
CITY OF STOCKTON
AND
NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

SETTLEMENT TERM SHEET

CITY OF STOCKTON
and
NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

September 27, 2013

Background

This Settlement Term Sheet (the "***Term Sheet***") is intended to summarize the results of negotiations by and between the City of Stockton (the "***City***") and National Public Finance Guarantee Corporation ("***NPFG***") which have been undertaken over the course of the past several months in mediation presided over by The Hon. Elizabeth Perris, as mediator. This Term Sheet is only intended to cover the major economic points and some key business terms of the settlement (the "***Settlement***"). It contemplates that complete documentation of the proposed Settlement will be prepared which will supersede this Term Sheet and control for purposes of the Settlement and further that such complete documentation will be included in the City's Plan of Adjustment (the "***Plan***") presented to the United States Bankruptcy Court for the Eastern District of California (the "***Bankruptcy Court***") for confirmation. Due to time constraints, the Plan initially filed may only contain a description of the Settlement and refer to documentation to be approved by the parties prior to the effectiveness of the Plan, but the intent of the parties will be to complete such documentation and to file an amended Plan containing such documentation prior to confirmation.

This Term Sheet deals with the disposition of three bond issues which represent obligations of the City, as follows:

Stockton Public Financing Authority Lease Revenue Bonds, Series 2004 (Parking and Capital Projects) (the "***2004 Parking Bonds***")

Redevelopment Agency of the City of Stockton Revenue Bonds, Series 2004 (Stockton Events Center—Arena Project) (the "***2004 Arena Bonds***")

Stockton Public Financing Authority 2006 Lease Revenue Refunding Bonds, Series A (the "***2006 SEB Bonds***" and, collectively with the 2004 Parking Bonds and the 2004 Arena Bonds, the "***NPFG Bonds***")

All of the NPFG Bonds are covered by financial guaranty insurance policies pursuant to which NPFG is obligated to make full and timely payment of scheduled debt service to the holders thereof in the event that the revenues pledged to such bonds under the NPFG Bond documents are insufficient therefor. All of the NPFG Bonds are secured by leases pursuant to which the City is obligated to pay certain rental payments from its general fund. In addition, the 2004 Arena Bonds are secured by a Pledge Agreement, dated as of March 1, 2004 (the "***Arena Pledge Agreement***"), by and between the City and the Successor Agency to the Redevelopment Agency of the City of Stockton (the "***Redevelopment Agency***"), as successor in interest, pledging certain tax increment revenues of the Redevelopment Agency (the "***Pledged Tax Increment***") to secure the 2004 Arena Bonds. Pursuant to this Settlement, all of the NPFG Bonds will remain outstanding and there will be no amendments to the documents securing the NPFG Bonds other than as described below

The 2006 SEB Bonds

The City will assume the lease relating to the 2006 SEB Bonds and continue to comply with its obligations thereunder, which, in turn, will allow Wells Fargo Bank, as trustee (the "***2006 SEB Bond Trustee***") under the indenture relating to the 2006 SEB Bonds to continue to make full and timely payment on them in accordance with the 2006 SEB Bond documents.

The 2004 Arena Bonds

The City, Wells Fargo Bank, as trustee under the indenture with respect to the 2004 Arena Bonds (the "***2004 Arena Bond Trustee***"), and NPFG will enter into a Forbearance Agreement (the "***Arena Forbearance Agreement***") pursuant to which NPFG and the 2004 Arena Bond Trustee will agree not to take any action to enforce remedies under the 2004 Arena Bond documents against the City so long as the terms of the Arena Forbearance Agreement are complied with. The Arena Forbearance Agreement will provide for a restructured payment schedule for Pledged Tax Increment as shown in Schedule 1. The 2004 Arena Bond Trustee and the Redevelopment Agency will enter into an Amended and Restated Pledge Agreement (the "***Amended Pledge Agreement***") to effect such restructuring of the Redevelopment Agency's obligations pursuant to the provisions of California Health & Safety Code Section 34177.5. The Amended Pledge Agreement will provide for the new, reduced payment schedule as well as a revision to the pledge of the Pledged Tax Increment to reflect the effect of the dissolution of the former Redevelopment Agency of the City of Stockton and the change to tax increment cashflows effected by California Health & Safety Code Section 34183. The Amended Pledge Agreement will be subject to approval by the Agency's Oversight Board as well as the State Department of Finance (the "***DOF***"). Such approvals will be conditions precedent to the effectiveness of this Settlement. The Redevelopment Agency will commence the approval process as soon as possible, beginning with an informal meeting with DOF followed by the formal approval process at the time definitive documents are prepared.

In addition to the restructured Pledged Tax Increment payment schedule, the Arena Forbearance Agreement will provide a new schedule of payment obligations from the City's general fund pursuant to the Lease Agreement, dated as of March 1, 2004 (the "***Arena Lease Back***"), by and between the City and the Redevelopment Agency, as successor in interest. This schedule, attached hereto as Schedule 2, reflects slightly lower payments than the payments under Schedule 1. To the extent that the available Pledged Tax Increment is insufficient to make the payments in Schedule 1, but is in excess of the amounts payable under Schedule 2, the City will have no obligation to make up such shortfall. However, any such delinquent payments will be included on subsequent Recognized Obligation Payments Schedule filed by the Redevelopment Agency and recoverable to the extent that Pledged Tax Increment in future years is sufficient to meet the Redevelopment Agency's current debt service obligations and make up the shortfall. To the extent that the available Pledged Tax Increment in any year is less than the amounts payable by the City pursuant to Schedule 2, the City will be obligated to make up the shortfall from its general fund, subject only to the provisions of the Arena Lease Back that excuse payment in the event of abatement.

The City will agree to continue to occupy and maintain the Arena and will be responsible for any operating subsidy; *provided, however,* that in the event of a default under the Arena Forbearance Agreement by the City, NPFG or the 2004 Arena Bond Trustee shall be entitled to exercise remedies as provided in the Arena Forbearance Agreement. Such rights and remedies shall include, but are not limited to, the right to relet the Arena. The Arena Forbearance Agreement shall provide that the City has assigned its rights in any leases, licenses or contracts relating to the Arena, which assignment shall become operative from and after the occurrence of an event of default by the City under the Arena Forbearance Agreement, in each instance, at the option of NPFG or the 2004 Arena Bond Trustee.

The 2004 Parking Bonds

The City Council will determine that there is a need for the Parking Authority of the City of Stockton to function and exercise its powers pursuant to California Government Code Section 32650 et seq. in connection with the Settlement, and will transfer to the Parking Authority the City's fee simple title to the three parking garages and any other property that is currently subject to the (i) Site and Facility Lease dated as of June 1, 2004 by and between the Stockton Public Financing Authority (the "***Authority***") and the City (the "***Parking Structure Lease Out***") and the (ii) Lease Agreement, dated as of June 1, 2004, by and between the Authority, as lessor, and the City, as lessee (the "***Parking Structure Lease Back***" and collectively, with the Parking Structure Lease Out, the "***2004 Parking Bonds Leases***") (such property and garages, collectively, the "***Garages***").

The Parking Authority will accept fee simple title to the Garages, subject to the 2004 Parking Bonds Leases and any other applicable documents or agreements relating to the 2004 Parking Bonds (such document the "***2004 Parking Bond Documents***"). In connection therewith, so long as the City and NPFG do not pursue an alternate transaction if the SCC 16 Settlement (as hereinafter defined) is not effectuated, (i) the City shall assign to the Parking Authority all of the City's rights, title and interest as lessor under the Parking Structure Lease Out, subject to the Parking Structure Lease Back, and the Parking Authority shall assume all of the City's obligations under the Parking Structure Lease Out, (ii) the City shall assign to the Parking Authority all of the City's rights, title and interest as lessee under the Parking Structure Lease Back, subject to (A) the Master Lease, dated as of February 26, 2008 (as amended and supplemented, including as amended and supplemented by the SCC 16 Settlement, the "***SCC 16 Lease***") and (B) the rights of the Authority, Wells Fargo Bank, as trustee under the indenture with respect to the 2004 Parking Bonds (the "***2004 Parking Bond Trustee***") and NPFG under the 2004 Parking Bond Documents, and the Parking Authority shall assume all of the City's obligations under the 2004 Parking Bonds Leases, the SCC 16 Lease, and the 2004 Parking Bond Documents.

The City will also transfer all of its rights, title and interests in each of the other parking facilities within the Downtown Parking District, being the area shown on Figure 1, to the Parking Authority, including surface parking lots and other parking garages. The Parking Authority will also take over the operation, maintenance and collection of revenues from parking meters in the

Downtown Parking District. Also, the Parking Authority will take over responsibility for parking enforcement in the Downtown Parking District and the citation revenues from such enforcement activity shall be assigned to the Parking Authority. The Parking Authority will likely hire a private contractor to perform all or substantially all of its operations. In addition, any new parking assets within the Downtown Parking District shall be owned by the Parking Authority.

NPFG and the 2004 Parking Bond Trustee will turn over possession of the Garages to the Parking Authority.

The City, Parking Authority, 2004 Parking Bond Trustee and NPFG will enter into a Forbearance Agreement (the "***Parking Forbearance Agreement***," and together with the Arena Forbearance Agreement, the "***Forbearance Agreements***") pursuant to which NPFG and the 2004 Parking Bond Trustee will agree not to take any action to enforce remedies under the 2004 Parking Bond Documents against the City so long as the terms of the Parking Forbearance Agreement are complied with. Pursuant to the Parking Forbearance Agreement, the Parking Authority will agree to make payments to the 2004 Parking Bond Trustee as set forth in Schedule 3.

The obligation of the Parking Authority to make the payments to the 2004 Parking Bond Trustee at the times and in the amounts set forth on Schedule 3 shall be limited obligations of the Parking Authority payable solely from and secured by a first priority lien on and security interest in the gross revenues of the Parking Authority, and shall be treated as an Operation and Maintenance expense of the Parking Authority enterprise fund, senior to any future Parking Authority debt service obligations. The City's general fund will not have any obligation with respect to such payments.

The Parking Authority will have the right to prepay, in whole, but not in part, the payments described in Schedule 3 at any time, upon 30 days' prior written notice to the 2004 Parking Bond Trustee, by payment to the 2004 Parking Bond Trustee of an amount equal to the aggregate unpaid principal and interest amounts set forth on Schedule 3 plus **[amount reflecting present value of the remaining stream of payments]** required to be made by the Stockton City Center 16, LLC (the "***SCC 16***") to the City pursuant to the SCC 16 Settlement.

The Parking Authority will have the right to issue revenue bonds secured by a pledge of the net revenues of the Parking Authority, on a subordinate basis to the obligations to make the payments under Schedule 3, so long as it meets a net revenue coverage test of 1.1 times the maximum annual debt service on such parking revenue bonds, based on the most recent audited financial statement of the Parking Authority.

Special tax revenues from the City's Community Facilities District 2001-1 (the "***Downtown CFD***") are *not* pledged to any payment under this settlement, and would not constitute Parking Authority revenues; however, a portion of such special tax revenues are expected to be used as permitted under the Downtown CFD proceedings to support some of the maintenance and operations costs of certain parking facilities within the Downtown District, thereby reducing the amount of such expenses that must be paid from the Parking Authority revenues.

The City, the 2004 Parking Bond Trustee and NPFG anticipate entering into a Settlement Agreement (the "***SCC 16 Settlement***") with SCC 16. Pursuant to the SCC 16 Settlement, SCC 16 will (among other things) agree to make certain payments as additional rent under the SCC 16 Lease, from rental income received by SCC 16 from its subtenants under certain subleases of the space leased by the SCC 16 pursuant to the SCC 16 Lease (the "***Subleased Space***"). The City and Parking Authority will agree that all such payments from SCC 16 to the City shall be assigned and payable to the 2004 Parking Bond Trustee for the 2004 Parking Bonds.

The City and Parking Authority will agree that, upon the occurrence of an event of default under the SCC 16 Lease or in the event that the Subleased Space is abandoned by SCC 16 or the SCC 16 Lease with SCC 16 is terminated for any reason, in addition to or in connection with the exercise of all of the other rights granted to the 2004 Parking Bond Trustee as assignee of the City and the Parking Authority, the 2004 Parking Bond Trustee shall have the right, with or without terminating the SCC 16 Lease, to reenter the Subleased Space, remove all persons and property therefrom and to relet the Subleased Space on behalf of the Parking Authority in accordance with the terms of the Parking Structure Lease Back, to any then-existing subtenants thereof or to any other parties as the 2004 Parking Bond Trustee may determine, and any reletting revenues derived therefrom shall be assigned, and paid directly to, the 2004 Parking Bond Trustee to be applied to the payment of the principal of, and interest on the 2004 Parking Bonds at such times and in such manner as shall be determined by NPFG. **Other than as provided in the immediately preceding sentence, in no event will the City or the Parking Authority be required to make any payment with respect to the SCC 16 Settlement from any source of funds other than the actual amounts, if any, received by the City or the Parking Authority with respect to the Subleased Space.** The City and Parking Authority will agree to assign absolutely and unconditionally their rights under the SCC 16 Lease to the 2004 Parking Bond Trustee and/or NPFG to the extent necessary to allow the 2004 Parking Bond Trustee and/or NPFG to enforce the SCC 16 Lease and the SCC 16 Settlement and will agree that they will not amend or consent to any waiver, forbearance or modification of the SCC 16 Lease or the SCC 16 Settlement without the prior written consent of the 2004 Parking Bond Trustee and NPFG; *provided that*, at the direction of NPFG or the 2004 Parking Bond Trustee, the City shall take such actions as may be required by NPFG or the 2004 Parking Bond Trustee to enforce the SCC 16 Settlement against SCC 16.

Professional Fees

Each of the City and NPFG shall bear the fees and costs of its respective professionals (including, but not limited to, its attorneys and financial advisors). Without limiting the foregoing, the City will waive the right to seek reimbursement of any fees and costs incurred by its professionals (including, but not limited to, its attorneys and financial advisors) related to the eligibility trial or the AB 506 "ask," and NPFG will waive the right to seek fees incurred by its professionals under the bond documents except for any professional fees incurred as a result of a future breach of the Plan.

The 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee shall each be entitled to recover reasonable attorneys' fees and costs from reserve fund amounts held by the respective trustees under the respective bond documents and to recover reasonable attorneys' fees with respect to any breach of the Plan in the future from such amounts; but, in the event the respective reserve fund amounts do not cover fees to date for any of the trustees (which we do not believe is the case), such trustee shall not be entitled to payment of same from the City's general fund.

Support for the Plan

NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee, and the 2006 SEB Bond Trustee will agree to support the City's Plan so long as it contains terms consistent with this Settlement with respect to the NPFG Bonds.

Mutual Releases

The City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee, and the 2006 SEB Bond Trustee, will exchange mutual releases, subject to certain carve-outs for, among other things, the transactions contemplated herein, the NPFG Bonds, the NPFG policies securing the payment of the NPFG Bonds, and breaches of the Settlement and/or the SCC 16 Settlement.

No Adverse Effect

The City shall cause a nationally recognized bond counsel reasonably acceptable to the City and NPFG, which may be Orrick, to deliver its opinion to the Authority, NPFG and the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable, for the benefit of the holders of the NPFG Bonds, that the transactions contemplated herein shall not cause interest on the NPFG Bonds to become includable in the gross income of the holders thereof for federal income tax purposes, and the City and the Authority shall agree to take such actions as may reasonably necessary to preserve such tax-exempt status of interest on the NPFG Bonds, including, without limitation, the tax-exempt current refunding of the bonds for federal income tax purposes, if necessary.

Documentation and Effectiveness

The City, NPFG and the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable, will work diligently to complete the preparation of the Forbearance Agreements and any other documents required to implement this Term Sheet. The City will commence the process of determining that there is a need for the Parking Authority of the City of Stockton to function and exercise its powers pursuant to California Government Code Section 32650 et seq. in connection with the Settlement concurrently with the proceedings for approval of the Plan.

The Forbearance Agreements, supplemental indentures, deeds, assignments, pledge agreements, control agreements, disclosure documents, and all of the other documents, instruments and agreements to be executed and delivered in connection with the consummation of the transactions contemplated hereby, including, without limitation, the opinion letters of counsel to the City and bond counsel, and the provisions of the Plan implementing the terms hereof shall, in each case, be in form and substance reasonably satisfactory to the City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable, and shall contain representations, warranties, covenants, events of default and such additional terms and conditions as are customary for transactions of this nature and otherwise reasonably acceptable to the City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable.

The parties anticipate that the effectiveness of all of the documents involved in this Settlement be contingent upon the confirmation by the Court of the Plan and the Plan becoming effective.

The effectiveness of this Settlement is also contingent upon the entry into, and effectiveness of, the SCC 16 Settlement; *provided*, *however*, in the event that the parties are unable to agree to the terms of an SCC 16 Settlement that is acceptable to NPFG, the City, at the request or direction of the 2004 Parking Bond Trustee or NPFG shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPFG to terminate the Parking Structure Lease Back as part of an alternative arrangement that is acceptable to the City and the 2004 Parking Bond Trustee that is not conditioned upon the SCC 16 Settlement.

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This Term Sheet and all any and all past, present or future discussions, negotiations, conferences, meetings, telephone conferences, drafts of agreements, correspondence and writings, submissions of data, financial information, financial projections and forecasts and term sheets; whether oral, written or both, relating to the various courses of action described herein or which may be explored with respect to or in connection with the NPFG Bonds and the transactions contemplated herein and therein (the "***Discussions***") shall be considered to be communications to compromise and settle disputed matters. Nothing herein is intended to imply that Discussions prior to the date of this Term Sheet, were not "compromise negotiations" as defined in the Federal R. Evid. 408 and similar state laws and rules limiting the admissibility or discoverability of evidence concerning "compromise negotiations" or other communications to compromise and settle disputed matters (the "***Rules***"). This Term Sheet and all Discussions shall be considered "compromise negotiations" pursuant to the Rules, and no such Discussions shall ever be considered "otherwise discoverable" or be permitted to be discoverable or admissible or constitute evidence in connection with any bankruptcy case, legal proceeding, case, or litigation concerning any of the NPFG Bonds or for any other purpose such as to proving bias, admission of default, prejudice, interest of a witness or a party, negating a contention of undue delay, or an effort to obstruct a criminal investigation or prosecution as provided by the Rules.

This Term Sheet is being distributed and presented as a preliminary proposal for discussion purposes only and is not intended to be nor shall it be deemed a commitment or an offer on the part of any party hereto or any other person to enter into any of the transactions contemplated herein or otherwise. This Term Sheet merely represents a proposal of certain of the terms and conditions with respect to the proposed transactions and does not purport to reflect all matters on which the parties must reach agreement before they intend to be legally bound, and material and essential terms of such an agreement remain yet to be negotiated. Any final agreement with respect to the transactions contemplated herein may be conditioned upon additional terms and conditions and/or be substantially different from the terms and conditions discussed in this term sheet. Neither the delivery of this Term Sheet nor any discussions or representations with respect to the transactions contemplated hereby are intended to be, nor shall they constitute, a commitment, approval or binding offer of any kind or an admission of any liability or otherwise on the part of the City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and/or the 2006 SEB Bond Trustee, or any of their respective affiliates or any other party, and receipt of this Term Sheet does not in any way constitute a commitment or offer or admission of liability by the City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and/or the 2006 SEB Bond Trustee or any of their respective affiliates or any other party, to enter into any agreement or to enter into, offer or accept the above described transactions or otherwise. None of the parties referred to herein shall be bound by any of the terms hereof. **This is not a commitment, offer, acceptance, approval or admission of any kind or an indication that any commitment, offer, acceptance, approval or admission will be forthcoming. This term sheet is subject to change or withdrawal at any time.**

Attachments

Schedule 1: Revised Pledged Tax Increment Payment Schedule
Schedule 2: City's Maximum General Fund Payment Schedule, 2004 Arena Bonds
Schedule 3: Parking Installment Payment Schedule

Figure 1: Downtown Parking District Map

SCHEDULE 1: REVISED PLEDGED TAX INCREMENT PAYMENT SCHEDULE

Date	Annual Debt Service
9/1/2013	
9/1/2014	2,542,553.95
9/1/2015	2,591,972.37
9/1/2016	2,650,716.64
9/1/2017	2,703,523.65
9/1/2018	2,762,164.13
9/1/2019	2,789,110.81
9/1/2020	2,901,782.49
9/1/2021	2,975,126.93
9/1/2022	3,046,835.85
9/1/2023	3,113,133.32
9/1/2024	3,185,079.49
9/1/2025	3,255,771.74
9/1/2026	3,368,434.55
9/1/2027	3,444,630.00
9/1/2028	3,519,247.35
9/1/2029	3,627,234.10
9/1/2030	3,735,787.50
9/1/2031	3,811,362.85
9/1/2032	3,891,702.35
9/1/2033	3,976,028.20
9/1/2034	4,058,599.95
9/1/2035	4,143,968.70
9/1/2036	4,236,750.00
Totals	**76,331,516.92**

SCHEDULE 2: CITY'S MAXIMUM GENERAL FUND PAYMENT SCHEDULE, 2004 ARENA BONDS

Date	Annual Debt Service
9/1/2013	
9/1/2014	2,542,553.95
9/1/2015	2,591,972.37
9/1/2016	2,650,716.64
9/1/2017	2,703,523.65
9/1/2018	2,762,164.13
9/1/2019	2,789,110.81
9/1/2020	2,898,756.25
9/1/2021	2,956,156.25
9/1/2022	3,019,556.25
9/1/2023	3,081,962.50
9/1/2024	3,144,625.00
9/1/2025	3,210,450.00
9/1/2026	3,280,750.00
9/1/2027	3,351,750.00
9/1/2028	3,419,750.00
9/1/2029	3,499,500.00
9/1/2030	3,570,000.00
9/1/2031	3,641,250.00
9/1/2032	3,717,750.00
9/1/2033	3,798,750.00
9/1/2034	3,878,500.00
9/1/2035	3,951,500.00
9/1/2036	4,042,500.00
Totals	**74,503,547.81**

SCHEDULE 3: PARKING INSTALLMENT PAYMENT SCHEDULE

City of Stockton
Parking Enterprise Fund
Projected Payment Schedule
Gross Debt Service Schedule

Date	Principal	Coupon	Yield	Dollar Price	Accreted Interest	Periodic Debt Service	Fiscal Year Debt Service	Scheduled Debt Service	Remaining Principal	Optional Prepayment
06/01/14										
09/01/14	699,611.38	-	5.000	98.765	8,691.12	708,302.50		708,302.50	25,611,145.68	26,319,448.18
03/01/15	682,547.65	-	5.000	96.364	25,754.85	708,302.50	1,416,605.00	708,302.50	24,928,598.03	25,636,900.53
09/01/15	665,900.15	-	5.000	94.014	42,402.35	708,302.50		708,302.50	24,262,697.88	24,971,000.38
03/01/16	649,658.68	-	5.000	91.721	58,643.82	708,302.50	1,416,605.00	708,302.50	23,613,039.20	24,321,341.70
09/01/16	633,813.35	-	5.000	89.483	74,489.15	708,302.50		708,302.50	22,979,225.85	23,687,528.35
03/01/17	618,354.48	-	5.000	87.301	89,948.02	708,302.50	1,416,605.00	708,302.50	22,360,871.37	23,069,173.87
09/01/17	603,272.67	-	5.000	85.172	105,029.83	708,302.50		708,302.50	21,757,598.70	22,465,901.20
03/01/18	588,558.70	-	5.000	83.094	119,743.80	708,302.50	1,416,605.00	708,302.50	21,169,040.00	21,877,342.50
09/01/18	644,547.16	-	5.000	81.068	150,526.85	795,074.01		795,074.01	20,524,492.84	21,319,566.85
03/01/19	628,826.50	-	5.000	79.090	166,247.51	795,074.01	1,590,148.02	795,074.01	19,895,666.34	20,690,740.35
09/01/19	615,997.01	-	5.000	77.161	182,327.00	798,324.01		798,324.01	19,279,669.33	20,077,993.34
03/01/20	600,972.69	-	5.000	75.279	197,351.32	798,324.01	1,596,648.02	798,324.01	18,678,696.64	19,477,020.65
09/01/20	588,749.47	-	5.000	73.443	212,889.54	801,639.01		801,639.01	18,089,947.17	18,891,586.18
03/01/21	574,389.72	-	5.000	71.652	227,249.29	801,639.01	1,603,278.02	801,639.01	17,515,557.45	18,317,196.46
09/01/21	562,743.89	-	5.000	69.904	242,276.42	805,020.31		805,020.31	16,952,813.56	17,757,833.87
03/01/22	549,018.43	-	5.000	68.199	256,001.88	805,020.31	1,610,040.62	805,020.31	16,403,795.13	17,208,815.44
09/01/22	537,922.51	-	5.000	66.536	270,546.73	808,469.24		808,469.24	15,865,872.62	16,674,341.86
03/01/23	524,802.45	-	5.000	64.913	283,666.79	808,469.24	1,616,938.48	808,469.24	15,341,070.17	16,149,539.41
09/01/23	514,230.27	-	5.000	63.330	297,756.87	811,987.14		811,987.14	14,826,839.90	15,638,827.04
03/01/24	501,688.07	-	5.000	61.785	310,299.07	811,987.14	1,623,974.28	811,987.14	14,325,151.83	15,137,138.97
09/01/24	491,614.72	-	5.000	60.278	323,960.68	815,575.40		815,575.40	13,833,537.11	14,649,112.51
03/01/25	479,624.12	-	5.000	58.808	335,951.28	815,575.40	1,631,150.80	815,575.40	13,353,912.99	14,169,488.39
09/01/25	470,025.86	-	5.000	57.374	349,209.57	819,235.43		819,235.43	12,883,887.13	13,703,122.56
03/01/26	458,561.82	-	5.000	55.974	360,673.61	819,235.43	1,638,470.86	819,235.43	12,425,325.31	13,244,560.74
09/01/26	449,416.07	-	5.000	54.609	373,552.59	822,968.66		822,968.66	11,975,909.24	12,798,877.90
03/01/27	438,454.70	-	5.000	53.277	384,513.96	822,968.66	1,645,937.32	822,968.66	11,537,454.54	12,360,423.20
09/01/27	429,739.94	-	5.000	51.978	397,036.61	826,776.55		826,776.55	11,107,714.60	11,934,491.15
03/01/28	419,258.48	-	5.000	50.710	407,518.07	826,776.55	1,653,553.10	826,776.55	10,688,456.12	11,515,232.67
09/01/28	410,954.22	-	5.000	49.473	419,706.38	830,660.60		830,660.60	10,277,501.90	11,108,162.50
03/01/29	400,930.95	-	5.000	48.267	429,729.65	830,660.60	1,661,321.20	830,660.60	9,876,570.95	10,707,231.55
09/01/29	393,017.70	-	5.000	47.089	441,604.64	834,622.34		834,622.34	9,483,553.25	10,318,175.59
03/01/30	383,431.90	-	5.000	45.941	451,190.44	834,622.34	1,669,244.68	834,622.34	9,100,121.35	9,934,743.69
09/01/30	375,891.07	-	5.000	44.820	462,772.23	838,663.30		838,663.30	8,724,230.28	9,562,893.58
03/01/31	366,723.00	-	5.000	43.727	471,940.30	838,663.30	1,677,326.60	838,663.30	8,357,507.28	9,196,170.58
09/01/31	359,536.92	-	5.000	42.661	483,248.17	842,785.09		842,785.09	7,997,970.36	8,840,755.45
03/01/32	350,767.72	-	5.000	41.620	492,017.37	842,785.09	1,685,570.18	842,785.09	7,647,202.64	8,489,987.73

Date	Principal	Coupon	Yield	Dollar Price	Accreted Interest	Periodic Debt Service	Fiscal Year Debt Service	Scheduled Debt Service	Remaining Principal	Optional Prepayment
09/01/32	343,919.53	-	5.000	40.605	503,069.78	846,989.31		846,989.31	7,303,283.11	8,150,272.42
03/01/33	335,531.25	-	5.000	39.615	511,458.06	846,989.31	1,693,978.62	846,989.31	6,967,751.86	7,814,741.17
09/01/33	329,004.92	-	5.000	38.648	522,272.70	851,277.62		851,277.62	6,638,746.94	7,490,024.56
03/01/34	320,980.41	-	5.000	37.706	530,297.21	851,277.62	1,702,555.24	851,277.62	6,317,766.53	7,169,044.15
09/01/34	314,760.67	-	5.000	36.786	540,891.02	855,651.69		855,651.69	6,003,005.86	6,858,657.55
03/01/35	307,083.58	-	5.000	35.889	548,568.11	855,651.69	1,711,303.38	855,651.69	5,695,922.28	6,551,573.97
09/01/35	301,155.88	-	5.000	35.014	558,957.36	860,113.24		860,113.24	5,394,766.40	6,254,879.64
03/01/36	293,810.62	-	5.000	34.160	566,302.62	860,113.24	1,720,226.48	860,113.24	5,100,955.78	5,961,069.02
09/01/36	288,161.12	-	5.000	33.326	576,502.91	864,664.03		864,664.03	4,812,794.66	5,677,458.69
03/01/37	281,132.80	-	5.000	32.514	583,531.23	864,664.03	1,729,328.06	864,664.03	4,531,661.86	5,396,325.89
09/01/37	275,748.30	-	5.000	31.721	593,557.53	869,305.83		869,305.83	4,255,913.56	5,125,219.39
03/01/38	269,022.74	-	5.000	30.947	600,283.09	869,305.83	1,738,611.66	869,305.83	3,986,890.82	4,856,196.65
09/01/38	263,890.69	-	5.000	30.192	610,149.77	874,040.46		874,040.46	3,723,000.13	4,597,040.59
03/01/39	257,454.33	-	5.000	29.456	616,586.13	874,040.46	1,748,080.92	874,040.46	3,465,545.80	4,339,586.26
09/01/39	252,562.77	-	5.000	28.737	626,307.02	878,869.79		878,869.79	3,212,983.03	4,091,852.82
03/01/40	246,402.70	-	5.000	28.036	632,467.09	878,869.79	1,757,739.58	878,869.79	2,966,580.33	3,845,450.12
09/01/40	241,740.24	-	5.000	27.353	642,055.47	883,795.71		883,795.71	2,724,840.09	3,608,635.80
03/01/41	235,844.14	-	5.000	26.685	647,951.57	883,795.71	1,767,591.42	883,795.71	2,488,995.95	3,372,791.66
09/01/41	231,399.93	-	5.000	26.035	657,420.21	888,820.14		888,820.14	2,257,596.02	3,146,416.16
03/01/42	225,756.03	-	5.000	25.400	663,064.11	888,820.14	1,777,640.28	888,820.14	2,031,839.99	2,920,660.13
09/01/42	221,519.74	-	5.000	24.780	672,425.32	893,945.06		893,945.06	1,810,320.25	2,704,265.31
03/01/43	216,116.82	-	5.000	24.176	677,828.24	893,945.06	1,787,890.12	893,945.06	1,594,203.43	2,488,148.49
09/01/43	212,078.62	-	5.000	23.586	687,093.86	899,172.48		899,172.48	1,382,124.81	2,281,297.29
03/01/44	206,905.97	-	5.000	23.011	692,266.51	899,172.48	1,798,344.96	899,172.48	1,175,218.84	2,074,391.32
09/01/44	206,968.52	-	5.000	22.449	714,961.92	921,930.44	-	921,930.44	968,250.32	1,890,180.76
03/01/45	201,920.51	-	5.000	21.902	720,009.93	921,930.44	1,843,860.88	921,930.44	766,329.81	1,688,260.25
09/01/45	198,157.73	-	5.000	21.368	729,211.32	927,369.05	-	927,369.05	568,172.08	1,495,541.13
03/01/46	193,324.61	-	5.000	20.847	734,044.44	927,369.05	1,854,738.10	927,369.05	374,847.47	1,302,216.52
09/01/46	189,737.61	-	5.000	20.338	743,178.82	932,916.43	-	932,916.43	185,109.86	1,118,026.29
03/01/47	185,109.86	-	5.000	19.842	747,806.57	932,916.43	1,865,832.86	932,916.43	-	932,916.43
Totals	**26,310,757.06**				**28,756,987.68**	**55,067,744.74**	**55,067,744.74**			

FIGURE 1: DOWNTOWN PARKING DISTRICT MAP

Boundary Map of City of Stockton CFD 2001-1 (Downtown Parking District)

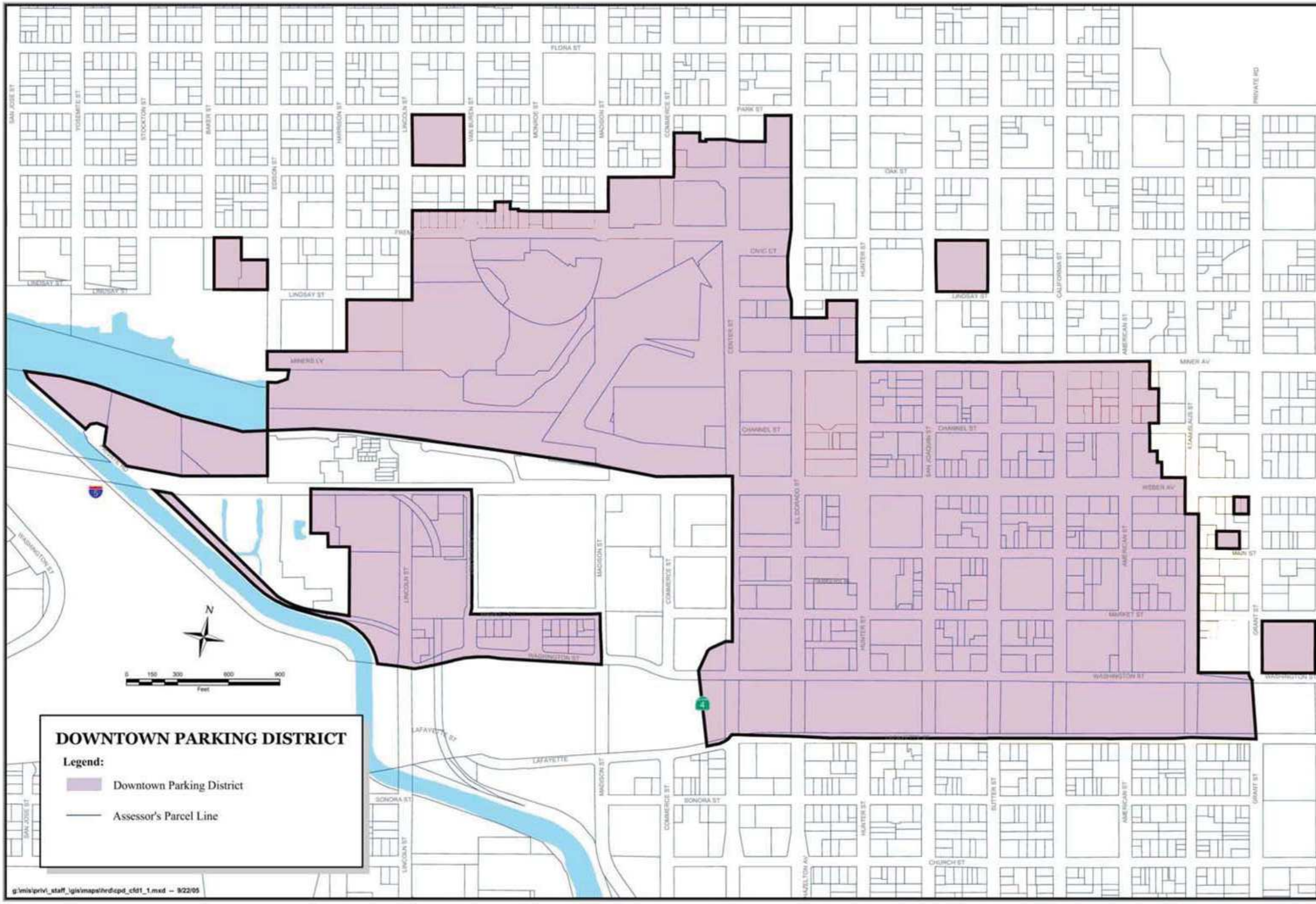

EXHIBIT D

FINAL SETTLEMENT TERM SHEET
ASSURED GUARANTY MUNICIPAL CORP.
AND
CITY OF STOCKTON

FINAL SETTLEMENT TERM SHEET

ASSURED GUARANTY MUNICIPAL CORP.
and
CITY OF STOCKTON

October 2, 2013

I. Background

This memorandum (the "Term Sheet") summarizes the proposal of the City of Stockton, California (the "City") to Assured Guaranty Municipal Corp. ("AGM") concerning the AGM Debt Obligations. Capitalized terms used herein are defined in Part III of the Term Sheet. This Term Sheet supersedes all prior term sheets, memoranda and other communications with respect to the AGM Obligations.

II. Introduction

AGM and the City have engaged in mediation for several months with The Hon. Elizabeth Perris, as mediator, and have exchanged several offers and counteroffers, and the parties believe they have now reached conceptual agreement on a settlement as outlined below. It should be noted that all of the provisions of this term sheet are subject to final documentation and final approval of the City Council. Such final approved documents shall control for all purposes any settlement. Until final definitive documents are executed and delivered by both parties, neither party shall be bound by this Term Sheet. All definitive documentation pertaining to this term sheet (including the Plan) shall be in form and substance acceptable to AGM and the City, and shall include other non-monetary terms and conditions not set forth herein (including events of default) as agreed to by the parties.

III. Definitions

"2007 Lease Ask Payments" means, for each fiscal year, the payments shown in Schedule 1.

"2007 Office Building Bonds" means the Stockton Public Financing Authority Variable Rate Demand Lease Revenue Bonds, 2007 Series A (Building Acquisition Financing Project) and the Stockton Public Financing Authority Taxable Variable Rate Demand Lease Revenue Bonds, 2007 Series B (Building Acquisition Financing Project).

"400 E. Main Office Building Property" means the real property and improvements thereon located at 400 East Main Street, Stockton that are subject to the Office Building Lease Back.

"AGM" means Assured Guaranty Municipal Corp, in its capacity as insurer of the 2007 Office Building Bonds and the Pension Obligation Bonds.

"AGM Obligations" means, collectively, the 2007 Office Building Bonds and the Pension Obligation Bonds.

"Base Rental Payments" means for each fiscal year, the amount shown in Schedule 2, which are payable to AGM or any successor in interest pursuant to the New 400 E. Main Lease.

"City" means the City of Stockton, California.

"City Space" means the space identified by the City in the 400 E. Main Office Building Property and use of the parking spaces identified by the City. The City space shall be approximately 65,000 square feet of rentable space. The City will work with AGM and CB Richard Ellis, as the property manager of the building ("CBRE") to define the City Space based on the City's programmatic needs. The space will likely include the 4th floor and a portion for the 3rd floor and will also include a portion of the ground floor space for public access needs and provision of services to the general public, such as building permits and cashier functions.

"Common Areas" means the portions of 400 E. Main Office Building Property that are used in common by the City with respect to its occupancy of the City Space and other tenants or users of 400 E. Main Office Building Property. The City will work with AGM and CBRE to define the Common Areas based on the City's programmatic needs.

"Effective Date" means the date that the Settlement becomes effective, being the effective date of the Plan, which includes the terms set forth in this Term Sheet.

"New 400 E. Main Lease" means the lease to the City of a portion of the 400 E. Main Office Building Property as described in Part IV.

"Office Building Lease Back " means that certain Lease Agreement, dated as of November 1, 2007, by and between the Stockton Public Financing Authority, as lessor, and the City, as lessee.

"Plan" means the City's plan of adjustment, as confirmed by an order entered in its pending chapter 9 bankruptcy case.

"Pension Obligation Bonds" means the City of Stockton 2007 Taxable Pension Obligation Bonds, Series A and the City of Stockton 2007 Taxable Pension Obligation Bonds, Series B.

"Pension Obligation Bonds Claim" means the amount owing to AGM on account of the Pension Obligation Bonds on June 28, 2013, which is comprised of unpaid principal of $124.28 million plus any accrued and unpaid interest as of such date.

"Pension Obligation Bonds Payments" means, collectively the four forms of payment on the Pension Obligation Bonds specified in Section V of this Term Sheet.

"Settlement" means the settlement between the City and AGM effecting the terms set forth in this Term Sheet, as documented and incorporated into the Plan.

"Special Fund Payments" means the payments on the Pension Obligation Bonds set forth in Schedule 3.

"Supplemental Payments" means the payments on the Pension Obligation Bonds set forth in Schedule 4.

"Term" means the term of the Settlement, which commences on the Effective Date and ends on July 1, 2053.

IV. The New 400 E. Main Lease and Disposition of 400 E. Main Office Building Property

Upon written request of AGM, the City will transfer fee title in the 400 E. Main Office Building Property ("400 E. Main") to AGM, subject only to the New 400 E. Main Lease. Prior to such transfer, AGM shall sublease the City Space to the City as provided in the New 400 E. Main Lease. After such transfer, AGM may elect to keep the property or sell it at some future date to the County of San Joaquin or any other purchaser, subject to the New 400 E. Main Lease. AGM shall be entitled to all rent and profits of 400 E. Main after the transfer, and to all of the sales proceeds of the Building should AGM elect to sell 400 E. Main. Pursuant to the Settlement, the City shall be released from any and all liability with respect to the 2007 Office Building Bonds and the leases and other contracts to which the City is a party in connection with such bonds shall be terminated. AGM shall obtain the consent of the Trustee to such termination and release.

The New 400 E. Main Lease shall include the following terms:

- Initial term starts on Effective Date (or such date as agreed) and ends on June 30, 2022. Term may be extended at City's option for two additional 2-year periods from June 30, 2022 to June 30, 2024, and again from June 30, 2024 to June 30, 2026, upon at least 90 days prior notice to AGM or its successor in interest.
- City shall enjoy exclusive use of the City Space and joint use of the Common Areas of the 400 E. Main Office Building Property.
- City shall be responsible for the cost of all tenant improvements to the City Space.
- City shall pay Base Rental Payments in equal monthly installments, in advance, on the first business day of each month. Such rent is based on a "fully serviced" building and shall not be grossed up for CAM charges, insurance, taxes etc..
- City's obligations under the New 400 E. Main Lease shall be subject to abatement in the event City does not enjoy beneficial use and occupancy of the City Space or joint use of the Common Areas.
- The New 400 E. Main Lease will supersede the existing lease between the City and AGM's agents for the 4th floor space.
- City shall have the right to sublet or assign any portion of its leasehold premises with the prior written consent of Landlord (not to be unreasonably withheld), so long as City remains obligated on the New 400 E. Main Lease. Grounds for a reasonable denial of Landlord consent shall include, without limitation, City marketing space for assignment or sublease to third parties at a time when Landlord is marketing other space in the Building to third parties for direct lease; provided that City and Landlord shall each have the right to market their respective space on market terms.
- Any transferee, whether voluntary or involuntary, of AGM's ownership interest in 400 E. Main takes title subject to the New 400 E. Main Lease, and City's use and occupancy of the City Space and the Common Areas shall not be disturbed so long as City is not in default under the New 400 E. Main Lease.

V. Non-Contingent Payments on Pension Obligation Bonds.

City agrees to make payments on the Pension Obligation Bonds in each fiscal year equal to the sum of the following:

- 2007 Lease Ask Payments;
- Special Fund Payments; and
- Supplemental Payments;

provided that, the Pension Obligation Bonds Payments shall be the sole non-contingent payments payable to AGM or any other party with respect to the Pension Obligation Bonds, *and provided further that*, the Pension Obligations Bond Claim shall be satisfied only if the Pension Obligation Bonds Payments, together with interest on advances made by AGM with respect to such obligations at the rate of interest on the Pension Obligation Bonds, have been paid in full pursuant to the requirements of this Term Sheet.

Payments on the Pension Obligation Bonds shall be paid on the dates and in the amounts shown in the Schedules attached hereto.

AGM shall also be entitled to Contingent Payments in accordance with the City's Contingent Payment Model, which is attached as Exhibit A.

VI. Other Creditor Settlements/Treatments

City agrees that it will not enter into any settlement agreement (except the settlement agreement with NPFG previously described to AGM and the settlement agreement with AMBAC previously entered into) or provide plan treatment for any unsecured creditor holding a claim on the petition date (e.g., an unsecured judgment claim) or any capital markets creditor, payable from the City's general fund (but excluding payments made by any third party such as an insurer) which provides a net present value recovery (applying a 5% discount rate) to such creditor, based upon non-contingent cash payments from the general fund, in excess of the net present value return of non-contingent general fund payments provided hereunder to AGM on the Pension Obligation Bonds, unless AGM is provided with the same level of non-contingent cash payments from the general fund on the Pension Obligation Bonds.

VII. AGM Support of Plan of Adjustment

AGM agrees to fully support and vote in favor of the Plan; *provided that*, the Plan contains Settlement terms as set forth in this Term Sheet in connection with the treatment of AGM's claims.

VIII. Attorney and Professional Fees and Expenses

AGM and the City shall each bear their own attorneys' and other professional and consulting fees and expenses. Wells Fargo Bank, National Association, as trustee under the 2007 Office Building

Bond documents and the Pension Obligation Bond documents (the "2007 Office Building Bond Trustee" and the "Pension Obligation Bond Trustee," respectively) shall be entitled to collect reasonable attorney's fees, but only from amounts held by the 2007 Office Building Bond Trustee under the indenture for the 2007 Office Building Bonds and the Pension Obligation Bond Trustee under the indenture for the Pension Obligation Bonds, and the City shall not be obligated to replenish or reimburse such funds. City will waive right to seek reimbursement of attorneys' fees related to the eligibility trial, and AGM will waive rights to seek attorneys fees under the various bond documents except for any attorneys fees incurred as a result of a future breach of the Plan.

List of Schedules and Exhibits:

Schedule 1: 2007 Lease Ask Payments
Schedule 2: Base Rental Payments
Schedule 3: Special Fund Payments
Schedule 4: Supplemental Payments

Exhibit A: Contingent Payments Model

SCHEDULE 1: 2007 LEASE ASK PAYMENTS

Assumed Settlement Date:
June 1, 2014

Payment Date	2007 Lease Ask Payments	Payment Date	2007 Lease Ask Payments
6/1/2014	-	6/1/2034	$2,531,688
6/1/2015	-	6/1/2035	2,531,313
6/1/2016	-	6/1/2036	2,529,938
6/1/2017	-	6/1/2037	2,527,563
6/1/2018	$1,334,875	6/1/2038	2,529,125
6/1/2019	1,334,875	6/1/2039	2,529,563
6/1/2020	1,334,875	6/1/2040	2,528,875
6/1/2021	1,334,875	6/1/2041	2,532,000
6/1/2022	1,334,875	6/1/2042	2,528,938
6/1/2023	2,529,750	6/1/2043	2,529,688
6/1/2024	2,529,125	6/1/2044	2,529,188
6/1/2025	2,527,750	6/1/2045	2,532,375
6/1/2026	2,530,563	6/1/2046	2,529,250
6/1/2027	2,532,500	6/1/2047	2,529,813
6/1/2028	2,528,625	6/1/2048	2,529,000
6/1/2029	2,528,938	6/1/2049	2,531,750
6/1/2030	2,528,375	6/1/2050	2,528,063
6/1/2031	2,531,875	6/1/2051	2,527,938
6/1/2032	2,529,438	6/1/2052	2,531,250
6/1/2033	2,531,063	**Total**	**$82,569,688**

SCHEDULE 2: BASE RENTAL PAYMENTS

Assumed Settlement Date:
June 1, 2014

Fiscal Year Ending June 30	Monthly Payments**	Total Payments
2014	$70,200	$70,200
2015	$70,200	$842,400
2016	$70,200	$842,400
2017	$70,200	$842,400
2018	$70,200	$842,400
2019	$88,816	$1,065,792
2020	$88,816	$1,065,792
2021	$88,816	$1,065,792
2022	$88,816	$1,065,792
2023*	$107,432	$1,289,184
2024*	$107,432	$1,289,184
2025*	$123,240	$1,478,880
2026*	$123,240	$1,478,880

* Extension of lease term to such Fiscal Year at option of the City as provided in the Term Sheet.

** Based on 65,000 square feet.

SCHEDULE 3: SPECIAL FUND PAYMENTS

Assumed Settlement Date:
June 1, 2014

Payment Date	Special Fund Payments	Payment Date	Special Fund Payments
6/1/2014	$2,154,219	7/1/2035	$1,684,302
7/1/2015	1,441,164	7/1/2036	1,707,838
7/1/2016	1,465,386	7/1/2037	1,731,908
7/1/2017	1,489,254	7/1/2038	2,009,482
7/1/2018	1,514,381	7/1/2039	2,009,482
7/1/2019	1,540,593	7/1/2040	2,009,482
7/1/2020	1,566,255	7/1/2041	2,009,482
7/1/2021	1,592,496	7/1/2042	2,009,482
7/1/2022	1,618,283	7/1/2043	2,009,482
7/1/2023	1,646,025	7/1/2044	2,009,482
7/1/2024	1,673,742	7/1/2045	2,009,482
7/1/2025	1,701,251	7/1/2046	2,009,482
7/1/2026	1,455,516	7/1/2047	2,009,482
7/1/2027	1,504,553	7/1/2048	2,009,482
7/1/2028	1,526,057	7/1/2049	2,009,482
7/1/2029	1,548,562	7/1/2050	2,009,482
7/1/2030	1,569,945	7/1/2051	2,009,482
7/1/2031	1,591,762	7/1/2052	2,009,482
7/1/2032	1,614,631	7/1/2053	2,009,482
7/1/2033	1,637,417		
7/1/2034	1,660,736	**Total**	**$70,787,984**

SCHEDULE 4: SUPPLEMENTAL PAYMENTS

Assumed Settlement Date
June 1, 2014

Payment Date	Supplemental Payments	Payment Date	Supplemental Payments
6/1/2014	-	6/1/2034	$250,000
6/1/2015	-	6/1/2035	250,000
6/1/2016	-	6/1/2036	250,000
6/1/2017	-	6/1/2037	250,000
6/1/2018	-	6/1/2038	250,000
6/1/2019	-	6/1/2039	250,000
6/1/2020	-	6/1/2040	250,000
6/1/2021	-	6/1/2041	250,000
6/1/2022	-	6/1/2042	250,000
6/1/2023	$250,000	6/1/2043	350,000
6/1/2024	250,000	6/1/2044	350,000
6/1/2025	250,000	6/1/2045	350,000
6/1/2026	250,000	6/1/2046	350,000
6/1/2027	250,000	6/1/2047	350,000
6/1/2028	250,000	6/1/2048	350,000
6/1/2029	250,000	6/1/2049	350,000
6/1/2030	250,000	6/1/2050	350,000
6/1/2031	250,000	6/1/2051	350,000
6/1/2032	250,000	6/1/2052	350,000
6/1/2033	250,000	**Total**	**$8,500,000**

EXHIBIT A: CONTINGENT PAYMENTS

EXHIBIT A

FINAL TERM SHEET FOR CONTINGENT GENERAL FUND PAYMENTS

DATED: OCTOBER 2, 2013

I. Background

This memorandum summarizes the structure of a Contingent Payment component of the restructured obligations of Participating Creditors. Capitalized terms used herein are defined in Part III of the Term Sheet. This Term Sheet supersedes all prior term sheets, memoranda and other communications with respect to the Contingent Payments.

II. Underlying Basis for Model

At the time the City incurred most of its general fund debt, the general fund's year over year increases in revenue averaged about 7.6%. In seven years, the City's core general fund revenues grew from $94 million to $158 million. In addition, the scheduled debt service for all general fund capital markets obligations was increased from approximately $5.8 million in 2006-07 to approximately $19.2 million in 2012-13, and under the terms of the relevant obligations, would continue to grow to approximately $23.7 million in 2031-32. It is clear from the actions taken by the City in incurring this large amount of debt, and in many of the other budgetary decisions made by the City during this period, that the City's leaders based these decisions on the premise that growth would continue in general fund revenues at a significant rate, such that the City would be able to afford to pay back all of this debt service and accommodate the other structural expenditures built into its budget going forward. That the capital markets extended this large amount of credit structured to include the ramping up of the payments further validated City's view that it was on solid footing given the growth being experienced.

Had the growth continued, the City would have been able to service the debt. However, what actually occurred is that revenues declined dramatically, making it infeasible for the City to pay the debt as scheduled and still maintain minimally satisfactory services. Given that the future cannot be predicted, it is reasonable for the City to provide some assurance that, if above anticipated revenue growth does occur in the future, creditors should be able to share in some of the gain in order to more fully repay the debt originally owed to them.

Accordingly, this model first determines an "Expected Core Revenues" level, which is meant to approximate (albeit most likely on the conservative side) the picture of growth in general fund revenues that underlay the decisions made during the first decade of this century.

Second, the model establishes a different measure of Core Revenues, called the Baseline Core Revenues. This is the amount that the City expects to receive in Core Revenues, based on its budget model, and assuming modest growth over time. This baseline will form the foundation for the City's Plan of Adjustment by determining how much the City can pay for all general fund expenditures, including debt service, on a non-contingent basis.

Third, if the Actual Core Revenues received in any given fiscal year exceed the Baseline Core Revenues, the model determines proportionally how close the Actual Core Revenues got to the Expected Core Revenues, and generates a contingent payment equal to a Participating Creditor's proportion of the Shortfall Amount, which is an amount derived as an estimate of the total shortfalls in each year for all general fund capital markets creditors. Note that the "Shortfall Amount" will be fixed going forward based on this estimate, and is not directly tied to any actual shortfall experienced by creditors in any specific year.

The premise of this model is that, had the revenues achieved the Expected Core Revenue curve, the City would have been able to pay all of its debts and would not have had to file for bankruptcy; therefore, the closer the City gets in the future to achieving those Expected Core Revenues, the closer the City should get to making full payment on obligations of the Participating Creditors.

Finally, there are a number of adjustments and limitations included in order to smooth the model and protect the City against having to make a payment when other factors beyond the City's control prevent it from having the free cash flow to make the payments.

III. Definitions

"Allocable Share" means, with respect to any Participating Creditor, a fraction, the numerator of which is the principal amount of such Participating Creditor's Obligations as of July 1, 2012 and the denominator of which is the sum of all the principal amounts of Participating Creditors' Obligations as of such date.

"Annexed Area Revenues" means the Core Revenues (except for Motor Vehicle License Fee revenue) generated from any territory annexed to the City after the Effective Date.

"Actual Core Revenues" means the amount of Core Revenues actually received by the City in a given Fiscal Year.

"Actual Core Revenue Increment" means, for any Fiscal Year, the amount, if any, by which the Actual Core Revenues exceed the Baseline Core Revenues.

"AGM" means Assured Guaranty Municipal Corp., as insurer of the AGM Obligations.

"Baseline Core Revenues" means the amount of Core Revenues the City expects to receive in each Fiscal year under the Budget Model, as projected through the Term and as shown on Schedule 1.

"Budget Model" means the City's comprehensive Budget Model provided separately.

"Core Revenues" means, for each Fiscal Year, the City's Unrestricted general fund receipts, net of any required refunds, rebates or legally required adjustments, from the following sources:

- *ad valorem* property tax (excluding any special overrides for voter approved general obligation bonds);
- sales and transaction and use taxes;

- utility taxes;
- transient occupancy taxes;
- franchise taxes;
- business license taxes;
- motor vehicle license fees;
- other Unrestricted taxes approved by the voters after Fiscal Year 2013-14; and
- Net revenues generated from the sale of Surplus Property;

provided, that Core Revenues does not include any Annexed Area Revenues or Realignment Revenues. Attached hereto as Exhibit A is a statement of Core Revenues for Fiscal Year 2012-13.

"City" means the City of Stockton, California.

"Contingent General Fund Payments" means, for each Fiscal Year commencing with Fiscal Year 2017-18 the amount determined pursuant to Section IV below.

"Effective Date" means the date that this Settlement becomes effective, being the effective date of the Plan of Adjustment which includes the terms of this Settlement.

"Expected Core Revenues" means, for each fiscal year, the amount shown in Schedule 2 attached hereto.

"Expected Core Revenue Increment" means, for any Fiscal Year, the difference between the Baseline Core Revenues and the Expected Core Revenues, as shown in Schedule 3.

"Extraordinary Expense Event" means an expense or combination of expenses that are involuntary obligations of the City which are at least 5% of the City's prior fiscal year budgeted general fund expenses. An Extraordinary Expense Event may include a judgment against the City that is finally determined to be due and payable (provided that the City shall exercise any right with respect to such judgment to make installment payments thereon), payments required to be made by the City to respond to a natural disaster where a declaration of emergency has been declared by the State of California or Federal government or unfunded mandates of the State of Federal government or other similar extraordinary expenses, but shall not include any changes to pension or other post employment benefit costs.

"Incremental Revenue Ratio" means the ratio of the Actual Core Revenue Increment to the Expected Core Revenue Increment. The Incremental Revenue Ratio may not be less than 0 nor more than 1.

"Obligations means the bonds, notes or other evidences of indebtedness issued to a Participating Creditor by the City and payable from the City's general fund. With respect to AGM, the Obligations are the City of Stockton 2007 Taxable Pension Obligation Bonds, Series A and Series B only.

"Plan of Adjustment" means the City's plan of adjustment, as confirmed by an order entered in its pending chapter 9 bankruptcy case.

"Participating Creditor" means AGM and any creditor holding Obligations who enters into a settlement agreement with the City that includes participation in the Contingent Payments.

"Realignment Revenues" means Core Revenues received by the City as a result of structural changes in tax distributions imposed by the State of California in connection with any realignment of State and local government services and obligations such that the additional revenues are intended to offset additional cost burdens required to be assumed by the City.

"Settlement" means this settlement, as documented and incorporated into the Plan of Adjustment.

"Shortfall Amount" means, for each fiscal year, the amount shown in Schedule 4.

"Surplus Property" means (i) the properties currently identified by the City as surplus property pursuant to Exhibit B plus (ii) any property declared surplus by the City which is not being sold to generate revenues to provide replacement property in order to deliver the same category of service or amenity that the sold property previously delivered.

"Term" means the term of this Settlement, which commences on the Effective Date and ends on June 2, 2052, except to the extent it is extended pursuant to Part V.

"Unrestricted" means, with respect to Core Revenues, amounts that are not subject to any legal limitation or encumbrance as to use for a specific purpose, and includes revenues from taxes that are defined as general taxes under Article XIIIC of the State Constitution, except to the extent that the voters of the City, simultaneously with the passage of a tax measure which approved any such taxes, adopted an advisory measure which directs the City Council to expend the proceeds of such taxes for a purpose inconsistent with their treatment as Core Revenues hereunder but only to the extent the City uses such funds for such inconsistent purpose; provided that if Measure A should expire before or not be extended through 2052, then this exception shall not apply to an amount of revenues which Measure A was expected to generate for each year through 2052.

IV. Contingent General Fund Payments

Contingent General Fund Payments shall be calculated each Fiscal Year as follows:

1. Determine the average Incremental Revenue Ratio for such Fiscal Year and each of the previous two Fiscal Years.

2. Multiply the amount determined in (1) above by the Shortfall Amount.

Contingent General Fund Payments for each fiscal year shall be paid on June 1 of such fiscal year, based on the City's adopted budget for such fiscal year. After the completion of the audited financial statements for each fiscal year, an adjustment shall be made in the next fiscal year's Contingent Payment for any under-paid or over-paid amount with respect to the audited fiscal year.

Contingent Payments shall be paid to each Participating Creditor in accordance with its Allocable Share, except that with respect to the Contingent Payments payable on or after June 1, 2039 the Allocable Share for AGM shall be equal to 100%.

The cumulative amount of Contingent General Fund Payments for any Participating Creditor shall not exceed the sum of (a) the cumulative amount which, when added to any other amounts paid to such Creditor by the City, would have been paid on such Creditor's obligation(s) had the obligations been paid in full as originally scheduled; plus (b) interest on the unpaid portion of such amounts accrued at the rate of interest as the underlying bonds between the scheduled payment date and the actual date such amounts are paid.

V. Suspension of Contingent General Fund Payments

The Contingent General Fund Payments in any Fiscal year may be suspended by the City in any Fiscal Year in which an Extraordinary Expense Event occurs or is continuing. The amount of such suspended payment, if any, shall remain an obligation of the City payable no later than 10 years after the suspension of such payment, and shall bear interest at the Wall Street Journal Prime Rate (or equivalent) until paid.

The Term shall be extended until all such suspended Contingent General Fund Payments, together with interest thereon, are paid.

List of Schedules and Exhibits:

Schedule 1: Baseline Core Revenues
Schedule 2: Expected Core Revenues
Schedule 3: Expected Core Revenue Increment
Schedule 4: Shortfall Amounts

Exhibit A: 2012-13 Core Revenues Statement
Exhibit B: Surplus Property

SCHEDULE 1

BASELINE CORE REVENUE

13-14	146,318,767
14-15	170,322,938
15-16	174,986,445
16-17	180,338,955
17-18	186,108,308
18-19	192,087,079
19-20	198,283,410
20-21	204,344,766
21-22	210,611,428
22-23	217,090,741
23-24	223,790,319
24-25	230,718,058
25-26	237,742,635
26-27	244,861,090
27-28	252,070,377
28-29	259,367,371
29-30	266,748,873
30-31	274,211,621
31-32	281,752,292
32-33	289,367,514
33-34	297,053,866
34-35	304,807,893
35-36	312,626,106
36-37	320,504,991
37-38	328,441,016
38-39	336,430,635
39-40	344,470,297
40-41	352,556,451
41-42	360,685,548
42-43	368,854,054
43-44	377,058,448
44-45	385,295,232
45-46	393,560,931
46-47	401,852,105
47-48	410,165,345
48-49	418,497,285
49-50	426,844,601
50-51	435,369,106
51-52	444,074,692

SCHEDULE 2

EXPECTED CORE REVENUE

13-14	219,655,852
14-15	230,638,644
15-16	242,170,577
16-17	254,279,106
17-18	266,993,061
18-19	280,342,714
19-20	294,359,850
20-21	309,077,842
21-22	324,531,734
22-23	340,758,321
23-24	357,796,237
24-25	375,686,049
25-26	394,470,351
26-27	414,193,869
27-28	434,903,562
28-29	456,648,740
29-30	479,481,177
30-31	503,455,236
31-32	528,627,998
32-33	555,059,398
33-34	582,812,368
34-35	611,952,986
35-36	642,550,635
36-37	674,678,167
37-38	708,412,076
38-39	743,832,679
39-40	781,024,313
40-41	820,075,529
41-42	861,079,305
42-43	904,133,271
43-44	949,339,934
44-45	996,806,931
45-46	1,046,647,278
46-47	1,098,979,641
47-48	1,153,928,623
48-49	1,211,625,055
49-50	1,272,206,307
50-51	1,335,816,623
51-52	1,402,607,454

SCHEDULE 3

EXPECTED CORE REVENUE INCREMENT

13-14	73,337,084
14-15	60,315,706
15-16	67,184,132
16-17	73,940,150
17-18	80,884,753
18-19	88,255,635
19-20	96,076,440
20-21	104,733,076
21-22	113,920,306
22-23	123,667,580
23-24	134,005,918
24-25	144,967,991
25-26	156,727,716
26-27	169,332,779
27-28	182,833,185
28-29	197,281,370
29-30	212,732,304
30-31	229,243,615
31-32	246,875,706
32-33	265,691,884
33-34	285,758,501
34-35	307,145,093
35-36	329,924,529
36-37	354,173,176
37-38	379,971,060
38-39	407,402,045
39-40	436,554,016
40-41	467,519,078
41-42	500,393,757
42-43	535,279,216
43-44	572,281,486
44-45	611,511,699
45-46	653,086,346
46-47	697,127,537
47-48	743,763,278
48-49	793,127,769
49-50	845,361,707
50-51	900,447,517
51-52	958,532,762

SCHEDULE 4

SHORTFALL AMOUNT

13-14	12,679,871
14-15	12,837,892
15-16	12,982,350
16-17	13,138,135
17-18	12,153,178
18-19	12,389,270
19-20	12,465,367
20-21	11,776,507
21-22	11,933,835
22-23	10,305,305
23-24	10,967,926
24-25	10,893,494
25-26	9,529,926
26-27	9,802,415
27-28	9,949,495
28-29	10,099,224
29-30	10,239,149
30-31	10,383,763
31-32	10,538,010
32-33	9,792,585
33-34	9,941,691
34-35	10,102,916
35-36	7,171,754
36-37	7,270,821
37-38	8,562,273
38-39	10,770,330
39-40	10,770,330
40-41	10,770,330
41-42	10,770,330
42-43	10,770,330
43-44	10,770,330
44-45	10,770,330
45-46	10,770,330
46-47	10,770,330
47-48	10,770,330
48-49	10,770,330
49-50	10,770,330
50-51	10,770,330
51-52	10,770,330

EXHIBIT A

CORE REVENUE DETAIL: FY 2012-13

Property Taxes	
Property Taxes	26,280,000
In-Lieu of Motor Vehicle Fees	17,307,349
Subtotal Property Taxes	43,587,349
Sales Taxes	
75% Point of Sale	28,330,077
25% County ERAF Backfill	9,937,923
Proposition 172	1,270,000
Subtotal Sales Taxes	39,538,000
Utility Users Tax	31,790,000
Franchise Tax	11,595,600
Business License Tax	9,125,000
Hotel/Motel Tax	1,975,000
Document Transfer Tax	456,000
Motor Vehicle License	150,000
Measure A	n/a
Totals	138,216,949

Exhibit B: Surplus Property

A chart of the values is as follows:

No.	APN	Prop. Address	Site Area	USE	Low Range	High Range	Estimated Likely Sales Price
1	046 017 037	Hogan Lake, no situs address	3.15 acres	Vacant - Hogan Parcels	$12,600	$15,750	$22,050
2	046 017 049	Hogan Lake, no situs address	38.3 acres	Vacant - Hogan Parcels	$19,150	$30,640	$24,895
3	046 017 053	Hogan Lake, no situs address	124.46 acres	Vacant - Hogan Parcels	$62,230	$124,460	$93,345
4	046 019 010	Hogan Lake, no situs address	37.7 acres	Vacant - Hogan Parcels	$18,850	$37,700	$28,275
5	046 019 011	Hogan Lake, no situs address	46.89 acres	Vacant - Hogan Parcels	$23,445	$46,890	$35,167
6	046 019 016	Hogan Lake, no situs address	66.0 acres	Vacant - Hogan Parcels	$33,000	$66,000	$49,500
7	046 019 017	Hogan Lake, no situs address	40.0 acres	Vacant - Hogan Parcels	$20,000	$40,000	$30,000
8 & 9	046 019 049, 046 019 050 (new apn) (046 019 037 old apn)	Hogan Lake, no situs address	59.32 acres	Vacant - Hogan Parcels	$237,280	$296,600	$266,940
10	046 025 005	Hogan Lake, no situs address	86.54 acres	Vacant - Hogan Parcels	$43,270	$86,540	$64,905
11	046 026 009	Hogan Lake, no situs address	89.22 acres	Vacant - Hogan Parcels	$44,610	$89,220	$66,915
12	046 026 011	Hogan Lake, no situs address	608.58 acres	Vacant - Hogan Parcels	$304,290	$608,580	$456,435

	13	046 026 019 (current APN) (046 026 005 old apn)	Hogan Lake, no situs address	38.55 acres	Vacant - Hogan Parcels	$21,320	$42,640	$31,980
	14	046 027 002	Hogan Lake, no situs address	125.80 acres	Vacant - Hogan Parcels	$62,900	$125,800	$94,350
	15	050 003 006	Hogan Lake, no situs address	53.5 acres	Vacant - Hogan Parcels	$107,200	$160,500	$133,750
	16	050 003 018 (Old APN 046 003 018)	Hogan Lake, no situs address	102.54 acres	Vacant - Hogan Parcels	$410,160	$512,700	$461,430
	17&18	050 003 022 & 23	Hogan Lake, no situs address	129.68 acres	Vacant - Hogan Parcels	$196,010	$325,690	$260,850
	19	050 004 008	Hogan Lake, no situs address	8.4 acres	Vacant - Hogan Parcels	$33,600	$42,000	$37,800
	20	050 004 011	Hogan Lake, no situs address	0.55 acres	Vacant - Hogan Parcels	$5,000	$5,000	$5,000
	21	050 008 002	Hogan Lake, no situs address	20.41 acres	Vacant - Hogan Parcels	$40,820	$61,230	$51,025
	22	050 008 003 (changed from 050 009 003)	Hogan Lake, no situs address	38.0 acres	Vacant - Hogan Parcels	$76,000	$114,000	$95,000
	23	050 008 031	Hogan Lake, no situs address	7.56 acres	Vacant - Hogan Parcels	$15,120	$22,680	$18,900
	49	137 300 12	139 South Center Street	0.41 acres	Vacant Land - Future PD expansion site	$215,988	$287,984	$251,986

	61	149 140 09	33 South San Joaquin Street	0.25 acres (4,623 SF building, includes 1,250 SF basement)	Vacant - El Tecolote Hotel - Former SRO hotel	$67,460	$101,190	$84,325
	71	149 180 08	635 East Main Street	0.11 acres	Vacant - La Verta Hotel - Former SRO hotel	$15,000	$40,000	$25,000
	80	169 077 03	2135 South Airport Way	0.33 acres	Vacant Land	$50,309	$93,431	$71,870
	81	169 100 30 & 42	2427 South Airport Way	1.22 acres	Vacant Land	$186,001	$345,430	$265,715
	82	179-270-17/18	Arch-Airport Road and HWY 99	0.47 acres	Vacant Land	$25,592	$51,183	$25,592
	Total					$2,347,205	$3,773,838	$3,053,000

EXHIBIT E

TERM SHEET—PROPOSED AMENDMENTS
TO
TEAM LEASE FOR STOCKTON EVENTS CENTER

TERM SHEET – PROPOSED AMENDMENTS TO TEAM LEASE FOR STOCKTON EVENTS CENTER
September 18, 2013

The City of Stockton (City) staff and the Stockton Thunder (Team) have agreed upon certain modifications to the terms of the "Team Lease for Stockton Events Center" (Lease). The agreement is contingent on City Council approval and the City reaching a deal with National Public Finance Guarantee Corporation (NPFG) concerning the Stockton Events Center debt obligation. The terms below shall be incorporated into an amendment to the Lease.

1. Parties	City of Stockton (City) SC Hockey Franchise Corporation (Team)
2. Rent	Section 2.1 (a) of the Lease was previously amended as of October 1, 2010 to set Base Rent as follows for regular season home games: (i) First five (5) Team Seasons of the Initial Term: \$4,250 per regular season home game (ii) Last five (5) Team Seasons of the Initial Term: \$4,000 per regular season home game (iii) First Option Term: \$4,500 per regular season home game (iv) Second Option Term: \$5,000 per regular season home game Section 2.1 (a) shall be further amended pursuant to this Term Sheet to increase the Base Rent payment by \$2,000 per regular season home game. The Team is currently in the last five (5) Team Seasons of the Initial Term, which expires after the 2014-15 season. The new Base Rent payment schedule will be amended to read as follows: (i) First five (5) Team Seasons of the Initial Term: \$4,250 per regular season home game (ii) Last five (5) Team Seasons of the Initial Term: \$6,000 per regular season home game (iii) First Option Term: \$6,500 per regular season home game (iv) Second Option Term: \$7,000 per regular season home game The total amount of additional Base Rent to be paid to the City is \$72,000 per season. This is based on an increase of \$2,000 in Base Rent for 36 regular season home games. Rent for Pre-Season and Playoff games shall not change and shall remain as outlined in the Lease.
3. Catering Services	Section 2.3 (h) (Catering Services) shall be amended to reduce the percent of the Catering Services Adjusted Gross Revenue paid to the Team from 30% to 10%.
4. Team	Section 2.3 (d) (Team Merchandise) shall be amended to provide the Team the

TERM SHEET – PROPOSED AMENDMENTS TO TEAM LEASE FOR STOCKTON EVENTS CENTER
September 18, 2013

Merchandise	exclusive right to sell Team Merchandise at Team Events and at the Arena Store. The Team shall retain 100% of Team Merchandise Net Revenue. The Team shall be responsible for and pay all expenses associated with the Team Merchandise program. The Team shall no longer be required to pay the City 10% of Team Merchandise Net Revenue. The Team shall require and make available its designated Merchandise Manager (currently Bryan Boyes) to oversee merchandise sales during non-hockey events and Bob Hope Theater events consistent with current practice. The Team shall be responsible for any expenses associated with its Merchandise Manager and the City shall not be required to pay the Team or its Merchandise Manager to oversee merchandise sales for Team events or non-hockey events and Bob Hope Theater events.
5. Luxury Suites Purchase by Team	Section 2.3 (f) (Luxury Suites) shall be amended to include a Team Luxury Suites Purchase requirement. The Team shall purchase from the City five (5) luxury suites each season, currently identified as luxury suites 1, 2, 3, 9, and 18 (Team Luxury Suites), beginning with the 2013-14 season. Adjustments to the list of Team Luxury Suites shall be made following each hockey season by the mutual agreement of the parties. The price for each of the Team Luxury Suites for the 2013-14 season shall be $30,000 per luxury suite for a total of $150,000 to be paid by the Team to the City. This Luxury Suites Purchase requirement shall extend throughout any Option Terms that are entered into under the Lease, and the price shall be adjusted annually based on the gross market price of luxury suites sold by the City/SMG on an annual basis at that time (current price for an annual luxury suite is $30,000). The Team shall have the right to sublease the Team Luxury Suites and retain all revenue therefrom. The Team must market the luxury suites in a manner that is consistent with the manner in which the City/SMG market the remaining luxury suite inventory. The Team shall also work in cooperation with the City/SMG to market all other luxury suites. The parties shall work together to develop a uniform set of policies for the luxury suites, including but not limited to: events, tickets, parking, food and beverage, etc. Luxury Suite Lease or License Fee Revenue received by the City from the Luxury Suites Purchase requirement shall be included in the luxury suite revenue sharing formula in Section 2.3 (f) that provides the City 65% of the Luxury Suite Lease or License Fee Revenue and pays the Team 35% of such revenue. The City/SMG shall continue to be responsible for expenses (including commissions) and fulfillment relating to all luxury suites. Commissions shall only be paid to one entity (either the City/SMG or the Thunder), which shall be the entity that is responsible for the sale of the luxury suite. The Team shall be responsible for customer relations and servicing the Team

TERM SHEET – PROPOSED AMENDMENTS TO TEAM LEASE FOR STOCKTON EVENTS CENTER
September 18, 2013

	Luxury Suites, as well as any staffing expenses for Team employees selling and/or servicing Team Luxury Suites. The Team shall be prohibited from selling the Team Luxury Suites to the entities listed below. In the event that the entities listed below do not buy a luxury suite by the end of the 2013-14 season, the Team shall have the right, in coordination with the City/SMG, to approach these entities. This right shall not apply if the entity is in a renewal option period. (i) Neumiller & Beardslee (Contracted) (ii) Golden Bear Insurance (Contracted) (iii) BAC (Contracted) (iv) Chase Chevrolet (Contracted) (v) DBI (Contracted) (vi) Dr. Hayashi (Contracted) (vii) Arnaiz Development (Pending) (viii) Diede Construction (Pending) (ix) Collins Electric (Pending) (x) Central Valley Community Bank (Active Discussions) (xi) Dryco Construction (Active Discussions) (xii) Knife River Construction (Active Discussions) (xiii) Silveria Team (Active Discussions) (xiv) Save Mart Supermarkets (Active Discussions) (xv) UOP (Active Discussions) (xvi) Port of Stockton (Active Discussions) (xvii) Big Valley Ford (Active Discussions) (xviii) AG Spanos (Active Discussions) (xix) Van Ruiten Winery (Active Discussions) The Team shall cooperate with the City in securing a naming rights partner and shall be prohibited from selling the Team Luxury Suites to active naming rights targets. The City shall have the right to reserve up to two luxury suites next to each other for a potential naming rights partner (currently identified as luxury suites 7 and 8).
6. Performance Benchmarks	The Lease shall be amended to include a new section to provide for additional payments to be made by the Team to the City in the event certain to performance benchmarks are achieved. When the Team achieves 150,000 paid attendees for the season (excluding playoffs) and Fixed Advertising gross revenue exceeds $500,000, the Team shall pay to the City an additional $2.00 per ticket sold over the 150,000 benchmark for paid attendance. The City shall also receive 80% (rather than the 65% share outlined in Section 2.3 (e) (i)) of all Fixed Advertising revenue in excess of $500,000.

TERM SHEET – PROPOSED AMENDMENTS TO TEAM LEASE FOR STOCKTON EVENTS CENTER
September 18, 2013

	These amounts are in addition to any other payments required under the Lease.
7. Loading Dock Parking	The Team shall have access to two (2) parking spaces inside the gated area near the loading dock. In circumstances where the spaces are needed for an event, the parking spaces may be unavailable to the Team. Treatment related to availability of parking spaces for SMG and the Team in this area shall be consistent.
8. Coach's Office	The Team shall not be required to move out of the coach's office (referenced in Exhibit B Section 3.2) except in the circumstance that the specific event requires the use of the entire event floor as a condition of the event and the condition is a requirement for that event in other arenas as well. The coach's office shall not be available to Team staff during non-Thunder events.
9. Option Terms	The items described above shall apply to any Option Terms and lease extensions (if exercised).

"CITY"
City of Stockton, a charter city

City Manager, City of Stockton Date

"TEAM"

[signature] Sept 20, 2013

Brad Rowbotham Date
Chief Executive Officer, SC Hockey Franchise Corporation

Approved As To Form:
Preliminary Draft – Subject to Revision

TERM SHEET – PROPOSED AMENDMENTS TO TEAM LEASE FOR STOCKTON EVENTS CENTER
September 18, 2013

Office of the City Attorney

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City Attorney Date